

[**Translation:** Please note that the following purports to be a translation from the Japanese original Notice of Convocation of the Annual General Meeting of Shareholders 2009 of Chugai Pharmaceutical Co., Ltd. prepared for the convenience of shareholders outside Japan with voting rights. However, in the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.]

(Securities Code: 4519)

March 2, 2010

To the Shareholders:

**NOTICE OF CONVOCATION OF
THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
FOR THE BUSINESS TERM ENDED DECEMBER 31, 2009**

Dear Shareholders:

You are cordially invited to attend the Annual General Meeting of Shareholders of Chugai Pharmaceutical Co., Ltd. (the "Company") for the Business Term ended December 31, 2009. The meeting will be held as described below.

If you are unable to attend the meeting, you can exercise voting rights in writing. Please review the following reference document concerning the General Meeting of Shareholders, complete the enclosed Voting Rights Exercise Form by indicating your approval or disapproval for each matter for resolution, and send it to us by mail on or before 5:30 P.M. on March 24, 2010 (Wednesday).

Yours very truly,

Osamu Nagayama
President & CEO
CHUGAI PHARMACEUTICAL CO., LTD.
1-1, Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo

PARTICULARS

- 1. Date and Time of the Meeting:** 10:00 a.m. on March 25, 2010 (Thursday)
- 2. Place of the Meeting:** Royal Park Hotel - 3F Royal Hall
1-1 Nihonbashi-Kakigara-cho 2-chome, Chuo-ku, Tokyo
(Please refer to the map attached at the end of this document (translation omitted).)
- 3. Purpose of the Meeting:**
Matters for Reporting:
 - (1) The Business Report for the Business Term (January 1, 2009 to December 31, 2009), Consolidated Financial Statements for the Business Term, and Financial Statements for the Business Term
 - (2) The Report on the Results of Audit of the Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors

Matters for Resolution:

First Item of Business: Proposed Disposition of Surplus

Second Item of Business: Election of Ten (10) Directors

- End -

- ◎ If you are attending in person, please present the enclosed Voting Rights Exercise Form at the reception desk on arrival at the meeting.
- ◎ If you wish to exercise your voting rights through a proxy, such proxy must be a shareholder with voting rights. You may appoint only one (1) proxy. A shareholder acting as a proxy will be required to submit a letter of proxy at the reception desk.
- ◎ Modifications to the Reference Document concerning the General Meeting of Shareholders, Business Report, Financial Statements, etc., if any, will be posted on the Company's website (<http://www.chugai-pharm.co.jp/hc/ir>).

(Attached Documents)

Business Report

(From January 1, 2009 to December 31, 2009)

1. Overview of consolidated business activities

(1) Basic Management Principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Company has established “dedicating itself to adding exceptional value through the creation of innovative medical products and services for the benefit of the medical community and human health around the world” as its mission and “becoming a top Japanese pharmaceutical company by providing a continuous flow of innovative new medicines domestically and internationally” as its fundamental management objective.

As we work to achieve these goals, we will carry out our business activities in line with our core values of “putting patients and customers first” and “committing to the highest ethical and moral standards” as befits a company involved in the healthcare industry.

We firmly believe that putting these Basic Management Principles into practice is a key to boosting the corporate value of the Chugai Group as well as the best way to meet the expectations of customers, shareholders, and all other stakeholders, and will redouble efforts to realize them.

(2) Target Management Indices

The Company considers its consolidated revenue and consolidated operating income as important management indicators. In the Mid-Term Business Plan “Sunrise 2012” for fiscal year 2008 through fiscal year 2012, we have set goals to achieve consolidated net revenue of ¥460 billion and consolidated operating income ¥80 billion by the fiscal year ending December 31, 2012. We will strive to realize these goals, as well as to maximize shareholder value through increased growth and productivity.

(3) Medium Term Business Strategy

As a tightly focused prescription pharmaceuticals company, we are concentrating on reinforcing our unique foundation in research and development (R&D) that is driven by the most advanced technologies. At the same time, our efforts to build a top-caliber competitive franchise in Japan by working with our strategic partner Roche to enhance our clinical development pipeline and product lineup are moving forward.

The Mid-Term Business Plan “Sunrise 2012” aims to enhance and expand the Company’s competitive advantage by leveraging its strengths and close collaborative relationship with Roche as well as to further expand business through the development and marketing of innovative drugs in Japan and overseas.

(4) Developments and results of business activities

a) Overview of business activities in the fiscal year under review

During the fiscal year under review, the operating environment surrounding the pharmaceuticals industry became even more challenging as the government continued its policies to reduce medical expenditures, including the promotion of generic medicines, and the approval process for new drugs grew increasingly stringent worldwide.

In this business climate, the Company endeavored to engage in aggressive product R&D activities to achieve the continued development and acquisition of innovative new drugs. Resulting achievements during the fiscal year include anti-cancer agent Xeloda receiving approval by the Japanese government in September for combination therapy with oxaliplatin for the additional indication of colorectal cancer, and anti-cancer agent / anti-vascular endothelial growth factor (VEGF) receptor humanized monoclonal antibody Avastin receiving approval by the Japanese government in November for non-small cell lung cancer as an additional indication. In addition, an application was submitted to the Japanese government in October for the approval of activated vitamin D₃ derivative ED-71 with osteoporosis as the expected indication.

Having many such innovative new drugs, the Company made efforts to implement marketing campaigns based on sound ethical and scientific principles that promote the appropriate use of these products as well as consumer confidence. Consequently, financial results for the fiscal year under review set new record highs in consolidated revenues at ¥428.9 billion, operating income at ¥82.6 billion, recurring profit at ¥90.4 billion, and net income at ¥56.6 billion.

b) Revenues

The Company's consolidated revenues for the fiscal year under review amounted to ¥428.9 billion, up 31.2% year-on-year.

Consolidated revenues from the sales, excluding ¥76.2 billion in revenues from the sale of the anti-influenza agent Tamiflu (up 807.1%), which fluctuate significantly from year to year, and ¥9.8 billion in other operating income (up 92.2%), increased 9.4% year-on-year to ¥342.9 billion.

As regards sales in Japan (excluding those of Tamiflu), sales in the oncology field grew 20.9% year-on-year to ¥123.7 billion, despite a decrease in the sales of 5-HT₃ receptor antagonist antiemetic agent Kytril, due to the impact of numerous generic medicines owing to the successful market penetration of new products and additional indications, such as Avastin that is steadily penetrating first line and second line treatment and anti-HER2 humanized monoclonal antibody / anti-cancer agent Herceptin that received supplementary approval in February 2008 as a post-operative adjuvant treatment for breast cancer. Sales in the bone and joint Diseases field increased 15.2% year-on-year to ¥57.6 billion, owing to humanized anti-human IL-6 receptor monoclonal antibody Actemra increasing its market share following its obtainment of additional indication in April 2008 for treatment of rheumatoid arthritis and growth in the sale primarily of joint function improver Suvenyl attributable to increased awareness of knee osteoarthritis. Sales in the renal Diseases field decreased 0.5% year-on-year to ¥61.0 billion, mainly as a result of a year-on-year increase in sales of recombinant human erythropoietin Epogin during the second half (July through December) attributable to a steady increase in its share in the pre-dialysis market, in spite of its decreased sales in the dialysis market. Sales in the transplant, immunology and infectious diseases field (excluding Tamiflu) increased 9.2% year-on-year to ¥26.2 billion, due to growth in the sales of peginterferon- α -2a Pegasys and anti-viral agent Copegus owing to the penetration of the Medical Fee Subsidies for interferon treatment offered by the Japanese government since April 2008 and of their combination therapy in treatment of chronic hepatitis C. As regards Tamiflu, sales of ¥17.7 billion were posted in the fourth quarter (October through December) for the regular flu season, due to the outbreak of the new-type influenza, resulting in sales of ¥36.2 billion for the fiscal year under review. Additionally, sales of ¥2.7 billion in government stockpile were posted in the fourth quarter (October through December), resulting in sales of ¥40.0 billion for the fiscal year under review.

Overseas sales increased 0.3% year-on-year to ¥33.6 billion owing to the steady growth in the export sales to Roche of Actemra, which was approved by the European Medicines Evaluation Agency (EMA) in January, despite a decrease in the sales of recombinant human G-CSF Neutrogin due mainly to the effect of exchange rates.

Other operating revenues increased 92.2% year-on-year to ¥9.8 billion due primarily to a lump-sum income from the approval of Actemra in Europe in January.

c) Financial results

A significant increase in the sales of Tamiflu and other Roche products, which have relatively high cost percentages, resulted in cost to sales ratio increasing 6.5 percentage points year-on-year to 46.0%, leading to an 18.1% year-on-year increase in gross profit on sales to ¥236.1 billion.

Operating expenses increased 3.3% year-on-year to ¥98.2 billion, due to the higher selling, general and administrative expenses resulting from the increased costs associated with the promotion of appropriate use and post sales surveillance of new products and additional indications. Research and development expenses increased 3.9% year-on-year to ¥55.3 billion, due to an increase in the number of items in the early development stage and the enhancement of pharmaceutical research facilities.

As a result, operating income increased 60.1% year-on-year to ¥82.6 billion. Further, as a result of ¥9.4 billion in non-operating income owing primarily to forward exchange contracts made in anticipation of foreign currency trades, recurring profit increased 57.8% year-on-year to ¥90.4 billion and net income increased 44.0% year-on-year to ¥56.6 billion.

d) Progress of the R&D activities (From January 1, 2009 to February 3, 2010)

In Japan and abroad, the Company is actively engaged in prescription pharmaceutical R&D activities.

Specifically, the Company is working to develop innovative products with global applications, focusing on the oncology, bone and joint disease and renal disease domains. In Japan, the Company's research bases in Fuji Gotemba and Kamakura are collaborating to research new pharmaceuticals, and its research facility in Ukima is conducting industrialization research. Overseas, the subsidiaries of the Company, Chugai Pharma U.S.A., LLC, and Chugai Pharma Europe Ltd. are engaged in clinical development activities in the U.S. and Europe, respectively.

As for clinical development activities in Japan, the Company saw progress as described below:

(i) Oncology field

- In September, we obtained approval and launched Xeloda for combination therapy with oxaliplatin for the additional indication of colorectal cancer.
- In August, we joined the multinational Phase III clinical trials conducted by Roche for Avastin for the additional indication of glioblastoma and, in addition, we initiated the Phase II clinical trials for the additional indication of glioblastoma (relapsed). Further, we filed an application for the additional indication of breast cancer in October. In November, we received approval and launched the product for the additional indication of non-small cell lung cancer.
- In September, we filed an application for the additional indication of pancreatic cancer for anti-cancer agent / epidermal growth factor receptor (EGFR) tyrosine kinase inhibitor Tarceva.
- In November, we filed an application for the additional indication of chemotherapy-induced anemia for Epogin.
- In July, we joined the multinational Phase III clinical trials conducted by Roche for humanized HER dimerization inhibitory monoclonal antibody RG1273 for the expected indications of breast cancer.
- In September, we initiated the Phase I/II clinical trials for Actemra for the additional indication of pancreatic cancer.
- In November, we initiated the Phase I clinical trial for MEK inhibitor CIF (RG7167) for the expected indication of solid tumors.
- In January 2010, we initiated the Phase I clinical trial for CKI27 (RG7304) for the expected indication of solid tumors.
- In October, we initiated the Phase I clinical trial for anti-HER2 humanized monoclonal antibody / drug conjugate RG3502 for the expected indication of breast cancer.
- The development of continuous erythropoietin receptor activator RG744 (expected indication: chemotherapy-induced anemia) was discontinued as a result of reviewing the priorities of projects.
- The development of human anti-IGF-1R monoclonal antibody RG1507 (expected indication: solid tumors) was discontinued, due to its failure to meet the initially established efficacy criteria, although there were no safety or tolerability signals in Phase II clinical trials performed overseas by Roche for lung cancer and sarcoma.

(ii) Bone and Joint Diseases field

- In January, we initiated the Phase I/II clinical trials for a subcutaneous injection of Actemra.
- In October, we filed an application for activated vitamin D₃ derivative ED-71 for the expected indication of osteoporosis.

(iii) Renal Diseases field

- In April, we obtained approval for partial change of the API manufacturing method and the pharmaceutical formulation of the serum-free version for Epogin.
- In July, we filed an application for RG744 for the expected indication of renal anemia.

- (iv) Transplant, Immunology and Infectious Diseases field
 - In August, we initiated the Phase I clinical trials of thiazolidine compound NTZ for the expected indication of chronic hepatitis C.
- (v) Other fields
 - In February, we initiated the multinational Phase II clinical trials for SGLT2 inhibitor CSG452 (RG7201) for the expected indication of type II diabetes.
 - In July, we initiated the Phase II clinical trials for GLP-1 analogue RG1583 (ITM-077) for the expected indication of type II diabetes.
 - In July, we initiated the Phase I clinical trials for human anti-amyloid-beta monoclonal antibody RG1450 for the expected indication of Alzheimer's disease.

At present, we are awaiting the approval of applications for 6 development themes (new molecular entities and additions of indications), including RG435 (expected indication: breast cancer), which were filed in Japan.

As for clinical development activities overseas, the Company saw progress as described below.

- In March, we concluded a license agreement with Choongwae Pharma Corporation (South Korea) to grant rights to develop and market Actemra in South Korea for the indication of rheumatoid arthritis.
- In October, we initiated the Phase II clinical trials for topoisomerase I inhibitor TP300 for the expected indications of gastric cancer, etc.
- In January 2010, we obtained the approval from the U.S. Food and Drug Administration (FDA) for Actemra for the indication of rheumatoid arthritis.

(5) Capital Expenditures

The Group continuously undertakes capital investments to improve and streamline its manufacturing facilities, as well as to enhance and strengthen R&D capabilities. Capital expenditures during the fiscal year under review were ¥14.6 billion. Such expenditures mainly consisted of the Company's enhancement and renovation of the research facilities and equipment at Fuji-Gotemba Laboratories, and Chugai Pharma Manufacturing's construction of the antibody drug manufacturing facility at Utsunomiya Plant and new solid pharmaceutical production facility at Fujieda Plant.

(6) Financing

The Company did not raise any capital through the issuance of corporate bonds nor paid-in capital increase, etc. during the fiscal year under review.

(7) Future Tasks

To become a top Japanese pharmaceutical company, the Company aims to dramatically bolster the competitiveness of its R&D, manufacturing, marketing, and sales operations as well as to achieve a high rate of growth. We have identified (a) continued development and acquisition of innovative new drugs, (b) maximization of product value, and (c) overseas expansion as key tasks.

a) Continued Development and Acquisition of Innovative New Drugs

The Company has worked to create innovative drugs through research into antibody drugs, which is one of the strengths of the Company, and also by leveraging our alliance with Roche to search for new small-molecular drugs.

Going forward, we will continue to capitalize on its strength in the research of pharmaceuticals as well as to further improve its technical standards through measures including the strengthening of networks with academic institutions, venture companies, and other pioneering companies. In addition, we intend to work toward the further development of its product pipeline by aggressively introducing promising development candidates from Roche.

b) Maximization of Product Value

Under its alliance with Roche, the Company has achieved substantial growth in the domestic market. Going forward, the Company is aiming to maximize product value and further increase its presence in such priority fields as cancer treatment through the further strengthening of strategic marketing efforts and an integrated approach to meeting the needs of the medical community, from the early stages of R&D through the post-launch of products.

c) Overseas Expansion

Overseas development is a vital task as the Company works to accelerate its growth going forward. Actemra is currently being sold in more than 25 countries worldwide, including Germany and United Kingdom, where the product was first launched pursuant to approval by the European Medicines Evaluation Agency (EMA) in January. Further, Actemra was approved by the U.S. Food and Drug Administration in January 2010, and is slated for sales in the United States through Roche.

Going forward, we will aim to achieve growth in overseas markets by developing and launching other innovative new drugs following Actemra.

(8) Asset and Income Status

(Millions of Yen)

	FY 2006 Jan 1 - Dec 31, 2006	FY 2007 Jan 1 - Dec 31, 2007	FY 2008 Jan 1 - Dec 31, 2008	FY 2009 (Current) Jan 1 - Dec 31, 2009
Revenues	326,109	344,808	326,937	428,947
Operating income	58,347	66,702	51,563	82,612
Recurring profit	60,922	67,687	57,265	90,395
Net income	38,417	40,060	39,264	56,634
Net income per share (yen)	69.35	73.23	72.07	104.00
Total assets	462,124	458,942	478,517	540,549
Net assets	391,604	385,797	397,066	434,686

(Note) Net income per share is calculated based on the average number of shares outstanding during the fiscal year.

(9) Main Businesses (as of December 31, 2009)

Research, development, manufacturing, sale, importation and exportation of the pharmaceuticals

(10) Principal Sales Offices, Plants and Research Laboratories (as of December 31, 2009)

Head office	5-1 Ukima 5-Chome, Kita-ku, Tokyo
Headquarters' office	1-1 Nihonbashi Muromachi 2-Chome, Chuo-ku, Tokyo
Sales branches	Sapporo, Sendai, Tokyo Branch 1, Tokyo Branch 2 (Saitama Prefecture), Yokohama, Nagoya, Kyoto, Osaka, Hiroshima, Takamatsu, Fukuoka
	Chugai Pharma Marketing Ltd. (UK, Germany)
	Chugai Pharma U.K. Ltd. (UK)
	Chugai Pharma France S.A.S. (France)
	Chugai sanofi-aventis S.N.C. (France)
	Chugai Pharma Taiwan Ltd. (Taiwan)
Production bases	Chugai Pharma Manufacturing Co., Ltd. Utsunomiya (Tochigi Prefecture), Ukima (Tokyo), Kamakura (Kanagawa Prefecture), Fujieda (Shizuoka Prefecture)
Research laboratories	Fuji-Gotemba (Shizuoka Prefecture), Kamakura (Kanagawa Prefecture), Ukima (Tokyo)
	Chugai Pharma USA, LLC (USA) Chugai Pharma Europe Ltd. (UK)

(11) Employees (as of December 31, 2009)

Number of employees	Increase/decrease since end of previous fiscal year
6,485 persons	(Increase) 102 persons

(Note) The number of employees represents the number of persons in employment. The number of persons in employment excludes individuals seconded from the Chugai Group to outside the Group, but includes individuals seconded to the Chugai Group from outside the Group.

(12) Parent Company and Principal Subsidiaries**(a) Parent Company**

Name of Company	The Company's shares held by Parent Company	Shareholding Percentage	Nature of Relationship
Roche Pharmholding B.V. (Holland)	335,223,645 shares	59.9%	There are no operating transactions with the Company.
Roche Finance Ltd. (Switzerland)	—	(59.9%)	This is the parent company of Roche Pharmholding B.V.
Roche Holding Ltd. (Switzerland)	—	(59.9%)	This is the parent company of Roche Finance Ltd.

- (Notes) 1. Treasury stock is included in the calculation of the shareholding percentage.
2. The numbers in parentheses in the Shareholding Percentage column of the table above are indirect shareholding percentages.

Based on the agreement on strategic alliance concluded with Roche Pharmholding B.V., the Company is Roche's only pharmaceutical business corporation in the Japanese market and has the first right of refusal on the development and marketing in Japan of all development candidates advanced by Roche. Also, Roche has the right of first refusal on the development and marketing of the Company's development candidates in markets outside Japan, excluding South Korea, if the Company decides that it requires a partner for such activities overseas.

(b) Principal Subsidiaries

Name of Company	Capital	The Company's Shareholding Percentage	Main Business Activities
Chugai Pharma Manufacturing Co., Ltd.	¥80 million	100%	Manufacturing of pharmaceuticals
Chugai Pharma Marketing Ltd. (UK)	£8,677,808	100%	Marketing of pharmaceuticals

There are 15 consolidated subsidiaries including the aforementioned two principal subsidiaries.

(13) Assignment of Business, Absorption-Type Company Split and Incorporation-Type Company Split

There is no applicable information.

(14) Assignment of Business from Other Companies

There is no applicable information.

(15) Business Rights and Obligations Succeeded from Other Corporate Bodies upon Absorption-Type Merger or Company Split

Company absorbed its subsidiary Eiko Kasei Co., Ltd. effective July 1, 2009.

(16) Acquisition or Disposal of Shares, Other Equity, Stock Acquisition Rights or the Like of Other Companies

There is no applicable information.

(17) Other Important Matters of the Consolidated Group

There is no applicable information.

2. Company's Shares (as of December 31, 2009)

(1) Total number of shares authorized to be issued 799,805,050 shares

(2) Total number of shares issued 559,685,889 shares
(Includes 15,497,079 shares of treasury stock)

(3) Number of shareholders 55,513 shareholders

(4) Major Shareholders (Top Ten)

Name of shareholder	Number of shares held	Shareholding percentage
Roche Pharmholding B.V.	335,223,645 shares	61.60%
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,544,000 shares	2.49%
Japan Trustee Services Bank, Ltd. (Trust Account)	13,327,900 shares	2.45%
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	5,955,949 shares	1.09%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	5,150,259 shares	0.95%
Mellon Bank N.A. as Agent for Its Client Mellon Omnibus US Pension	3,973,559 shares	0.73%
JP Morgan Securities Japan Co., Ltd.	3,122,780 shares	0.57%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,037,900 shares	0.56%
Sumitomo Life Insurance Company	3,000,000 shares	0.55%
Chugai Pharmaceutical Employee Shareholders' Association	2,836,681 shares	0.52%

(Notes) 1. The Company is excluded from the ten major shareholders listed in the table above, although the Company holds 15,497,079 shares of treasury stock.

2. Shareholding percentage was calculated after deduction of treasury stock.

(5) Other Important Matters Concerning Shares

Company succeeded the business of its wholly-owned subsidiary Eiko Kasei Co., Ltd. through absorption-type merger by simplified procedures, effective July 1, 2009. In response to requests to buy back the Company's shares, which were made pursuant to Article 797 Paragraph 1 of the Companies Act by shareholders opposing the absorption, the Company purchased 640,800 shares by August 7, 2009, to be retained as treasury stock.

3. Company's Stock Acquisition Rights, etc.

(1) Stock Acquisition Rights Held by Corporate Officers at the End of the Fiscal Year under Review (as of December 31, 2009)

(a) Common stock option

In order to increase the Company Group's corporate value by enhancing the Directors' motivation and morale leading to the growth of the business results of the Company, and by securing superior human resources, the Company issues stock acquisition rights as common stock options.

Name (Issuance date)	Type and number of shares issued upon exercise of stock acquisition rights	Amount payable upon exercise of stock acquisition rights	Period for exercise of stock acquisition rights	Stock acquisition rights held by Company's Directors
First issue of stock acquisition rights (August 5, 2003)	106,400 shares of the Company's common stock (100 shares per stock acquisition right)	¥145,400 (per stock acquisition right)	From September 1, 2003 to June 25, 2013	518 units (two persons)
Second issue of stock acquisition rights (April 5, 2004)	210,900 shares of the Company's common stock (100 shares per stock acquisition right)	¥167,500 (per stock acquisition right)	From May 1, 2004 to March 25, 2014	1,189 units (six persons)
Third issue of stock acquisition rights (April 1, 2005)	249,200 shares of the Company's common stock (100 shares per stock acquisition right)	¥164,900 (per stock acquisition right)	From April 1, 2005 to March 23, 2015	1,290 units (six persons)
Fourth issue of stock acquisition rights (April 3, 2006)	338,000 shares of the Company's common stock (100 shares per stock acquisition right)	¥224,500 (per stock acquisition right)	From April 3, 2006 to March 23, 2016	1,390 units (six persons)
Fifth issue of stock acquisition rights (April 9, 2007)	350,000 shares of the Company's common stock (100 shares per stock acquisition right)	¥303,900 (per stock acquisition right)	From April 9, 2007 to March 23, 2017	1,390 units (six persons)
Sixth issue of stock acquisition rights (April 9, 2009)	330,000 shares of the Company's common stock (100 shares per stock acquisition right)	¥169,600 (per stock acquisition right)	From April 9, 2009 to March 25, 2019	1,450 units (six persons)

(Notes) 1. Notwithstanding the aforementioned exercise periods, the Stock Acquisition Right Granting Agreement concluded with each holder of stock acquisition rights offered as a common stock option stipulates that the stock acquisition rights are not exercisable for approximately two years from their respective issuance resolution dates.

2. These stock acquisition rights are not allotted to Outside Directors and Corporate Auditors.

(b) Stock option as stock-based compensation

Stock acquisition rights are issued in the form of stock options as stock-based compensation to the Company's Directors for the purpose of further clarifying the link between the compensation to the Company's Directors and the Company's business performance/value of its shares, and making the Company's Directors share not only the benefits of higher share prices but also the risks of lower share prices with shareholders.

Name (Issuance date)	Type and number of shares issued upon exercise of stock acquisition rights	Amount payable upon exercise of stock acquisition rights	Period for exercise of stock acquisition rights	Stock acquisition rights held by Company's Directors
2009 issue of stock acquisition rights (May 11, 2009)	78,500 shares of the Company's common stock (100 shares per stock acquisition right)	¥100 (per stock acquisition right)	From May 11, 2009 to April 24, 2039	785 units (six persons)

- (Notes) 1. The Stock Acquisition Right Granting Agreement concluded with each holder of stock acquisition rights offered as a stock option as stock-based compensation stipulates that the stock acquisition rights are exercisable only within ten days counting from the day immediately following the day he/she loses the position of Director in the Company.
2. These stock acquisition rights are not allotted to Outside Directors and Corporate Auditors.

(2) Overview of Stock Acquisition Rights Issued to Company's Employees and Others during the Fiscal Year under Review, etc.

Common stock option

Name (Issuance date)	Type and number of shares issued upon exercise of stock acquisition rights	Amount payable upon exercise of stock acquisition rights	Period for exercise of stock acquisition rights	Stock acquisition rights held by Company's Employees and Others
Sixth issue of stock acquisition rights (April 9, 2009)	185,000 shares of the Company's common stock (100 shares per stock acquisition right)	¥169,600 (per stock acquisition right)	From April 9, 2009 to March 25, 2019	Employees of Company 1,740 units (101 persons)
				Officers and employees of Company's subsidiaries 110 units (seven persons)

- (Note) 1. Notwithstanding the aforementioned exercise period, the Stock Acquisition Right Granting Agreement concluded with each holder of stock acquisition rights stipulates that the stock acquisition rights are not exercisable for approximately two years from the issuance resolution date.

(3) Other Important Matters on Stock Acquisition Rights, etc.

There is no applicable information.

4. Company's Officers

(1) Directors and Corporate Auditors (as of December 31, 2009)

Position	Name	Responsibilities	Other important concurrent positions
Representative Director, President	Osamu Nagayama	CEO, COO	
Representative Director, Deputy President	Motoo Ueno	Corporate Social Responsibility, Pharmaceutical Technology	
Director & Executive Vice President	Ryuzo Kodama	CFO, System & Corporate Communications (Information System, ERP system)	
Director & Executive Vice President	Tatsumi Yamazaki	Portfolio Management, Regulatory & Quality Management, Clinical Development, Drug Safety, Intellectual Property	
Director & Executive Vice President	Harutaka Fujita	Legal, Secretarial, Corporate Services and Human Resources (General Affairs, Risk Management & Compliance, Human Resources Management, Human Capital Development, Audit, CBS)	
Director & Executive Vice President	Christopher Murray	Lifecycle Management & Marketing, Sales	
Director & Senior Vice President	Naotaka Nakamura	General Manager of Sales Div.	
Director	Mitsuo Ohashi		Chairman of the Board of Directors, Showa Denko K.K.
Director	Abraham E. Cohen		
Director	Severin Schwan		Chief Executive Officer Roche Group
Director	William M. Burns		Chief Executive Officer Division Roche Pharmaceuticals
Director	Jonathan K.C. Knowles		Member of the Corporate Executive Committee of the Roche Group
Director	Erich Hunziker		Chief Financial Officer and Deputy Head of the Corporate Executive Committee of the Roche Group
Full-time Corporate Auditor	Shigetoshi Matsumoto		
Full-time Corporate Auditor	Yasuhiro Tsuji		
Corporate Auditor	Yasunori Fujii		Special Assigned Professor of Shizuoka Sangyo University
Corporate Auditor	Toshio Kobayashi		Partner, The Law Offices of Nagashima Ohno & Tsunematsu Visiting Professor, University of Tokyo Graduate Schools for Law and Politics

(Notes) 1. Directors and Corporate Auditor who retired during the fiscal year under review are as follows:

Director Franz Bernhard Humer (resigned on March 25, 2009)
 Director Etsuro Ogata (retirement due to passing on November 1, 2009)
 Director Jonathan K.C. Knowles (resigned on December 31, 2009)
 Full-time Corporate Auditor Motoo Saito (retirement due to expiration of term in office on March 25, 2009)

Etsuro Ogata was concurrently serving as Director Emeritus of The Cancer Institute Hospital of Japanese Foundation for Cancer Research during his term as Director.

2. Director and Corporate Auditor who were newly appointed during the fiscal year under review

are as follows:

- | | |
|-----------------------------|---|
| Director | Severin Schwan (assumed office on March 25, 2009) |
| Full-time Corporate Auditor | Yasuhiro Tsuji (assumed office on March 25, 2009) |
3. Directors Severin Schwan, William M. Burns, Jonathan K.C. Knowles and Erich Hunziker serve as representatives, directors, executives and outside corporate officers at a number of companies in the enterprise group to which the Company's parent Roche Pharmholding B.V. belongs (Roche Group), such as business corporation F. Hoffmann-La Roche Ltd.
 4. Corporate Auditors' expertise in finance and accounting
Corporate Auditor Yasunori Fujii has a doctorate in accounting, is a Certified Public Accountant of the United States, and has considerable expertise in finance and accounting.
 5. The responsibilities of some Directors were changed as follows as of January 1, 2010.

Osamu Nagayama	CEO, COO, Corporate Planning Supervisory Div. (Corporate Planning, External Affairs)
Motoo Ueno	Pharmaceutical Technology, Corporate Social Responsibility, Audit
Ryuzo Kodama	CFO, IT Supervisory Div. (Information System, ERP System), General Manager of Finance Supervisory Div., BPR
Tatsumi Yamazaki	Portfolio Management, Regulatory & Quality Management, Clinical Development, Drug Safety
Harutaka Fujita	Legal, Secretarial, General Affairs Supervisory Div. (General Affairs, Risk Management & Compliance), Human Resources Supervisory Div. (Human Resources Management, Human Capital Development, CBS)

(2) Outside Directors and Outside Corporate Auditors

(a) Outside Directors and Outside Corporate Auditors

- Among the Directors, Etsuro Ogata, Mitsuo Ohashi, Abraham E. Cohen, Severin Schwan, William M. Burns, Jonathan K.C. Knowles and Erich Hunziker are Outside Directors stipulated in Article 2, Item 15 of the Companies Act. Among the Corporate Auditors, Yasunori Fujii and Toshio Kobayashi are Outside Corporate Auditors stipulated in Article 2, Item 16 of the Companies Act.

(b) Company's Relationship with Companies Where Important Concurrent Positions Are Held

- The Company and the Cancer Institute Hospital of Japanese Foundation for Cancer Research, where Director Etsuro Ogata served as Director Emeritus, engage in transactions such as the delivery of pharmaceuticals via wholesalers.
- The Company and Showa Denko K.K., where Mitsuo Ohashi serves as Chairman of the Board, engaged in transactions such as the purchase of pharmaceuticals.
- The Company and the Roche Group engage in ongoing transactions such as licensing in/out of pharmaceuticals and development compounds and sales/purchases of ingredients of pharmaceuticals and semi-finished products under the strategic alliance stated in "1. (12) Parent Company and Principal Subsidiaries".
- As regards Nagashima Ohno & Tsunematsu, where Corporate Auditor Toshio Kobayashi is a partner, the Company receives legal advice as necessary from counsels other than Corporate Auditor Toshio Kobayashi.
- There is no relationship to be disclosed between the Company and entities where its Outside Directors and Corporate Auditors hold concurrent positions, other than those indicated above.

(c) Activities in the Company

	Name	Attendance and Comments at Meetings of Board of Directors and Board of Corporate Auditors
Outside Directors	Etsuro Ogata	Attended 7 out of 8 meetings of the Board of Directors held during his tenure of office in the fiscal year under review, and made suggestions, given advice, etc. on the Company's management and businesses as necessary based on his extensive knowledge, experience, etc. as a medical expert and hospital manager.
	Mitsuo Ohashi	Attended 8 out of 10 meetings of the Board of Directors held in the fiscal year under review, and made suggestions, given advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a manager.
	Abraham E. Cohen	Attended 5 out of 10 meetings of the Board of Directors held in the fiscal year under review, and made suggestions, given advice, etc. on the Company's management and businesses as necessary based on his extensive knowledge, experience, etc. as a manager of a global pharmaceutical company.
	Severin Schwan	Attended 4 out of 8 meetings of the Board of Directors held after his appointment in the fiscal year under review, and made suggestions, given advice, etc. on the Company's management and businesses as necessary as an officer of the Roche Group.
	William M. Burns	Attended 5 out of 10 meetings of the Board of Directors held in the fiscal year under review, and made suggestions, given advice, etc. on the Company's management and businesses as necessary as an officer of the Roche Group.
	Jonathan K.C. Knowles	Attended 4 out of 10 meetings of the Board of Directors held in the fiscal year under review, and made suggestions, given advice, etc. on the Company's management and businesses as necessary as an officer of the Roche Group.
	Erich Hunziker	Attended 3 out of 10 meetings of the Board of Directors held in the fiscal year under review, and made suggestions, given advice, etc. on the Company's management and businesses as necessary as an officer of the Roche Group.
Outside Corporate Auditors	Yasunori Fujii	Attended all 10 meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held in the fiscal year under review, and made comments, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. in the field of corporate management and corporate accounting.
	Toshio Kobayashi	Attended all 10 meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held in the fiscal year under review, and made comments, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as an expert in corporate legal affairs (attorney at law).

- (Notes) 1. As the Outside Directors live in different countries (Japan, USA and Europe), it may be difficult for everyone to attend the meeting of the Board of Directors due to time differences.
2. Each Outside Director makes suggestions, gives advice, etc. on the Company's management and businesses on occasions other than the meetings of the Board of Directors.

(d) Limited Liability Agreement

With all Outside Directors and all Outside Corporate Auditors, the Company has entered into an agreement that limits their liability if the liability for compensation of damages provided in Article 423, Paragraph 1 of the Companies Act fulfills the requirements set forth in laws and ordinances (limited liability agreement). The limit of the liability for compensation of damages under such agreement is the minimum liability limit stipulated by laws and ordinances.

with respect to audits under the Companies Act, audits under the Financial Instruments and Exchange Law and audits of financial statements reported by the Company as a consolidated subsidiary to the parent company. Therefore, the amount in (1) represents the sum of the fees for such audits. The amount in (2) includes the fee for performing procedures, etc. agreed upon for assessing internal controls concerning the parent company's financial reporting.

2. Among the Company's principal subsidiaries, Chugai Pharma Marketing Ltd. is subject to audits (limited to those under the provisions of the Companies Act or the Financial Instruments and Exchange Law (including equivalent foreign laws and ordinances)) of financial statements (including equivalent documents) of a Certified Public Accountant or an auditing corporation other than the Company's Accounting Auditor (including those with equivalent foreign qualifications).

(3) Policy for Determining Dismissal or Non-reappointment of Accounting Auditor

The Board of Directors shall propose to the general meeting of shareholders, as the objective of such meeting, dismissing or not reappointing the Accounting Auditor with the consent of the Board of Corporate Auditors or upon the request of the Board of Corporate Auditors, if deemed necessary, such as in cases where it is deemed difficult to have audits conducted properly if circumstances that undermine the Accounting Auditor's aptitude and independence have arisen.

Also, if any of the provisions of the subparagraphs of Article 340, Paragraph 1 of the Companies Act are deemed to apply to the Accounting Auditor, the Board of Corporate Auditors shall dismiss the Accounting Auditor with the unanimous consent of Corporate Auditors.

6. Framework to Ensure Operational Adequacy

The Board of Directors has passed resolutions on the following frameworks for the Company to ensure the adequacy of operations.

(a) Framework to Ensure that Duties performed by Directors and Employees are Compliant with Laws, Ordinances and the Articles of Incorporation

- Directors and employees shall observe the "Chugai Business Conduct Guideline (Chugai BCG)" established separately in performing their respective duties.
- The Risk Management & Compliance Department shall be established as a department in charge of overseeing compliance with laws, ordinances, etc.
- The Audit Department shall conduct internal audits according to the Internal Audit Rules provided separately and report the results to the Executive Committee and the Board of Corporate Auditors.

(b) Framework to Store and Manage Information on Performance of Duties by Directors

- Documents and information relating to the performance of duties by Directors shall be properly stored and managed in accordance with the Document Management Rules provided separately as well as other in-house rules.
- Such documents shall be made available promptly for perusal if requested by the Board of Corporate Auditors or Corporate Auditor(s).

(c) Rules and Other Frameworks for Managing Risk of Loss

- In regards to matters concerning rules and other frameworks for managing risk of loss, risks that might affect corporate activities shall be prevented from arising and prompt and appropriate action shall be taken in the event that any problems arise in accordance with the Risk Management Rules provided separately as well as other in-house rules.

(d) Framework to Ensure the Efficient Performance of Duties by Directors

- The Board of Directors shall supervise the performance of duties by each Director in order to ensure that the duties are performed efficiently by each Director.
- The number of Directors shall be optimized and Outside Directors shall be hired for the purpose of enhancing the functions of the Board of Directors and accelerating the decision-making process. Also, a vice president system shall be introduced with the aim of clarifying the roles and responsibilities in the execution of operations, and efficient execution of operations shall be sought accordingly.

- Prompt and efficient execution of operations shall be sought in accordance with the Approval Rules provided separately.
- (e) Framework to Ensure Operational Adequacy in the Enterprise Group consisting of the Company, Its Parent Company and Subsidiaries**
 - In order to ensure the adequacy of operations within the Chugai Group, a management body shall be established with respect to each affiliate in accordance with the Administration Rules for the Affiliated Companies provided separately, and efforts shall be made to conduct business operations appropriately.
 - The Audit Department shall conduct audits targeted at affiliates in accordance with the Internal Audit Rules provided separately to determine whether their business activities are being conducted in an appropriate and efficient manner in compliance with laws, ordinances, the Articles of Incorporation, etc.
- (f) Framework for Hiring Auditing Assistants if Requested by Corporate Auditors**
 - The Corporate Auditors' Support Section shall be established as an organization that assists the duties of the Board of Corporate Auditors as well as Corporate Auditors.
- (g) Information on Independence of Assistants referred to in Preceding Paragraph from Directors**
 - The Corporate Auditors' Support Section shall report directly to the Board of Corporate Auditors, and personnel transfer, personnel evaluation, disciplinary action and other such important matters relating to the employment of employees belonging to the Corporate Auditors' Support Section shall require the consent of the Board of Corporate Auditors in advance.
- (h) Framework for Directors and Employees to Report to Corporate Auditors and Framework for Other Reports to Corporate Auditors**
 - Directors shall report matters set forth by the Board of Corporate Auditors in accordance with the Regulations of the Board of Corporate Auditors to the Board of Corporate Auditors.
- (i) Other Frameworks to Ensure Efficient Performance of Audits by Corporate Auditors**
 - The Representative Director shall hold meetings with the Board of Corporate Auditors periodically and exchange opinions on issues to be tackled by the Company, the progress in developing an environment for Corporate Auditors to conduct audits and crucial auditing issues, in an effort to deepen mutual understanding.
 - Directors and employees of the Chugai Group shall cooperate when audits are conducted by Corporate Auditors in accordance with the Standards for Audits conducted by Corporate Auditors provided separately.

CONSOLIDATED BALANCE SHEETS

(As of December 31, 2009)

(Millions of Yen)

ITEM	AMOUNT	ITEM	AMOUNT
ASSETS		LIABILITIES	
Total Current Assets:	411,302	Total Current Liabilities:	100,482
Cash and deposits	106,978	Trade notes and accounts payable	34,263
Trade notes and accounts receivable	121,607	Accrued payables	6,599
Marketable securities	52,157	Income taxes payable	22,142
Merchandise and finished goods	71,699	Accrued consumption taxes	4,164
Work in process	10	Accrued expenses	22,893
Raw materials and supplies	20,932	Reserve for bonuses to employees	5,731
Deferred tax assets	21,058	Reserve for bonuses to directors	174
Other	16,893	Reserve for sales rebates	3,044
Reserve for doubtful accounts	(35)	Other	1,468
Noncurrent Assets:	129,246	Total Noncurrent Liabilities:	5,380
Total property, plant and equipment:	93,663	Reserve for employees' retirement benefits	2,709
Buildings and structures	53,428	Reserve for officers' retirement benefits	761
Machinery and vehicles	22,028	Other	1,908
Furniture and fixtures (net)	6,767		
Land	9,893	TOTAL Liabilities	105,862
Construction in progress	1,529	NET ASSETS	
Other (net)	16	Total Shareholders' Equity:	437,492
Total Intangible Assets:	3,244	Common stock	72,966
Software	1,053	Additional paid-in capital	92,815
Other	2,190	Retained earnings	307,984
Total Investments and Other Assets:	32,338	Treasury stock, at cost	(36,274)
Investment securities	9,657	Total Valuation and Translation Adjustments:	(5,131)
Long-term loans	32	Net unrealized gain on securities	1,636
Deferred tax assets	14,593	Foreign currency translation adjustments	(6,767)
Other	8,273	New share warrants	536
Reserve for doubtful accounts	(219)	Minority Interests	1,788
		TOTAL Net Assets	434,686
TOTAL Assets	540,549	TOTAL Liabilities and Net Assets	540,549

CONSOLIDATED STATEMENTS OF INCOME

(January 1, 2009 to December 31, 2009)

(Millions of Yen)

ITEM	AMOUNT	
Revenues		428,947
Cost of Sales		<u>192,851</u>
Gross Profit		236,095
Total Selling, General and Administrative Expenses		<u>153,482</u>
Operating Income		82,612
Non-Operating Income:		
Interest and dividends income	753	
Other	<u>8,667</u>	9,420
Non-Operating Expenses:		
Interest expenses	20	
Other	<u>1,617</u>	<u>1,638</u>
Recurring Profit		90,395
Extraordinary Gain:		
Gain on sales of noncurrent assets	264	
Gain on extinguishment of tie-in shares	<u>25</u>	289
Extraordinary Loss:		
Loss on sales of noncurrent assets	0	
Impairment loss	26	
Restructuring loss	1,228	
Loss on revaluation of investment securities	<u>12</u>	<u>1,268</u>
Income before Income Taxes and Minority Interests		89,416
Income Taxes - current	32,989	
Income Taxes - deferred	<u>(1,806)</u>	31,183
Minority interests		1,598
Net Income		56,634

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(January 1, 2009 to December 31, 2009)

(Millions of Yen)

ITEM	AMOUNT
Shareholders' equity	
Common Stock	
Balance as of the end of the previous year	72,966
Changes during the period	
Net change during the period	—
Balance as of the end of the year	<u>72,966</u>
Additional paid-in capital	
Balance as of the end of the previous year	92,815
Changes during the period	
Net change during the period	—
Balance as of the end of the year	<u>92,815</u>
Retained earnings	
Balance as of the end of the previous year	271,008
Effect of changes in accounting policies applied to foreign subsidiaries	(26)
Changes during the period	
Dividends paid	(19,613)
Net income	56,634
Deposition of treasury stocks	(18)
Net change during the period	<u>37,002</u>
Balance as of the end of the year	<u>307,984</u>
Treasury stock, at cost	
Balance as of the end of the previous year	(35,168)
Changes of during the period	
Purchase of treasury stocks	(1,161)
Deposition of treasury stocks	55
Net change during the period	<u>(1,106)</u>
Balance as of the end of the year	<u>(36,274)</u>
Total shareholders' equity	
Balance as of the end of previous year	401,622
Effect of changes in accounting policies applied to foreign subsidiaries	(26)
Changes during the period	
Dividends paid	(19,613)
Net income	56,634
Purchase of treasury stocks	(1,161)
Deposition of treasury stocks	36
Net changes during the period	<u>35,896</u>
Balance as of the end of the year	<u>437,492</u>

(Millions of Yen)

ITEM	AMOUNT
Valuation and translation adjustments	
Net unrealized gain on securities	
Balance as of the end of the previous year	1,354
Changes during the period	
Net changes except for shareholders' equity	<u>281</u>
Net change during the period	<u>281</u>
Balance as of the end of the year	<u>1,636</u>
Foreign currency translation adjustments	
Balance as of the end of the previous year	(7,889)
Changes during the period	
Net changes except for shareholders' equity	<u>1,121</u>
Net change during the period	<u>1,121</u>
Balance as of the end of the year	<u>(6,767)</u>
Total valuation and translation adjustments	
Balance as of the end of the previous year	(6,534)
Changes during the period	
Net changes except for shareholders' equity	<u>1,403</u>
Net change during the period	<u>1,403</u>
Balance as of the end of the year	<u>(5,131)</u>
New share warrants	
Balance as of the end of the previous year	326
Changes during the period	
Net changes except for shareholders' equity	<u>210</u>
Net change during the period	<u>210</u>
Balance as of the end of the year	<u>536</u>
Minority interests	
Balance as of the end of the previous year	1,651
Effect of changes in accounting policies applied to foreign subsidiaries	(11)
Changes during the period	
Net changes except for shareholders' equity	<u>148</u>
Net change during the period	<u>148</u>
Balance as of the end of the year	<u>1,788</u>
Total net assets	
Balance as of the end of the previous year	397,066
Effect of changes in accounting policies applied to foreign subsidiaries	(37)
Changes during the period	
Dividends paid	(19,613)
Net income	56,634
Purchase of treasury stocks	(1,161)
Deposition of treasury stocks	36
Net changes except for shareholders' equity	<u>1,761</u>
Net change during the period	<u>37,657</u>
Balance as of the end of the year	<u>434,686</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Basis of Preparing Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 15 companies

Names of major subsidiaries:

Chugai Pharma Marketing Ltd., and Chugai Pharma Manufacturing Co., Ltd.

(2) Number of non-consolidated subsidiaries: 2 companies

Names of non-consolidated subsidiaries:

Forerunner Pharma Research Co., Ltd., and PharmaLogicals Research Pte. Ltd.

(Reason for excluding from the scope of consolidation)

The above two companies have been excluded from the scope of consolidation, because they had little value in their materiality

2. Application of equity method

(1) Number of non-consolidated subsidiaries and affiliates accounted for by the equity method:

None

(2) Name of non-consolidated subsidiaries and affiliate not accounted for by the equity method:

Forerunner Pharma Research Co., Ltd., PharmaLogicals Research Pte. Ltd., and C&C Research Laboratories

(Reason for not applying the equity method)

Investments in the non-consolidated subsidiaries, Forerunner Pharma Research Co., Ltd., and PharmaLogicals Research Pte. Ltd., and affiliate, C&C Research Laboratories, have been carried at cost and the effect of their net income and retained earnings on the consolidated financial results of the Company had little value in their materiality.

3. Treatment for the difference in fiscal period

The closing date of all subsidiaries is in agreement with the Company's closing date.

4. Significant accounting policies

(1) Basis and method for valuation of securities

Securities are valued mainly by the methods stated below.

Held-to-maturity securities

Held-to-maturity securities are stated by the amortized cost method (straight-line method).

Other securities

Securities with market value

Securities with market value are stated at fair value at the closing date for the fiscal year, and changes in fair value are recorded as a separate component of shareholders' equity at an amount net of tax, and the moving average method is used to calculate the original cost.

Securities without market value

Securities without market value are stated at cost determined by the moving average method.

(2) Basis and method for valuation of derivatives

Derivatives are revalued by the market value method.

(3) Basis and method for valuation of inventories
Inventories held for regular sale are stated at cost determined principally by the average method. (The value indicated in the Balance Sheet is based on a write-down due to decline in profitability.)

(4) Basis and method for valuation of noncurrent assets
Depreciation is calculated by the methods stated below.
Property, plant and equipment (excluding lease assets)
Depreciation of property, plant and equipment is calculated primarily by the declining-balance method.

Intangible assets (excluding lease assets)
Depreciation of intangible assets is calculated primarily by the straight-line method.
Depreciation of software for internal use is calculated based on its usable period (five years).

Lease assets
Depreciation for finance leases is calculated by depreciating the purchase value of such assets to zero using the straight-line method over the applicable useful lives of such assets. Finance lease transactions for which ownership is not transferred to the lessee, and for which the lease period began on or before December 31, 2008, the previous accounting standards apply and the accounting treatment follows the method applicable to ordinary rental transactions.

(Additional information)
Accompanying the revision in the tax law in 2008, the Company and some of its consolidated subsidiaries re-examined the useful life of property, plant and equipment and revised the life mainly of machinery and equipment, effective the consolidated fiscal year under review.

As a result, operating income, recurring profit, and income before income taxes and minority interests were each ¥634 million higher than they would have been in the absence of this change in the method of calculating depreciation.

(5) Accounting for important reserves

Reserve for doubtful accounts
In order to prepare for losses of bad credits such as account receivables or loans and for revaluation losses on financial instruments, except valuation losses on securities, the reserve for doubtful accounts is provided for at an uncollectable amount based on the historical percentage of credit losses for general credits, and is provided for at an amount that is estimated individually considering the possibilities of collection for bad credits that are highly possible to loss and the possibilities of future loss on financial instruments.

Reserve for bonuses to employees
The reserve for bonuses to employees is presented at an estimated amount of the liability for bonuses incurred for the fiscal year.

Reserve for bonuses to directors
The reserve for bonuses to directors is presented at an estimated amount of the liability for bonuses incurred for the fiscal year.

Reserve for sales rebates
In order to prepare for any expenditure on sales rebates during the fiscal year under review, the reserve for such rebates is

computed based on the sales amount and included in this reserve.

Reserve for employees' retirement benefits The reserve for employees' retirement benefits is stated based on the estimate liabilities for retirement benefits and pension assets as of the balance sheet date. Prior service cost is being amortized as incurred by the declining-balance method over 10 years, which is shorter than the average remaining years of service of the eligible employees. The actuarial gain and loss are amortized mainly by the declining-balance method over 10 years, which is shorter than the average period of the remaining years of service of the eligible employees and are amortized from the following year in which the gain or loss is recognized.

Reserve for directors' retirement benefits The reserve for directors' retirement benefits is recorded at an amount based on management's estimate, which would be required to be paid if all directors resigned as of the balance sheet date on the basis of the Company's internal regulations. Due to the abolition of the Directors' retirement benefits system, the Company posted an amount corresponding to the period the Directors spent in office prior to the abolition of the system.

(6) Foreign currency translation

The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and, except for the components of net assets, the balance sheet accounts are also translated at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates. Translation differences are presented as translation adjustments and minority interests in net assets of the accompanying consolidated financial statements.

(7) Accounting for consumption tax

Income and expenses for the Company and its domestic subsidiaries are recorded at net of consumption taxes.

5. Basis of evaluation of consolidated subsidiaries

The Company employs the partial fair value method to value the assets and liabilities of consolidated subsidiaries.

[Changes in Important Matters Forming the Basis of Preparation of Consolidated Financial Statements]

1. Accounting Standards for Measurement of Inventories

Beginning with the consolidated fiscal year under review, the Company has applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on July 5, 2006).

As a result of this change, operating income was reduced by ¥1,250 million from the amount it would have been under the previous standards. This change had no impact on recurring profit and income before income taxes and minority interests.

2. Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Reporting

Beginning the consolidated fiscal year under review, the Company has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Reporting” (Report No. 18 of Practical Issues Task Force, issued on May 17, 2006) and has made the necessary adjustments in its consolidated accounts.

As a result of this change, retained earnings at the beginning of the year were ¥26 million lower than they would have been otherwise. In addition, revenues were ¥312 million lower, operating income was ¥6 million lower, and recurring profit and income before income taxes and minority interests were each ¥982 million higher than they would have been otherwise.

3. Accounting Standards for Lease Transactions

Regarding the accounting treatment for finance leases for which ownership is not transferred to the lessee, previously, the Company applied methods applicable to ordinary rental transactions. However, the Company has applied new accounting standards beginning with the consolidated fiscal year under reviews as follows: “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13, originally issued on June 17, 1993 (by the First Committee of the Business Accounting Council), and final revision issued on March 30, 2007) and “Implementation Guidance on Accounting Standards for Lease Transactions” (ASBJ Guidance No. 16, originally issued by the Accounting Practice Committee of the Japan Association of Certified Public Accountants on January 18, 1994, and revised on March 30, 2007). As a result of the application of these standards, such finance lease assets are now accounted for by methods applicable to ordinary buying and selling transactions.

The effect of this change on profit and loss is minimal.

Please note that for finance lease transactions for which ownership is not transferred to the lessee, and for which the lease period began before the first year these new accounting standards became applicable, the previous accounting standards apply and the accounting treatment follows the method applicable to ordinary rental transactions.

4. Partially amended Accounting Standard on Retirement Benefits (Part 3)

Beginning the consolidated fiscal year under review, the Company has applied the “Partially amended Accounting Standards on Retirement Benefits (Part 3) of (ASBJ Statement No. 19, issued on July 31, 2008), since the Standards became applicable as of consolidated financial statements for consolidated fiscal years beginning on or before March 31, 2009.

This change had no impact on the consolidated fiscal year under review.

Notes to the Consolidated Balance Sheet

1. Accumulated depreciation of Property, plant and equipment ¥163,562 million
2. Contingent liabilities
Guarantees of (housing) loans of employees ¥424 million
3. Commitment line contract
The Company maintains commitment line contracts with ten financial institutions in order to allow the efficient procurement of working capital. The balances of loans, etc in the balance sheet date was as follows:

Total commitments	¥40,000 million
Commitments used	—
Commitments unused	¥40,000 million

Notes to the Consolidated Statement of Income

- The components of revenues were as follows:
- | | |
|---|------------------|
| Sales of merchandise and finished goods | ¥419,105 million |
| Other operating income | ¥9,841 million |

Notes to the Consolidated Statement of Changes in Net Assets

1. Type and number of outstanding shares as of December 31, 2009
Common stock 559,685,889 shares

Type and number of treasury stocks as of December 31, 2009
Common stock 15,497,079 shares

2. Dividends paid to shareholders during the fiscal year under review

Approval	Type of shares	Amount (Millions of Yen)	Per Share (Yen)	Date of record	Effective date
March 25, 2009 Annual general meeting of shareholders	Common stock	10,351	19	December 31, 2008	March 26, 2009
July 23, 2009 Board of directors' meeting	Common stock	9,261	17	June 30, 2009	September 8, 2009

3. Dividends which record date within current fiscal year but to be effective after current fiscal year

Expected approval	Type of shares	Amount (Millions of Yen)	Type of distribution	Per Share (Yen)	Date of record	Effective date
March 25, 2010 Annual general meeting of shareholders	Common stock	12,516	Retained earnings	23	December 31, 2009	March 26, 2010

4. Number of shares to be issued or transferred upon the exercise of new share warrants (new share warrants that are exercisable) at the end of the fiscal year under review

New share warrants

	First new share warrants (stock options)	Second new share warrants (stock options)	Third new share warrants (stock options)	Fourth new share warrants (stock options)	Fifth new share warrants (stock options)	Sixth new share warrants (stock options) (Note)	2009 new share warrants (Stock compensation-type stock options)
Date of approval for issuance	July 25, 2003	March 25, 2004	March 23, 2005	March 23, 2006	March 23, 2007	March 25, 2009	April 24, 2009
Type of shares to be issued upon the exercise of the new share warrants	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares to be issued upon the exercise of the new share warrants (shares)	106,400	210,900	249,200	338,000	350,000	330,000	78,500

(Note) The Company has entered into new share warrant allocation contracts with the holders of the warrants, under which the holders can not exercise their new share warrants during the first two years or so after the date of approval for issuance regardless of the exercise period, although the exercise period has commenced.

Notes to the Per Share Information

1. Net assets per share ¥794.51
2. Net income per share ¥104.00

NON-CONSOLIDATED BALANCE SHEET

(As of December 31, 2009)

(Millions of Yen)

ITEM	AMOUNT	ITEM	AMOUNT
ASSETS		LIABILITIES	
Total current assets:	375,888	Total current liabilities:	98,703
Cash and deposits	83,762	Accounts payable	38,715
Accounts receivable	120,903	Lease obligations	5
Marketable securities	52,157	Accrued payables	169
Merchandise and finished goods	45,640	Accrued expenses	22,396
Raw materials and supplies	4,016	Accrued income taxes	22,066
Prepaid expenses	197	Accrued consumption taxes	2,830
Deferred tax assets	19,209	Deposits received	1,281
Short-term loans	4,800	Reserve for bonuses to employees	4,866
Accrued receivables	42,917	Reserve for bonuses to directors	174
Other	2,317	Reserve for sales rebates	3,044
Reserve for doubtful accounts	(33)	Accrued capital investments	2,753
Total noncurrent assets:	133,701	Other	397
Total property, plant and equipment:	45,596	Total noncurrent liabilities:	2,957
Buildings (net)	25,243	Lease obligations	2
Structure (net)	1,361	Reserve for employees' retirement benefits	2,137
Machinery and equipment (net)	4,006	Reserve for officers' retirement benefits	761
Vehicles and transport equipment (net)	31	Other	55
Furniture and fixtures (net)	5,479		
Land	9,061	TOTAL Liabilities	101,660
Lease assets (net)	8	NET ASSETS	
Construction in progress	405	Total shareholders' equity:	405,756
Total intangible assets:	1,651	Common stock	72,966
Patent rights	13	Total additional paid-in capital	92,815
Trademark rights	2	Capital surplus	92,815
Software	1,052	Total retained earnings	276,249
Other	584	Legal reserve	6,480
Total investments and other assets:	86,452	Other	269,768
Investment securities	9,585	Reserve for advanced depreciation of fixed assets	827
Investments in subsidiaries and affiliates	55,537	General reserve	149,220
Investment in capital to affiliates	43	Retained earnings carried forward	119,721
Long-term loans	27	Treasury stock, at cost	(36,274)
Long-term loans to employees	1	Total valuation and translation adjustments:	1,636
Long-term prepaid expenses	3,021	Net unrealized gain on securities	1,636
Deferred tax assets	13,155	New share warrants	536
Guarantee deposits	4,080		
Long-term receivables	435	TOTAL Net Assets	407,929
Other	783	TOTAL Liabilities and Net Assets	509,590
Reserve for doubtful accounts	(218)		
TOTAL Assets	509,590		

NON-CONSOLIDATED STATEMENT OF INCOME

(January 1, 2009 to December 31, 2009)

(Millions of Yen)

ITEM	AMOUNT	
Total revenues		415,277
Cost of Sales		<u>195,643</u>
Gross Profit		219,634
Total selling, general and administrative expenses		<u>146,881</u>
Operating Income		72,753
Non-Operating Income:		
Interest and dividend income	604	
Other	<u>9,764</u>	10,369
Non-Operating Expenses:		
Interest expense	9	
Other	<u>1,374</u>	<u>1,383</u>
Recurring Profit		81,739
Extraordinary Gain:		
Gains on sales of noncurrent assets	264	
Gains on extinguishment of tie-in shares	<u>25</u>	289
Extraordinary Loss:		
Loss on sales of noncurrent assets	0	
Impairment loss	26	
Restructuring loss	110	
Loss on revaluation of investment securities	<u>12</u>	<u>151</u>
Income Before Income Taxes and Minority Interests		81,877
Income Taxes - current	31,185	
Income Taxes - deferred	<u>(2,046)</u>	29,139
Net Income		52,738

NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(January 1, 2009 to December 31, 2009)

(Millions of Yen)

ITEM	AMOUNT
Shareholders' equity	
Common stock	
Balance as of the end of the previous year	72,966
Changes during the period	
Net change during the period	—
Balance as of the end of current period	<u>72,966</u>
Additional paid-in capital	
Capital surplus	
Balance as of the end of the previous year	92,815
Changes during the period	
Net change during the period	—
Balance as of the end of the year	<u>92,815</u>
Retained earnings	
Legal reserve	
Balance as of the end of the previous year	6,480
Changes during the period	
Net change during the period	—
Balance as of the end of the year	<u>6,480</u>
Other retained earnings	
Reserve for advanced depreciation of fixed assets	
Balance as of the end of the previous year	862
Changes during the period	
Reversal of reserve for advanced depreciation of fixed assets	(35)
Net change during the period	<u>(35)</u>
Balance as of the end of the year	<u>827</u>
General reserve	
Balance as of the end of the previous year	149,220
Changes during the period	
Net change during the period	—
Balance as of the end of the year	<u>149,220</u>
Retained earnings carried forward	
Balance as of the end of the previous year	86,580
Changes during the period	
Reversal of reserve for advanced depreciation of fixed assets	35
Dividends paid	(19,613)
Net income	52,738
Deposition of treasury stocks	(18)
Net change during the period	<u>33,141</u>
Balance as of the end of the year	<u>119,721</u>
Treasury stock, at cost	
Balance as of the end of the previous year	(35,168)
Changes during the period	
Purchase of treasury stocks	(1,161)
Deposition of treasury stocks	55
Net changes during the period	<u>(1,106)</u>
Balance as of the end of the year	<u>(36,274)</u>
Total shareholders' equity	
Balance as of the end of previous year	373,756
Changes during the period	
Dividends paid	(19,613)
Net income	52,738
Purchase of treasury stocks	(1,161)
Deposition of treasury stocks	36
Net change during the period	<u>31,999</u>
Balance as of the end of the year	<u>405,756</u>

(Millions of Yen)

Item	Amount
Valuation and translation adjustments	
Net unrealized gain on securities	
Balance as of the end of previous year	1,354
Changes during the period	
Net changes except for shareholders' equity	281
Net change during the period	<u>281</u>
Balance as of the end of the year	<u>1,636</u>
New share warrants	
Balance as of the end of the previous year	326
Changes during the period	
Net changes except for shareholders' equity	210
Net change during the period	<u>210</u>
Balance as of the end of the year	<u>536</u>
Total net assets	
Balance as of the end of previous year	375,437
Changes during the period	
Dividends paid	(19,613)
Net income	52,738
Purchase of treasury stocks	(1,161)
Deposition of treasury stocks	36
Net changes except for shareholders' equity	491
Net change during the period	<u>32,491</u>
Balance as of the end of the year	<u>407,929</u>

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies

1. Basis and method for valuation of securities
 - Held-to-maturity securities
Held-to-maturity securities are stated by the amortized cost method (straight-line method).
 - Investments in subsidiaries and affiliates
Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.
 - Other securities
 - Securities with market value
Securities with market value are stated at fair value at the closing date for the fiscal year, and changes in fair value are recorded as a separate component of net assets at an amount net of tax, and the moving average method is used to calculate the original cost.
 - Securities without market value
Securities without market value are stated at cost determined by the moving average method.
2. Basis and method for valuation of derivatives
Derivatives are revalued by the market value method.
3. Basis and method for valuation of inventories
Inventories held for regular sale are stated at cost determined principally by the average method. (The value indicated in the Balance Sheet is based on a write-down due to decline in profitability.)
4. Accounting for deferred assets
Expenses of new stock issued are accounted for as the full amount at the time of the expenditure.
5. Basis and method for valuation of noncurrent assets
 - Property, plant and equipment (excluding lease assets)
Depreciation of property, plant and equipment is calculated primarily by the declining-balance method.
 - Intangible assets (excluding lease assets)
Depreciation of intangible assets is calculated primarily by the straight-line method.
Depreciation of software for internal use is calculated based on its usable period (five years).
 - Lease assets
Depreciation for finance leases is calculated by depreciating the purchase value of such assets to zero using the straight-line method over the applicable useful lives of such assets. Finance lease transactions for which ownership is not transferred to the lessee, and for which the lease period began on or before December 31, 2008, the previous accounting standards apply and the accounting treatment follows the method applicable to ordinary rental transactions.

(Additional information)

Due to the revision in the tax law in 2008, the useful lives of property, plant and equipment re-examined and those mainly of machinery and equipment, were revised effective the fiscal year under review.

As a result, operating income, recurring profit, and income before income taxes were each ¥18 million higher than they would have been in the absence of this change in the method of calculating depreciation.

6. Accounting for reserves

Reserve for doubtful accounts

In order to prepare for losses of bad credits such as account receivables or loans and for revaluation losses on financial instruments, except valuation losses on securities, the reserve for doubtful accounts is provided for at an uncollectable amount based on the historical percentage of credit losses for general credits, and is provided for at an amount that is estimated individually considering the possibilities of collection for bad credits that are highly possible to loss and the possibilities of future loss on financial instruments.

Reserve for bonuses to employees

The reserve for bonuses to employees is presented at an estimated amount of the liability for bonuses incurred for the fiscal year.

Reserve for bonuses to directors

The reserve for bonuses to directors is presented at an estimated amount of the liability for bonuses incurred for the fiscal year.

Reserve for sales rebates

In order to prepare for any expenditure on sales rebates, the reserve for such rebates is computed based on the sales amount.

Reserve for employees' retirement benefits

The reserve for employees' retirement benefits is stated at the amount required to cover the liabilities as of the balance sheet date, and is based on the Company's estimate, and the estimates of certain of its domestic consolidated subsidiaries of their liabilities for retirement benefits and pension assets as of the balance sheet date.

Prior service cost is being amortized as incurred by the declining-balance method over 10 years, which is shorter than the average remaining years of service of the eligible employees.

The actuarial gain and loss are amortized by the declining-balance method over 10 years, which is shorter than the average period of the remaining years of service of the eligible employees and are amortized from the following year in which the gain or loss is recognized.

Reserve for directors' retirement benefits

The reserve for directors' retirement benefits is recorded at an amount based on management's estimate, which would be required to be paid if all directors resigned as of the balance sheet date on the basis of the Company's internal regulations. Due to the abolition of the Directors' retirement benefits

system, the Company posted an amount corresponding to the period the Directors spent in office prior to the abolition of the system.

7. Accounting for consumption tax

Income and expenses are recorded at net of consumption taxes.

[Changes in Important Accounting Policies]

1. Accounting Standards for Valuation Measurement of Inventories
Beginning with the fiscal year under review, the Company has applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on July 5, 2006). As a result of this change, operating income was reduced by ¥1,232 million from the amount it would have been under the previous standards. This change had no impact on recurring profit and income before income taxes.
2. Accounting Standards for Lease Transactions
Regarding the accounting treatment for finance leases for which ownership is not transferred to the lessee, previously, the Company applied methods applicable to ordinary rental transactions. However, the Company has applied new accounting standards beginning with the fiscal year under reviews as follows: "Accounting Standards for Lease Transactions" (ASBJ Statement No. 13, originally issued on June 17, 1993 (by the First Committee of the Business Accounting Council), and final revision issued on March 30, 2007) and "Implementation Guidance on Accounting Standards for Lease Transactions" (ASBJ Guidance No. 16, originally issued by the Accounting Practice Committee of the Japan Association of Certified Public Accountants on January 18, 1994, and revised on March 30, 2007). As a result of the application of these standards, such finance lease assets are now accounted for by methods applicable to ordinary buying and selling transactions.
The effect of this change on profit and loss is minimal.
3. Partially amended Accounting Standard on Retirement Benefits (Part 3)
Beginning the fiscal year under review, the Company has applied the "Partially amended Accounting Standards on Retirement Benefits (Part 3) of (ASBJ Statement No. 19, issued on July 31, 2008), since the Standards became applicable as of financial statements for fiscal year beginning on or before March 31, 2009.
This change had no impact on the fiscal year under review.

Notes to the Non-Consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment ¥81,557 million
2. Receivables and payables with affiliates
 Short-term receivables from affiliated companies ¥36,891 million
 Short-term debt to affiliated companies ¥8,178 million
 Long-term receivables from affiliated companies ¥170 million
3. Contingent liabilities
 Guarantees of (housing) loans of employees ¥424 million
4. Commitment line (loan framework) contract
 The Company maintains commitment line contracts with ten financial institutions in order to allow the efficient procurement of working capital. The balances of loans, etc in the balance sheet date was as follows:

Total commitments	¥40,000 million
Commitments used	—
Commitments unused	¥40,000 million

Notes to the Non-Consolidated Statement of Income

1. The components of revenues
 The components of revenues were as follow.
 Sales of merchandise and finished goods ¥405,282 million
 Other operating income ¥9,995 million
2. Transactions with affiliates
 Net sales to affiliates ¥8,033 million
 Purchase from affiliates ¥159,660 million
 Supply of raw materials to affiliates for a fee ¥116,147 million
 Non-operating transactions with affiliates ¥12,945 million

Notes to the Non-Consolidated Statement of Changes in Net Assets

Type and number of treasury stocks as of December 31, 2009
 Common stock 15,497,079 shares

Notes to the Tax Effect Accounting

The major components of the deferred tax assets are prepaid expenses for tax purposes and unrecognized reserve for retirement benefits. The major component of the deferred tax liabilities is unrealized gain on securities.

Notes to the Leased Noncurrent Assets

Other than the noncurrent assets recorded on the balance sheet, certain office equipment is leased under financial leases other than those that are deemed to transfer the ownership of the leased property.

Transaction with the Related Parties

1. Subsidiaries and affiliated companies

Attribute	Name of company	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Subsidiary	Chugai Pharma Manufacturing Co., Ltd.	Directly owned 100.0%	Contract manufacturing of pharmaceuticals Sharing of directors	Contract manufacturing of pharmaceuticals	147,894	Accounts payable	6,074
				Supply of pharmaceutical ingredients for a fee	116,147	Payments receivable	29,876
				Lease of land/buildings	931	Payments receivable	77
				Lending of funds Collection of funds Receipt of interest	26,400 25,700 91	Short-term loans	4,800

(*): Millions of Yen

Notes: 1. "Amount of transaction" is reported net of consumption taxes, while "Ending balance" is reported including consumption taxes.

2. Guideline of determination for business conditions

(1) Business transactions are determined as same as general transaction in consideration with market value.

(2) Interest rate in funds transaction is reasonably determined in consideration with market interest rate.

2. Subsidiaries of Parent Company

Attribute	Name of company	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Subsidiary of parent company	F. Hoffmann-La Roche Ltd.	—	Purchase of ingredients, etc. Sharing of officers	Purchase of pharmaceutical ingredients	120,159	Accounts payable	26,744
				Sales of pharmaceuticals	11,227	Accounts receivable	6,390
				Cost-sharing in joint developments (receivable)	9,545	Payments receivable	8,328

(*): Millions of Yen

Notes: 1. "Amount of transaction" is reported net of consumption taxes.

2. Guideline of determination for business conditions

- (1) Business transactions are determined as same as general transaction in consideration with market value.
- (2) Conditions of the transactions are determined according to the license agreements with F. Hoffmann-La Roche Ltd. and other factors.

3. Officers and major individual shareholders

Attribute	Name of company	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Officer	Osamu Nagayama	Directly Owned 0.0%	Exercise of stock option	Exercise of stock option	11	—	—
Officer	Motoo Ueno	Directly Owned 0.1%	Exercise of stock option	Exercise of stock option	11	—	—

(*): Millions of Yen

Note: The transactions mentioned above refer to the exercise of the stock acquisition rights during the fiscal year under review which were issued at the 92nd and 93rd annual general meetings of shareholders held on June 25, 2003, and March 25, 2004, respectively.

"Amount of transaction" was calculated by multiplying the number of shares granted upon the exercise of the stock option during the fiscal year under review, by the amount to be paid in.

Notes to the Per Share Information

1. Net assets per share ¥748.62
2. Net income per share ¥96.85

Independent Auditors' Report

January 27, 2010

To the Board of Directors
Chugai Pharmaceutical Co., Ltd.

Ernst & Young ShinNihon LLC

Keiko Kishigami (Seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Takao Kamiya (Seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Yoko Tanaka (Seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Pursuant to Article 444, Paragraph 4, of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and notes to the consolidated financial statements of Chugai Pharmaceutical Co., Ltd. (the "Company"), for the fiscal year from January 1, 2009 to December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the consolidated financial statements, an assessment of the accounting policies used and significant estimates made by management, and an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of the consolidated group consisting of the Company and its consolidated subsidiaries for the relevant term of the consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Law.

Independent Auditors' Report

January 27, 2010

To the Board of Directors
Chugai Pharmaceutical Co., Ltd.

Ernst & Young ShinNihon LLC

Keiko Kishigami (Seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Takao Kamiya (Seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Yoko Tanaka (Seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements, that is, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to the non-consolidated financial statements of Chugai Pharmaceutical Co., Ltd. (the "Company"), the fiscal year from January 1, 2009 to December 31, 2009, together with the supplementary schedules of the Company for the same year. These non-consolidated financial statements and the supplementary schedules are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the non-consolidated financial statements and the supplementary schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the non-consolidated financial statements and supplementary schedules are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the non-consolidated financial statements and supplementary schedules, an assessment of the accounting policies used and significant estimates made by management, and an evaluation of the overall presentation of the non-consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Law.

Audit Report

We, the Board of Corporate Auditors, hereby present this Audit Report compiled after deliberating the respective audit reports prepared by the Corporate Auditors regarding the execution of duties by Directors for the fiscal year from January 1, 2009 to December 31, 2009:

1. Method and Description of Audits conducted by Corporate Auditors and the Board of Corporate Auditors

The Board of Corporate Auditors determined the auditing policies, auditing plans, etc. for the fiscal year under review and received reports on the execution status and results of audits from each Corporate Auditor, in addition to receiving reports from Directors, etc. and the Accounting Auditor regarding the execution status of their duties and demanding an explanation from them if necessary.

Pursuant to the Standards for Audits conducted by Corporate Auditors established by the Board of Corporate Auditors, and in accordance with the auditing policies, auditing plans, etc. for the fiscal year under review, each Corporate Auditor: sought to communicate with Directors, the Audit Department and other employees, etc.; endeavored to gather information and make improvements to the auditing environment; attended meetings of the Board of Directors and other important meetings; received reports from Directors and employees, etc. regarding the execution status of their duties, and if necessary, demanded an explanation from them; reviewed documents regarding the approval of material matters, etc.; and investigated the status of the business operations and assets of the head office and major offices. Each Corporate Auditor also monitored and verified: the nature of the Board of Directors' resolutions to develop a system to ensure that the Directors' duties are executed in compliance with laws, regulations and the Articles of Incorporation of the Company, and other systems required for ensuring the appropriateness of a joint-stock company's business operations as provided in Article 100, Paragraphs 1 and 3 of the Enforcement Regulation of the Companies Act; and the status of systems (internal control systems) developed based on such resolutions. In regards to subsidiaries, each Corporate Auditor sought to communicate and exchange information with directors, etc. of the subsidiaries, and if necessary, visited the subsidiaries and investigated the status of their business operations and assets. Based on the aforementioned methods, each Corporate Auditor examined the business report and their supplementary schedules for the fiscal year under review.

Furthermore, the Board of Corporate Auditors monitored and verified as to whether the Accounting Auditor conducted audits in an appropriate manner while maintaining an independent positioning, received reports from the Accounting Auditor on the execution status of its duties, and if necessary, demanded an explanation from the Accounting Auditor. We also received a notice from the Accounting Auditor that systems for ensuring the appropriate execution of duties by the accounting auditor set forth in Article 131 of the Corporate Calculation Regulations have been developed in accordance with the Standards on Quality Control for Audits (Business Accounting Council), etc., and if necessary, demanded an explanation from the Accounting Auditor. Based on the aforementioned methods, we reviewed the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements) together with the supplementary schedules for the same year as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and notes to the consolidated financial statements) for the fiscal year under review.

2. Audit Results

(1) Results of Audit of Business Report, etc.

1) The business report and its supplementary schedules present fairly the Company's current position in compliance with laws, regulations and the Articles of Incorporation of the Company.

2) With respect to the execution of duties by Directors, there were no instances of misconduct or material matters in violation of the laws, regulations, or the Articles of Incorporation of the Company.

3) The resolutions of the Board of Directors regarding internal control systems are fair and reasonable in content. There are no matters to be pointed out in relation to the execution of duties by Directors regarding the internal control systems. The Securities and Exchange Surveillance Commission and other authorities conducted voluntary interviews of the Company's employee as witness during the investigation of violation of insider-trading regulations relating to the tender offer for the Company's shares by Roche announced in 2008. Taking into account the findings of the internal investigation committee established in the Company regarding this matter which includes external experts, as well as the fact that countermeasures including improvement of management system have been taken since then to prevent occurrence of insider-trading, we find that the internal control system of the Company is properly in place at the present.

(2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

The methods and results of audits conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC, are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

The methods and results of audits conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC, are fair and reasonable.

February 1, 2010

Board of Corporate Auditors of Chugai Pharmaceutical Co., Ltd.

Full-time Corporate Auditor	Shigetoshi Matsumoto	(Seal)
Full-time Corporate Auditor	Yasuhiro Tsuji	(Seal)
Corporate Auditor	Yasunori Fujii	(Seal)
Corporate Auditor	Toshio Kobayashi	(Seal)

(Note) Corporate Auditors Yasunori Fujii and Toshio Kobayashi are Outside Corporate Auditors stipulated in Article 2, Item 16 and Article 335, Paragraph 3, of the Companies Act.

REFERENCE DOCUMENT CONCERNING THE GENERAL MEETING OF SHAREHOLDERS

Items of Business and Matters for Reference:

First Item of Business: Proposed Disposition of Surplus

The Company's basic policy is to pay out stable dividends to shareholders, taking into account the Company's strategic demand for funds and performance forecasts, and to set its target at its average consolidated dividend payout ratio at around 40%.

In addition, internal reserves will be used, among other things, to fund R&D activities in Japan and around the world and to make capital investments for new products to further enhance corporate value.

Under the policy, the Company would like to declare disposition of surplus for the fiscal year under review as described below:

Matters concerning Year-End Dividends

(1) Type of dividend assets:

Cash

(2) Matters concerning the allotment of dividend assets to the shareholders and the amount thereof:

23 yen per share of common stock of the Company

(17 yen in common dividend, 6 yen in special dividend)

Total: 12,516,342,630 yen

The total dividend for FY2009 is 40 yen per share, including the interim dividend of 17 yen per share.

(3) Date when dividends of surplus takes effect:

March 26, 2010

Second Item of Business: Election of Ten (10) Directors

Of all the twelve (12) Directors, the term of office of nine (9) Directors, namely, Mr. Osamu Nagayama, Mr. Motoo Ueno, Mr. Ryuzo Kodama, Dr. Tatsumi Yamazaki, Mr. Harutaka Fujita, Mr. Christopher Murray, Mr. Naotaka Nakamura, Mr. William M. Burns, and Dr. Erich Hunziker, will expire, and Dr. Severin Schwan will resign at the closing of this annual general meeting of shareholders. Further, Dr. Etsuro Ogata retired on November 1, 2009, due to his passing, and Prof. Dr. Jonathan K.C. Knowles resigned on December 31, 2009. Therefore, it is proposed that ten (10) Directors be elected.

The candidates are as follows:

#	Name (Date of birth)	Summary of Career, Position and Responsibility in the Company, and Important Concurrent Positions Held	Shares of the Company Owned
1	Osamu Nagayama (April 21, 1947)	<p>Nov. 1978 entered into the Company</p> <p>Feb. 1985 Deputy General Manager of Development and Planning Div.</p> <p>Mar. 1985 Director</p> <p>Mar. 1987 Director & Senior Vice President</p> <p>Mar. 1989 Representative Director & Deputy President</p> <p>Sep. 1992 Representative Director, President & CEO (to present)</p> <p>(Responsibilities at the Company) CEO, COO, Corporate Planning Supervisory Div. (Corporate Planning, External Affairs)</p>	245,900 shares
2	Motoo Ueno (August 11, 1957)	<p>Apr. 1984 entered into the Company</p> <p>Oct. 1991 General Manager of London Representative Office</p> <p>Mar. 1993 Director</p> <p>Nov. 1994 Director and General Manager of Medical Information Div.</p> <p>Jan. 1995 Director and General Manager of Clinical Research & Development Division</p> <p>Jun. 1996 Director and Deputy General Manager of Research and Development Division</p> <p>Jun. 1997 Director & Senior Vice President</p> <p>Jun. 1998 Senior Vice President</p> <p>Jun. 2000 Director & Senior Vice President</p> <p>Jun. 2002 Director & Deputy President</p> <p>Jun. 2003 Director & Deputy President</p> <p>Mar. 2004 Representative Director & Deputy President (to present)</p> <p>Apr. 2006 Representative Director & President, Chugai Pharma Manufacturing Co., Ltd.</p> <p>(Responsibilities at the Company) Pharmaceutical Technology, Corporate Social Responsibility, Audit</p>	760,100 shares

#	Name (Date of birth)	Summary of Career, Position and Responsibility in the Company, and Important Concurrent Positions Held	Shares of the Company Owned
3	Ryuzo Kodama (January 10, 1947)	<p>Apr. 1969 entered into Sumitomo Bank, Ltd. Jun. 1997 Director and General Manager of New York Branch of Sumitomo Bank Jul. 1998 Director, General Manager of Americas Division and General Manager of New York Branch of Sumitomo Bank Oct. 1998 Director, General Manager of Americas Division of Sumitomo Bank Jun. 2000 Managing Director, Executive Managing Officer and General Manager of Americas Division of Sumitomo Bank Apr. 2001 Managing Director and General Manager of Americas Division of Sumitomo Mitsui Banking Corporation Jun. 2002 Director & Senior Vice President of the Company (Chugai) Apr. 2003 Director, Senior Vice President and General Manager of Finance & Accounting Dept. Jun. 2003 Director & Senior Vice President Mar. 2004 Director & Executive Vice president (to present)</p> <p>(Responsibilities at the Company) CFO, IT Supervisory Div. (Information System, ERP System); General Manager of Finance Supervisory Div., BPR</p>	4,000 shares
4	Tatsumi Yamazaki (May 29, 1947)	<p>Oct. 1980 entered into the Company Feb. 1993 Head of Laboratory of Molecular Science Jun. 1996 General Manager of Research Planning & Coordination Dept. Oct. 1997 Department Manager of Research Administration Dept. Jun. 1998 Vice President Oct. 2002 Senior Vice President & General Manager of Research Div. Oct. 2003 Senior Vice President & Managing Director of Research & Development Div. Mar. 2004 Director & Executive Vice president (to present)</p> <p>(Responsibilities at the Company) Portfolio Management, Regulatory & Quality Management, Clinical Development, Drug Safety</p>	5,000 shares

#	Name (Date of birth)	Summary of Career, Position and Responsibility in the Company, and Important Concurrent Positions Held	Shares of the Company Owned
5	Tatsuro Kosaka (January 18, 1953)	<p>Apr. 1976 entered into the Company</p> <p>Apr. 1995 Deputy President of Chugai Pharma Europe Ltd. (UK)</p> <p>Jun. 2000 General Manager of Business Strategy Planning Office</p> <p>Oct. 2002 Vice President & General Manager of Corporate Planning Dept.</p> <p>Oct. 2004 Senior Vice President & General Manager of Corporate Planning Dept.</p> <p>Mar. 2005 Senior Vice President & Deputy Managing Director of Sales & Marketing Group</p> <p>Jul. 2005 Senior Vice President & Head of Strategic Marketing Unit</p> <p>Mar. 2008 Senior Vice President & Head of Life Cycle Management Marketing Unit (to present)</p>	2,700 shares
6	Yasuo Ikeda (January 18, 1944)	<p>Sep. 1979 Director of Keio University Hospital Blood Center</p> <p>Apr. 1991 Professor of Internal Medicine of Keio University School of Medicine</p> <p>Oct. 2001 Director of Keio University Center for Integrated Medical Research</p> <p>Oct. 2005 Dean of Keio University School of Medicine</p> <p>Apr. 2009 Professor Emeritus of Keio University (to present)</p> <p>Apr. 2009 Professor of Department of Life Science and Medical Bioscience of Graduate School of Advanced Science and Engineering of Faculty of Science and Engineering of Waseda University (to present)</p> <p>(Other major positions)</p> <p>Apr. 2003 Board Member of Japan Marrow Donor Program (to present)</p> <p>Apr. 2003 Member of Mitsubishi Pharma Research Foundation Board of Directors (to present)</p> <p>Apr. 2005 Fundamental Research Evaluation Committee Chairman of National Institute of Biomedical Innovation (to present)</p> <p>Jun. 2005 Member of Japan Intractable Diseases Research Foundation Review Board (to present)</p> <p>May 2008 Chairman of Japanese Board of Medical Specialties (to present)</p> <p>Feb. 2009 Member of Health Research Promotion Council Advisory Board for Science and Technology Policies of the Cabinet Office (to present)</p>	0 share

#	Name (Date of birth)	Summary of Career, Position and Responsibility in the Company, and Important Concurrent Positions Held	Shares of the Company Owned
7	William M. Burns (October 12, 1947)	<p>Sep. 1969 Beecham Pharmaceuticals</p> <p>Sep. 1986 Director of Sales & Marketing, Roche UK</p> <p>Jan. 1988 Head of Pharmaceuticals Division, Roche UK</p> <p>Mar. 1991 Global Head of Strategic Marketing & Business Development, F. Hoffmann-La Roche Ltd (Switzerland)</p> <p>Mar. 1998 Head of Pharma Europe/International</p> <p>Jan. 2000 Member of Corporate Executive Committee of the Roche Group</p> <p>Jan. 2001 Head of Pharmaceuticals Division</p> <p>Oct. 2002 Board Member of the Company (Chugai) (to present)</p> <p>Apr. 2004 Board Member of Genentech, Inc. (US)</p> <p>Jan. 2005 Chief Executive Officer Division Roche Pharmaceuticals</p>	0 share
8	Erich Hunziker (September 15, 1953)	<p>Mar. 1983 Vice President for Group Strategy on Pharmaceuticals, Corange Ltd. (Switzerland) (holding company of Boehringer Mannheim Group)</p> <p>Jan. 1988 Managing Director Boehringer Mannheim, (Switzerland)</p> <p>Mar. 1992 Head of Finance, Member of Executive Board Boehringer Mannheim (Germany)</p> <p>Mar. 1994 Head of Finance, Chairman of the Executive Board Boehringer Mannheim (Germany)</p> <p>Jan. 1995 President Pharmaceuticals Division, Member of the Executive Committee Boehringer Mannheim Group (the Netherlands)</p> <p>Jan. 1997 Chief Financial Officer Corange Ltd. (Bermuda/UK)</p> <p>May 1998 Chief Executive Officer Diethelm Group (Switzerland)</p> <p>Jan. 2000 Chief Executive Officer Diethelm Keller Group (Switzerland)</p> <p>Oct. 2001 Member of the Executive Committee of the Roche Group and Chief Financial Officer</p> <p>Apr. 2004 Board Member of Genentech, Inc. (US) (to present)</p> <p>Jan. 2005 Chief Financial Officer and Deputy Head of the Corporate Executive Committee of the Roche Group (to present)</p> <p>Mar. 2006 Board Member of the Company (Chugai) (to present)</p>	0 share

#	Name (Date of birth)	Summary of Career, Position and Responsibility in the Company, and Important Concurrent Positions Held	Shares of the Company Owned
9	Pascal Soriot (May 23, 1959)	<p>Apr. 1986 Roussel Uclaf, Financial Controller, Asia Pacific Region</p> <p>Aug. 1987 Roussel New Zealand, District Sales Manager</p> <p>Jan. 1989 Roussel Australia, Sales and Marketing Manager</p> <p>Dec. 1989 Roussel Australia, General Manager</p> <p>Apr. 1994 Roussel Uclaf Pharmaceuticals, Division Global Marketing Director</p> <p>Jan. 1996 Hoechst Marion Roussel Australia, General Manager</p> <p>Apr. 1997 Hoechst Marion Roussel Tokyo, Regional Vice President Asia Pacific</p> <p>Jan. 2000 Aventis Bridgewater (US), Senior VP, Head of Global Marketing & Medical Affairs</p> <p>Jan. 2002 Aventis USA (Sanofi Aventis USA from 2004), Chief Operating Officer</p> <p>Jan. 2006 Roche, Head of Strategic Marketing</p> <p>Jan. 2007 Head of Commercial Operations and Member of the Enlarged Corporate Executive Committee</p> <p>Apr. 2009 Genentech, Inc. (US) CEO and Member of the Roche Corporate Executive Committee</p> <p>Jan. 2010 Roche Pharmaceuticals Division, COO and Member of the Roche Corporate Executive Committee (to present)</p>	0 share
10	Jean-Jacques Garaud (June 15, 1955)	<p>May 1985 Marion Merrel Dow, UK and Canada Clinical Research Physician</p> <p>Oct. 1990 Rhone-Poulenc Rorer, France Group Medical Director, Clinical Development in areas of Anti-infectives, AIDS and Allergy/ Immunology</p> <p>Jul. 1992 Schering-Plough Research Institute, USA Senior Director for Anti-Infectives, Clinical Research</p> <p>Dec. 2001 Schering-Plough Research Institute, USA Executive Vice President of Worldwide Clinical Research and Clinical Operations/ Research Information Systems</p> <p>Apr. 2002 Novartis Pharma, USA Head of Clinical Research and Development, Global Medical Affairs</p> <p>Mar. 2005 Novartis Pharma, Switzerland Global Head of Exploratory Development</p> <p>Jan. 2007 Roche Basel, Switzerland Global Head of Pharma Development and Chief Medical Officer</p> <p>Jan. 2010 Head Roche Pharma Research & Early Development (pRED) and Member of the Enlarged Roche Corporate Executive Committee (to present)</p>	0 share

(Notes) 1. Dr. Yasuo Ikeda is a candidate for an Outside Director. Although he does not have experience in corporate management, he has extensive knowledge and experience in medical science and medical care as a physician and university professor. The

Company recommends him with the belief that he will be able to execute his duties as an Outside Director of the Company appropriately based on said knowledge and experience.

2. Mr. William M. Burns, Dr. Erich Hunziker, Mr. Pascal Soriot and Dr. Jean-Jacques Garaud are candidates for Outside Directors. They all have held the positions of representative, executive officer and outside officer in a number of companies in the enterprise group to which the Company's parent Roche Pharmholding B.V. belongs (the "Roche Group," including Genentech). The Company recommends these individuals to expect advising and supervising the Company about its management and businesses. Mr. William M. Burns and Dr. Erich Hunziker will have held the position of Outside Director of the Company for 7 years 5 months and 4 years, respectively, as at the closing of this general meeting of shareholders.
3. The Company has entered into a limited liability agreement with each of Mr. William M. Burns and Dr. Erich Hunziker, which limits their liability as Outside Directors (the "Agreement") in cases that meets the requirements specified by laws and ordinances regarding the liability of Directors under Article 423, Paragraph 1 of the Companies Act. The Company plans to sustain such Agreement with each of them if they are elected as Directors, and enter into a similar agreement with each of Dr. Yasuo Ikeda, Mr. Pascal Soriot and Dr. Jean-Jacques Garaud if they are elected as Directors.
The limit of liability in the Agreement is equal to the minimum liability limit stipulated by laws and ordinances.

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