

[**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 2011 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)

February 28, 2011

To the Shareholders:

**NOTICE OF CONVOCAION OF  
THE ANNUAL GENERAL MEETING OF SHAREHOLDERS  
FOR THE BUSINESS TERM ENDED DECEMBER 31, 2010**

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, 2010. 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 23, 2011 (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:** 10:00 a.m. on March 24, 2011 (Thursday)
- 2. Place:** 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, 2010 to December 31, 2010), 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:**

<b>First Proposal:</b>	Appropriation of Surplus
<b>Second Proposal:</b>	Election of Three (3) Directors
<b>Third Proposal:</b>	Election of One (1) Corporate Auditor
<b>Fourth Proposal:</b>	Election of Accounting Auditor

- 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, 2010 to December 31, 2010)

### 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 believe that putting these Basic Management Principles into practice and enhancing the quality of all our business activities are the best way to boost the corporate value of the Chugai Group and to meet the expectations of customers, shareholders, and all other stakeholders, and will redouble efforts to realize a top Japanese pharmaceutical company.

#### (2) Target Management Indices

The Company is aiming to achieve the goals of consolidated net revenue of ¥460 billion and consolidated operating income of ¥80 billion in the 2012 fiscal year under the Mid-Term Business Plan “Sunrise 2012” for fiscal year 2008 through fiscal year 2012. This plan is premised on establishing a solid growth base by promoting major product line including Actemra, Avastin, Tarceva, Xeloda, Pegasys, and Copegus, etc. on top of the existing mainstay such as Epogin and Neutrogin, etc.. Thus far the products such as Actemra and Avastin have been successfully introduced and penetrated into the market and made remarkable contributions to our revenues. We will remain striving to achieve the top level growth in Japan by further reinforcing the hitherto built up growth base to gain constant revenues.

#### (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.

Furthermore, based on the successful achievement of the Mid-Term Business Plan “Sunrise 2012”, the Company aims to become a top Japanese pharmaceutical company in the latter 2010’s. We consider the “top pharmaceutical company” as a company which, given each individual employee with keen sense of pride and duty as part of a leading company, provides to each stakeholder the high degree of satisfaction by proactively developing its business activities on a global viewpoint, and is gaining active support and trust from stakeholder. In achieving this objective, we believe it vital to offer ongoing high-quality contribution to patients and medical services in our strategic business domains including the oncology field and the renal disease field in which we maintain top market shares, and the bone and joint diseases field in which we are making constant growth thanks to Actemra. Meanwhile, in order to ensure the quality of corporate activities as the top pharmaceutical company, we will actively tackle internal control, corporate ethics, compliance, environmental protection, and corporate philanthropy.

#### (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 the promotion of generic medicines, along with its policies to reduce medical expenditures, on top of the further tightening of the approval process for new drugs worldwide, despite the test introduction in April of the new drug price system with a view to mainly encouraging creation of innovative new drugs.

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. In addition, 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 amounted to consolidated revenues of ¥379.5 billion, with operating income of ¥66.2 billion, recurring profit of ¥65.1 billion, and net income of ¥41.4 billion.

(Billions of Yen)

	Actual performance for the fiscal year under review	Year-on-year difference for the same period (%)
Revenues	379.5	down 11.5%
Operating income	66.2	down 19.9%
Recurring profit	65.1	down 28.0%
Net income	41.4	down 26.9%

##### b) Revenues

The Company's consolidated revenues for the fiscal year under review amounted to ¥379.5 billion, down 11.5% year-on-year.

Consolidated revenues from the sales, excluding ¥18.2 billion in revenues from the sale of the anti-influenza agent Tamiflu (down 76.1%), which fluctuate significantly from year to year, and ¥3.9 billion in other operating income (down 60.2%), increased 4.2% year-on-year to ¥357.4 billion, absorbing the effect of a National Health Insurance reimbursement price revision.

As regards sales in Japan, sales in the oncology field made a significant growth of 14.1% year-on-year to ¥141.2 billion. This was thanks to the successful market penetration of our mainstay products including anti-cancer agent / anti-VEGF receptor humanized monoclonal antibody Avastin, that is steadily penetrating first line and second line treatment, surpassing the decrease in the sales of products including anti-HER2 humanized monoclonal antibody / anti-cancer agent Herceptin which was subject to the drug repricing and 5-HT<sub>3</sub> receptor antagonist antiemetic agent Kytril which was adversely affected by the competition with many generic medicines.

Sales in the bone and joint diseases field continued on its upward trend, resulting in sales of ¥62.6 billion, up 8.7% year-on-year. This was due to growth in the sale of humanized anti-human IL-6 receptor monoclonal antibody Actemra increasing its market share following its obtainment of additional indication for treatment of rheumatoid arthritis in April 2008.

Sales in the renal diseases field decreased 5.9% year-on-year to ¥57.4 billion, due to declining sales of recombinant human erythropoietin Epogin, reflecting the effect of a National Health Insurance reimbursement price revision and increased competition.

Sales in the transplant, immunology and infectious diseases field (excluding Tamiflu) decreased 1.5% year-on-year to ¥25.8 billion, reflecting the effect of a National Health Insurance reimbursement price revision and shrinking market size, although peginterferon- $\alpha$ -2a Pegasys and anti-viral agent Copegus have been constantly gaining market share owing to the penetration of the combination therapy in treatment of chronic hepatitis C.

As regards Tamiflu, sales for the regular flu season decreased 95.6% year-on-year to ¥1.6 billion, as prevalence of the new-type influenza was subsided fairly quickly in 2009/2010 season, and the influenza prevalence for 2010/2011 season did not start within

2010. Sales for the purpose of government stockpiling also decreased 58.5% year-on-year to ¥16.6 billion.

Overseas sales decreased 1.8% year-on-year to ¥33.0 billion as a result of significant decrease in the sales of recombinant human G-CSF Neutrogin due to the adverse effects of competition from follow-on biologics and currency fluctuations, more than offsetting an increase in export sales to Roche of Actemra which was approved by FDA (the U.S. Food and Drug Administration) in January, and launched the same month in the U.S. (currently marketed in more than 50 countries).

c) Financial results

A significant decrease in the sales of Tamiflu resulted in gross profit on sales decreasing 8.0% year-on-year to ¥217.1 billion.

Operating expenses decreased 2.0% year-on-year to ¥96.2 billion, and R&D expenses decreased 1.1% year-on-year to ¥54.7 billion resulting from the effort to improve cost effectiveness of selling, general and administrative expenses.

As a result, operating income decreased 19.9% year-on-year to ¥66.2 billion. Further, due to the deteriorated gain/loss on foreign exchange, recurring profit decreased 28.0% year-on-year to ¥65.1 billion while net income decreased 26.9% year-on-year to ¥41.4 billion.

d) Progress of the R&D activities (From January 1, 2010 to February 2, 2011)

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 fields. 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

- The development of Avastin (expected indication: postoperative adjuvant chemotherapy in colon cancer) was discontinued since the primary endpoints were not met in the Phase III multinational study conducted by Roche.
- In March, we filed an application for the approval of the combination therapy using 5-FU derivative Xeloda and Herceptin, for the additional indication of gastric cancer. Xeloda was recognized to qualify for the application for the New Drug Application (NDA) based on evidence in the public domain by the Review Committee on Unapproved Drugs and Indications with High Medical Needs. The application for the NDA based on evidence in the public domain was filed in September.
- In April, we initiated the Phase II clinical trial for EGFR tyrosine kinase inhibitor Tarceva for the additional indication of non-small cell lung cancer (first line therapy).
- In October, we initiated the Phase II clinical trial for anti-HER2 humanized monoclonal antibody / drug conjugate RG3502 for the expected indication of breast cancer.
- In September, we initiated the Phase I/II clinical trials for ALK inhibitor (AF802) for the expected indication of non-small cell lung cancer.
- In January, we initiated the Phase I clinical trial for Raf/MEK inhibitor CKI27 (RG7304) for the expected indication of solid tumors.
- In October, we initiated the Phase I clinical trial for humanized anti-Glypican-3 monoclonal antibody GC33 for the expected indication of liver cancer.

(ii) Bone and Joint Diseases field

- In January 2011, we obtained approval for activated vitamin D<sub>3</sub> derivative ED-71 for the indication of osteoporosis.
- In May, we initiated the Phase III clinical trial for a subcutaneous injection of Actemra for rheumatoid arthritis.
- The development of humanized anti-CD20 monoclonal antibody RG1594 (expected

- indication: rheumatoid arthritis) was discontinued in consideration of risks vs. benefits.
- In December, we initiated the Phase I clinical trial for humanized anti-human IL-6 receptor monoclonal antibody SA237 for the expected indication of rheumatoid arthritis.
- (iii) Transplant, Immunology and Infectious Diseases field
- The development of thiazolide compound NTZ (expected indication: chronic hepatitis C) was discontinued, following the review of priority in the development portfolio. Development effort within Japan for this drug is scheduled to be continued by Romark Laboratories, L.C. as part of the multinational development program.
  - In October, we filed an application for combination therapy using Copegus along with Pegasys for the additional indication of compensated liver cirrhosis caused by hepatitis C virus.
  - In January 2011, we filed an application for Pegasys for the indication of chronic hepatitis B.
  - The development of serine palmitoyl transferase inhibitor NA808 (expected indication: chronic hepatitis C) was discontinued, as its clinical trial on the patients with chronic hepatitis C indicated certain level of decrease in the HCV virus load, but not to the extent that meets the initially established efficacy criteria.
- (iv) Other fields
- In June, we obtained approval for Epogin for the additional indication of predeposit of autologous blood transfusion.
  - In November, we initiated the Phase III clinical trial for SGLT2 inhibitor CSG452 (RG7201) for the expected indication of type II diabetes.
  - In January 2011, we initiated the Phase III multinational study for GLYT1 inhibitor RG1678 for the expected indication of schizophrenia.

At present, we are awaiting the approval of applications for 9 development themes (new molecular entities and additions of indications), including Avastin (expected indication: breast cancer), which were filed and are waiting for approval in Japan.

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

- In August, we initiated the Phase I clinical trial for PA799 (expected indication: solid tumors).
- In January, Roche obtained the approval from FDA for Actemra for the indication of rheumatoid arthritis. In addition, Roche initiated the Phase III clinical trial for the subcutaneous injection of rheumatoid arthritis in September, and filed an application for Actemra for the indication for systemic onset juvenile idiopathic arthritis in October.

## **(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 ¥12.7 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 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 bio/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 our product pipeline by aggressively introducing promising development candidates from Roche.

b) Maximization of Product Value

Under its alliance with Roche, the Company has built a strong position in the domestic market especially in the oncology and the renal disease fields. Going forward, the Company is aiming to maximize product value and further increase its presence in such priority fields as oncology through the further strengthening of strategic marketing efforts together with 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 expansion is a vital task as the Company works to accelerate its growth going forward. Actemra received approval from the FDA in January, and is currently being sold in more than 50 countries worldwide, including Japan, the United States and Europe.

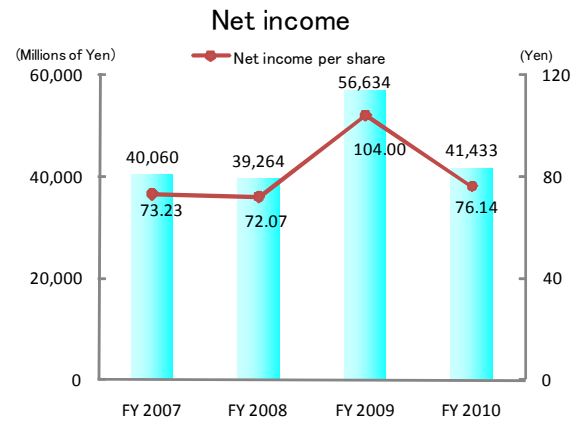
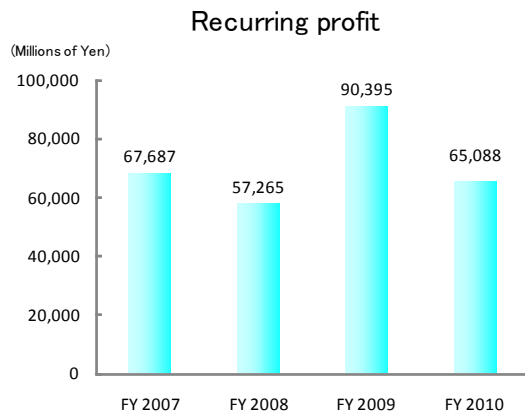
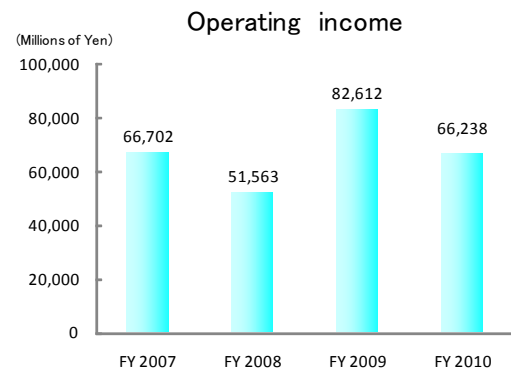
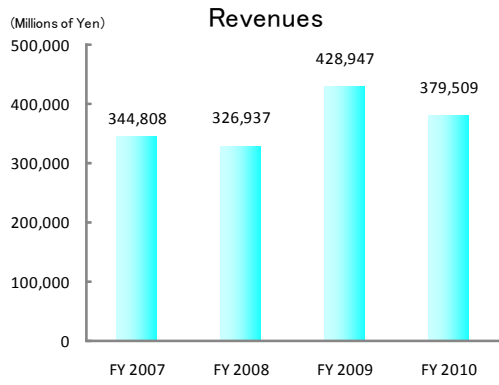
Going forward, we will aim to achieve growth in overseas markets by developing and launching other innovative new drugs following Actemra.

**(8) Asset and Income Status**

	FY 2007	FY 2008	FY 2009	FY 2010 (Current)
Revenues (millions of yen)	344,808	326,937	428,947	379,509
Operating income (millions of yen)	66,702	51,563	82,612	66,238
Recurring profit (millions of yen)	67,687	57,265	90,395	65,088
Net income (millions of yen)	40,060	39,264	56,634	41,433
Net income per share (yen)	73.23	72.07	104.00	76.14
Total assets (millions of yen)	458,942	478,517	540,549	508,016
Net assets (millions of yen)	385,797	397,066	434,686	449,394

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

[Reference]



**(9) Main Businesses** (as of December 31, 2010)

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

**(10) Principal Sales Offices, Plants and Research Laboratories** (as of December 31, 2010)

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 City), 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, Ukima, Kamakura, Fujieda
Research laboratories	Fuji-Gotemba, Kamakura, Ukima
	Chugai Pharma USA, LLC (USA) Chugai Pharma Europe Ltd. (UK)

**(11) Employees** (as of December 31, 2010)

Number of employees	Increase/decrease since end of previous fiscal year
6,709 persons	224 persons (Increase)

(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 against Total Number of the Issued Shares	Nature of Relationship
Roche Pharmholding B.V. (Holland)	335,223,645 shares	59.89%	There are no operating transactions with the Company.
Roche Finance Ltd. (Switzerland)	—	(59.89%)	This is the parent company of Roche Pharmholding B.V.
Roche Holding Ltd. (Switzerland)	—	(59.89%)	This is the parent company of Roche Finance Ltd.

- (Notes) 1. Treasury stock is included in the calculation of the shareholding percentage. Shareholding percentage is 61.59% when calculated based on the total number of the issued shares excluding the number of treasury stock.
2. The numbers in parentheses in the Shareholding Percentage column of the table above are indirect shareholding percentages.

Under the Japan Umbrella Rights Agreement signed in December 2001, 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 owned by Roche.

Also, under the Rest of the World Umbrella Rights Agreement (excluding Japan and South Korea) signed in May 2002, 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, etc.**

In the fiscal year under review, the Company conducted none of such undertakings as assignment of business, absorption-type company split, incorporation-type company split, acceptance of assignment of business of another company, succession to rights and obligations in connection with business of another juridical person by absorption-type merger or absorption-type company split, or acquisition/disposition of shares, other equity or stock option of another company.

**(14) Other Important Matters of the Consolidated Group**

There is no applicable information.

**2. Company's Shares** (as of December 31, 2010)

**(1) Total number of authorized shares** 799,805,050 shares

**(2) Total number of the issued shares** 559,685,889 shares  
(Includes 15,491,466 shares of treasury stock)

**(3) Number of shareholders** 50,418 shareholders

**(4) Major Shareholders (Top Ten)**

Name of shareholder	Number of shares held (Thousands of shares)	Shareholding percentage (%)
Roche Pharmholding B.V.	335,223	61.59
Japan Trustee Services Bank, Ltd. (Trust Account)	12,460	2.28
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,229	2.24
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,668	0.85
JP Morgan Chase Bank, N.A. 385147	4,651	0.85
JP Morgan Chase Bank, N.A. 385078	4,281	0.78
JP Morgan Securities Japan Co., Ltd.	4,146	0.76
Mellon Bank N.A. as Agent for Its Client Mellon Omnibus US Pension	3,735	0.68
State Street Bank and Trust Company 505225	3,567	0.65
Chugai Pharmaceutical Employee Shareholders' Association	3,197	0.58

(Notes) 1. The Company is excluded from the top ten major shareholders listed in the table above, although the Company holds 15,491,466 shares of treasury stock.  
2. Shareholding percentage was calculated based on the total number of the issued shares excluding the number of treasury stock.

**(5) Other Important Matters Concerning Shares**

There is no applicable information.

### 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, 2010)

##### (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 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	558 units (three persons)
Second issue of stock acquisition rights (April 5, 2004)	206,900 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	1,169 units (five persons)
Third issue of stock acquisition rights (April 1, 2005)	245,200 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	1,250 units (five persons)
Fourth issue of stock acquisition rights (April 3, 2006)	333,000 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	1,250 units (five persons)
Fifth issue of stock acquisition rights (April 9, 2007)	345,000 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	1,250 units (five persons)
Sixth issue of stock acquisition rights (April 9, 2009)	328,000 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	1,250 units (five persons)
Seventh issue of stock acquisition rights (May 11, 2010)	324,000 shares of the Company's common stock (100 shares per stock acquisition right)	¥188,100 (per stock acquisition right)	From May 11, 2010 to April 23, 2020	1,350 units (five 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 Directors
2009 issue of stock acquisition rights (May 11, 2009)	67,000 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	670 units (four persons)
2010 issue of stock acquisition rights (May 11, 2010)	71,600 shares of the Company's common stock (100 shares per stock acquisition right)	¥100 (per stock acquisition right)	From May 11, 2010 to April 23, 2040	716 units (five 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
Seventh issue of stock acquisition rights (May 11, 2010)	324,000 shares of the Company's common stock (100 shares per stock acquisition right)	¥188,100 (per stock acquisition right)	From May 11, 2010 to April 23, 2020	Employees of Company 1,850 units (96 persons)
				Officers and employees of Company's subsidiaries 40 units (four 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, 2010)

Position	Name	Responsibilities	Other important concurrent positions
Representative Director, President	Osamu Nagayama	CEO, COO, Corporate Planning Supervisory Div. (Corporate Planning, External Affairs)	
Representative Director, Deputy President	Motoo Ueno	Pharmaceutical Technology, Corporate Social Responsibility, Audit	
Director & Executive Vice President	Ryuzo Kodama	CFO, Finance Supervisory Div. (Corporate Communications), IT Supervisory Div. (Information System, Purchasing), Finance & Accounting	
Director & Executive Vice President	Tatsumi Yamazaki	Portfolio Management, Regulatory & Quality Management, Research, Clinical Development, Drug Safety	
Director & Executive Vice President	Tatsuro Kosaka	Head of Lifecycle Management & Marketing Unit, Sales, Overseas Development	
Director	Mitsuo Ohashi		Senior Advisor, SHOWA DENKO K.K.
Director	Yasuo Ikeda		Professor of the Waseda University, Faculty of Science and Engineering, Department of Life Science and Medical Bioscience
Director	Abraham E. Cohen		
Director	William M. Burns		Director, Roche Holding Ltd.
Director	Erich Hunziker		Chief Financial and IT Officer Deputy Head of the Corporate Executive Committee of the Roche Group
Director	Pascal Soriot		Roche Pharmaceuticals Division, COO and Member of the Roche Corporate Executive Committee
Director	Jean-Jacques Garaud		Head of Roche Pharma Research & Early Development (pRED) and Member of the Enlarged Roche Corporate Executive Committee
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

(Notes) 1. Directors who retired or were newly appointed during the fiscal year under review are as follows:

<Retired> Director	Harutaka Fujita (retirement due to expiration of term in office on March 25, 2010)
Director	Christopher Murray (retirement due to expiration of term in office on March 25, 2010)
Director	Naotaka Nakamura (retirement due to expiration of term in office on March 25, 2010)
Director	Severin Schwan (resigned on March 25, 2010)

<Newly appointed>

Director Tatsuro Kosaka (assumed office on March 25, 2010)  
Director Yasuo Ikeda (assumed office on March 25, 2010)  
Director Pascal Soriot (assumed office on March 25, 2010)  
Director Jean-Jacques Garaud (assumed office on March 25, 2010)

2. 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.
3. The Company designated Director Mitsuo Ohashi and Corporate Auditor Yasunori Fujii as independent directors/corporate auditors as stipulated under the Tokyo Stock Exchange guideline, and registered them as such at the exchange.
4. The positions and responsibilities of some Directors were changed as follows as of January 1, 2011.

Position	Name	Responsibilities
Director, Deputy President	Ryuzo Kodama	Finance Supervisory Div. (Finance & Accounting, Corporate Communications), IT Supervisory Div. (Information System, Purchasing), Special Assignment from the President (company-wide productivity improvement)
Director, Deputy President	Tatsumi Yamazaki	Regulatory & Quality Management, Research, Clinical Development, Drug Safety
Director & Executive Vice President	Tatsuro Kosaka	Portfolio Management, Lifecycle Management & Marketing, Business Development

## (2) Outside Corporate Officers

### (a) Outside Directors and Outside Corporate Auditors

- Among the Directors, Mitsuo Ohashi, Yasuo Ikeda, Abraham E. Cohen, William M. Burns, Erich Hunziker, Pascal Soriot, and Jean-Jacques Garaud 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 Roche Group engage in ongoing transactions such as licensing in/out of pharmaceuticals and development candidates and sales/purchases of ingredients of pharmaceuticals and semi-finished products.
- 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 Corporate Officers 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	Mitsuo Ohashi	Attended all 8 meetings of the Board of Directors held in the fiscal year under review, and made suggestions and advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a manager.
	Yasuo Ikeda	Attended all 6 meetings of the Board of Directors held after his appointment in the fiscal year under review, and made suggestions and advice, etc. on the Company's management and businesses as necessary based on his extensive knowledge, experience, etc. as a medical expert.
	Abraham E. Cohen	Attended 5 out of 8 meetings of the Board of Directors held in the fiscal year under review, and made suggestions and 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.
	William M. Burns	Attended 4 out of 8 meetings of the Board of Directors held in the fiscal year under review, and made suggestions and advice, etc. on the Company's management and businesses as necessary as an officer of the Roche Group.
	Erich Hunziker	Attended 3 out of 8 meetings of the Board of Directors held in the fiscal year under review, and made suggestions and advice, etc. on the Company's management and businesses as necessary as an officer of the Roche Group.
	Pascal Soriot	Attended 2 out of 6 meetings of the Board of Directors held after his appointment in the fiscal year under review, and made suggestions and advice, etc. on the Company's management and businesses as necessary as an officer of the Roche Group.
	Jean-Jacques Garaud	Attended 3 out of 6 meetings of the Board of Directors held after his appointment in the fiscal year under review, and made suggestions and 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 8 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 8 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) Content Overview of 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.

### (3) Amount of Remuneration, etc. paid to Directors and Corporate Auditors

In respect of remuneration for Directors and Corporate Auditors, the Company has designed its remuneration standards and structure, taking performance and shared value with shareholders into consideration, in order to maximize the Chugai Group's corporate value as its primary objective.

Remuneration for Directors which consists of three types, namely regular remuneration as fixed remuneration, bonuses payable based on performance, and stock option granted as a long-term incentive, is payable based on the Company's remuneration standards subject to the resolution of the Board of Directors, within the overall limit of remuneration approved by general meeting of shareholders. Meanwhile, policies and details of remuneration for Directors with special titles are decided by the Compensation Committee consisting of current and former Outside Directors, to ensure objective and transparent decision-making processes.

Remuneration for Outside Directors and Corporate Auditors (including Outside Corporate Auditors) which consists solely of regular remuneration as fixed remuneration is payable subject to the resolution of the Board of Directors in the case of Outside Directors, while subject to the consultation of Corporate Auditors in the case of Corporate Auditors, within the overall limit of remuneration approved by the general meeting of shareholders in either case.

The retirement benefits system for Directors has been abolished by the resolution passed in the 98<sup>th</sup> annual general meeting of shareholders held in March 2009, and the retirement benefits system for Outside Directors and Corporate Auditors (including Outside Corporate Auditors) has been abolished by the resolution passed in the 95<sup>th</sup> annual general meeting of shareholders held in March 2006.

Position	Total Remuneration, etc. (millions of yen)	Total Amount by Type of Remuneration, etc. (millions of yen)				Number of Eligible Officers
		Regular Remuneration	Bonuses	Common Stock Option	Stock Option as Stock-based Compensation	
Directors (Excluding Outside Directors)	695	299	216	64	114	8
Outside Directors	53	53	—	—	—	4
Total	749	569		64	114	12
Corporate Auditors (Excluding Outside Corporate Auditors)	62	62	—	—	—	2
Outside Corporate Auditors	21	21	—	—	—	2
Total	84	84		—	—	4

(Notes) 1. The table above includes the three Directors who retired during the fiscal year under review.

2. The amount of remuneration, etc. (regular remuneration and bonuses) paid to all Directors was no more than ¥750 million per year as per the resolution passed in the 96<sup>th</sup> annual general meeting of shareholders held in March 2007.

Apart from this, the maximum amounts of compensation paid to Directors in the form of stock acquisition rights allocated as stock option are ¥150 million per year for stock option as stock-based compensation and ¥125 million per year for common stock option as per the resolution passed in the 98<sup>th</sup> annual general meeting of shareholders held in March 2009.

3. The amount of remuneration for all Corporate Auditors was no more than ¥100 million per year as per the resolution passed in the 95<sup>th</sup> annual general meeting of shareholders held in March 2006.

4. The amounts of common stock option and stock option as stock-based compensation shown in the table above are the amounts that were posted as expenses for the fiscal year under review.

5. The amounts of bonuses shown in the table above are the amount of provision for reserve for bonuses to directors for the fiscal year under review.

6. As bonuses to directors for the previous fiscal year, the Company paid ¥62 million to 7 directors (internal), apart from ¥174 million of provision for reserve for bonuses to directors as shown in the Business Report for the previous fiscal year.

7. A resolution was passed in the 98<sup>th</sup> annual general meeting of shareholders held in March 2009, to abolish the retirement benefits system for Directors with executive power,

and to pay retirement benefits corresponding to their residual term up to the abolishment of the system to each concerned Director remaining in office after the closing of the 98<sup>th</sup> annual general meeting of shareholders, at the respective time of their retirement.

Also, a resolution was passed in the 95<sup>th</sup> annual general meeting of shareholders held in March 2006, to abolish the retirement benefits system for Directors and Corporate Auditors with no executive power, and to pay retirement benefits corresponding to their residual term up to the abolishment of the system to each concerned Director and Corporate Auditor remaining in office after the closing of the 95<sup>th</sup> annual general meeting of shareholders, at the respective time of their retirement.

In addition to the amounts shown in the table above, according to the above resolutions at the general meetings of shareholders, directors' retirement benefits for the period from the appointment of each until the abolition of the system, were paid as follows:

- |                               |             |             |
|-------------------------------|-------------|-------------|
| Retiring Directors (internal) | two persons | ¥34 million |
|-------------------------------|-------------|-------------|
8. In the fiscal year under review, the amount of remuneration, etc. as an officer received from the Roche Group by four Directors, namely, Severin Schwan, William M. Burns, Erich Hunziker, and Pascal Soriot totaled ¥1,322 million (converted into yen at the averages of exchange rate in the fiscal year under review).

#### **(4) Other Important Matters Concerning Company's Officers**

There is no applicable information.

### **5. Accounting Auditor**

#### **(1) Name of Accounting Auditor: Ernst & Young ShinNihon LLC**

#### **(2) Amount of Fees, etc. paid to Accounting Auditor in the Fiscal Year under Review**

(a) Fee for auditing services set forth in Article 2, Paragraph 1 of the Certified Public Accountant Law: ¥170 million

(b) Total amount of cash and other proprietary benefits payable by the Company and its subsidiaries: ¥193 million

(Notes) 1. The amount of auditing fees is neither distinguished nor effectively distinguishable under the auditing agreement concluded between the Company and the Accounting Auditor 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.

2. The amount in (b) includes the fee paid to Ernst & Young ShinNihon LLC for performing non-auditing services other than the auditing services set forth in Article 2, Paragraph 1 of the Certified Public Accountant Law including procedures, etc. agreed upon for assessing internal controls concerning the parent company's financial reporting.

3. 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.
- The Company shall establish and implement the internal control system for ensuring the reliability of financial reporting, and conduct its assessment appropriately.

### **(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 to Eliminate Anti-Social Forces**

- The Company shall establish and maintain the corporate system that eliminates any connection with antisocial forces and groups in accordance with “Chugai Business Conduct Guideline (Chugai BCG)”.

### **(g) 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.

### **(h) 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.

**(i) 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.

**(j) 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, 2010)

(Millions of Yen)

ITEM	AMOUNT	ITEM	AMOUNT
<b>ASSETS</b>		<b>LIABILITIES</b>	
Total Current Assets:	386,537	Total Current Liabilities:	54,580
Cash and deposits	76,212	Trade notes and accounts payable	19,489
Trade notes and accounts receivable	113,391	Accrued payables	5,933
Marketable securities	59,699	Income taxes payable	3,679
Merchandise and finished goods	89,447	Accrued consumption taxes	524
Work in process	20	Accrued expenses	16,226
Raw materials and supplies	15,417	Reserve for bonuses to employees	4,588
Deferred tax assets	19,926	Reserve for bonuses to directors	216
Other	12,427	Reserve for sales rebates	2,434
Reserve for doubtful accounts	(5)	Other	1,488
Noncurrent Assets:	121,478	Total Noncurrent Liabilities:	4,041
Total property, plant and equipment:	87,954	Reserve for employees' retirement benefits	2,596
Buildings and structures	50,284	Reserve for officers' retirement benefits	729
Machinery and vehicles	19,193	Other	716
Furniture and fixtures (net)	6,539		
Land	9,893	<b>TOTAL Liabilities</b>	<b>58,621</b>
Construction in progress	2,010	<b>NET ASSETS</b>	
Other (net)	32	Total Shareholders' Equity:	457,167
Total Intangible Assets:	2,362	Common stock	72,966
Software	639	Additional paid-in capital	92,815
Other	1,723	Retained earnings	327,642
Total Investments and Other Assets:	31,161	Treasury stock, at cost	(36,256)
Investment securities	7,587	Total Valuation and Translation Adjustments:	(9,911)
Long-term loans	19	Net unrealized gain on securities	1,341
Deferred tax assets	14,939	Foreign currency translation adjustments	(11,252)
Other	8,802	New share warrants	775
Reserve for doubtful accounts	(186)	Minority Interests	1,363
		<b>TOTAL Net Assets</b>	<b>449,394</b>
<b>TOTAL Assets</b>	<b>508,016</b>	<b>TOTAL Liabilities and Net Assets</b>	<b>508,016</b>

## CONSOLIDATED STATEMENTS OF INCOME

(January 1, 2010 to December 31, 2010)

(Millions of Yen)

ITEM	AMOUNT	
Revenues		379,509
Cost of Sales		<u>162,417</u>
Gross Profit		217,091
Total Selling, General and Administrative Expenses		<u>150,853</u>
Operating Income		66,238
Non-Operating Income:		
Interest and dividends income	449	
Other	<u>1,943</u>	2,393
Non-Operating Expenses:		
Interest expenses	4	
Other	<u>3,538</u>	<u>3,542</u>
Recurring Profit		65,088
Extraordinary Gain:		
Gain on sales of noncurrent assets	18	
Gain on liquidation of restructuring	480	
Gain on sales of investment securities	95	
Subsidy	<u>50</u>	644
Extraordinary Loss:		
Loss on sales of noncurrent assets	0	
Impairment loss	41	
Loss on sales of investment securities	2	
Loss on revaluation of investment securities	<u>1</u>	<u>46</u>
Income before Income Taxes and Minority Interests		65,686
Income Taxes - current	22,129	
Income Taxes - deferred	<u>966</u>	23,096
Minority interests		1,157
Net Income		41,433

## **CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

(January 1, 2010 to December 31, 2010)

(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	307,984
Changes during the period	
Dividends paid	(21,767)
Net income	41,433
Deposition of treasury stocks	(8)
Net change during the period	<u>19,657</u>
Balance as of the end of the year	<u>327,642</u>
Treasury stock, at cost	
Balance as of the end of the previous year	(36,274)
Changes of during the period	
Purchase of treasury stocks	(9)
Deposition of treasury stocks	27
Net change during the period	<u>17</u>
Balance as of the end of the year	<u>(36,256)</u>
Total shareholders' equity	
Balance as of the end of previous year	437,492
Changes during the period	
Dividends paid	(21,767)
Net income	41,433
Purchase of treasury stocks	(9)
Deposition of treasury stocks	19
Net changes during the period	<u>19,674</u>
Balance as of the end of the year	<u>457,167</u>

(Millions of Yen)

ITEM	AMOUNT
Valuation and translation adjustments	
Net unrealized gain on securities	
Balance as of the end of the previous year	1,636
Changes during the period	
Net changes except for shareholders' equity	<u>(295)</u>
Net change during the period	<u>(295)</u>
Balance as of the end of the year	<u>1,341</u>
Foreign currency translation adjustments	
Balance as of the end of the previous year	(6,767)
Changes during the period	
Net changes except for shareholders' equity	<u>(4,485)</u>
Net change during the period	<u>(4,485)</u>
Balance as of the end of the year	<u>(11,252)</u>
Total valuation and translation adjustments	
Balance as of the end of the previous year	(5,131)
Changes during the period	
Net changes except for shareholders' equity	<u>(4,780)</u>
Net change during the period	<u>(4,780)</u>
Balance as of the end of the year	<u>(9,911)</u>
New share warrants	
Balance as of the end of the previous year	536
Changes during the period	
Net changes except for shareholders' equity	<u>238</u>
Net change during the period	<u>238</u>
Balance as of the end of the year	<u>775</u>
Minority interests	
Balance as of the end of the previous year	1,788
Changes during the period	
Net changes except for shareholders' equity	<u>(425)</u>
Net change during the period	<u>(425)</u>
Balance as of the end of the year	<u>1,363</u>
Total net assets	
Balance as of the end of the previous year	434,686
Changes during the period	
Dividends paid	(21,767)
Net income	41,433
Purchase of treasury stocks	(9)
Deposition of treasury stocks	19
Net changes except for shareholders' equity	<u>(4,966)</u>
Net change during the period	<u>14,708</u>
Balance as of the end of the year	<u>449,394</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.
- (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. While the Company abolished the Directors' retirement benefits system, it 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.

## Notes to the Consolidated Balance Sheet

1. Accumulated depreciation of Property, plant and equipment ¥177,381 million
2. Contingent liabilities  
Guarantees of (housing) loans of employees ¥352 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 | ¥375,559 million |
| Other operating income                  | ¥3,949 million   |

## Notes to the Consolidated Statement of Changes in Net Assets

1. Type and number of outstanding shares as of December 31, 2010  
Common stock 559,685,889 shares

Type and number of treasury stocks as of December 31, 2010  
Common stock 15,491,466 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, 2010 Annual general meeting of shareholders	Common stock	12,516	23	December 31, 2009	March 26, 2010
July 22, 2010 Board of directors' meeting	Common stock	9,251	17	June 30, 2010	September 1, 2010

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 24, 2011 Annual general meeting of shareholders	Common stock	12,516	Retained earnings	23	December 31, 2010	March 25, 2011

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	206,900	245,200	333,000	345,000	328,000	67,000

	Seventh new share warrants (stock options) (Note)	2010 new share warrants (Stock compensation- type stock options)
Date of approval for issuance	April 23, 2010	April 23, 2010
Type of shares to be issued upon the exercise of the new share warrants	Common stock	Common stock
Number of shares to be issued upon the exercise of the new share warrants (shares)	324,000	71,600

(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 Financial Instruments**

### 1. Status of financial instruments held by the Group

#### (1) Policy for financial instruments

The Group is investing its temporary surplus fund primarily in safe and highly liquid financial assets. Derivative transactions are used for avoiding the risks as described hereunder, and not for speculative purposes which are against the corporate policy.

#### (2) Nature and extent of risks arising from financial instruments

Trade receivables such as trade notes and accounts receivable are exposed to customer credit risk, while trade receivables denominated in foreign currencies are exposed to exchange fluctuation risk.

Marketable securities and investment securities primarily comprising bonds, etc. held as investment of surplus fund, along with shares of the companies in business relation with the Group, are exposed to the risk of market price fluctuations.

Of trade payables such as trade notes and accounts payable, those denominated in foreign currencies are exposed to exchange fluctuation risk. Derivative transactions conducted by the Group are restricted to forward exchange contracts with the purpose to hedge exchange fluctuation risk in respect of foreign currency denominated receivables and payables.

#### (3) Risk management for financial instruments

##### 1) Credit risk management (risks associated with the defaults of clients)

As part of the Company's credit risk management, regarding the trade receivables, sales administration departments are regularly monitoring the financial position of main clients by checking payment term and credit balance for each client according to the accounting rules, to ensure early identification and mitigation of the potential bad debt associated with the deterioration of their financial position.

Derivative transactions are restricted to those with high credit rating financial institutions, in an effort to mitigate the counterparty risks.

##### 2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

The Company is hedging exchange fluctuation risks of foreign currency denominated receivables and payables primarily by using forward exchange contracts. Holdings of marketable securities and investment securities are monitored based on regular identification of their fair values as well as financial position of the issuing entities (business partners), in which those other than held-to-maturity securities in particular are subject to continuous review in terms of the viability of their holdings, in consideration of the market conditions along with the Company's business relationship with the business partners. Derivative transactions are conducted under the management system defined by the internal rules, in which transactions status including the transaction balances as well as valuation profit or loss are identified on a monthly basis. Incidentally, consolidated subsidiaries do not engage in derivative transactions.

##### 3) Liquidity risk management on fund raising (risk in which the Company being unable to repay within the due date)

The Company is managing its liquidity risks by cash management plan prepared and updated as appropriate by Finance & Accounting Dept. based on the reporting from each department.

#### (4) Supplementary explanation concerning fair values, etc. of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The contract amount, etc. with respect to derivative transactions do not indicate the amounts of market risk exposed to derivative transactions.

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of December 31, 2010 are as follows. Financial instruments whose fair values are not readily determinable are excluded from the following table: (See Note 2)

(Millions of Yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	76,212	76,212	—
(2) Trade notes and accounts receivable	113,391	113,391	—
(3) Marketable securities and investment securities	66,974	66,974	—
Total assets	256,578	256,578	—
Trade notes and accounts payable	19,489	19,489	—
Total liabilities	19,489	19,489	—
Derivative transactions (*)	51	51	—

(\*) Receivables and payables incurred by derivative transactions are presented in net.

(Notes) 1. Calculation method of fair values of financial instruments and matters concerning marketable securities and derivative transactions

Assets:

(1) Cash and deposits and (2) Trade notes and accounts receivable

These assets are recorded using book values because fair values approximate book values because of their short-term maturities.

(3) Marketable securities and investment securities

The fair values of shares, etc. are determined using the quoted price at the stock exchange. Bonds are determined using the quoted price at the stock exchange or that obtained from the financial institutions.

Liabilities:

Trade notes and accounts payable

These liabilities are recorded using book values because fair values approximate book values because of their short-term maturities.

Derivative transactions:

Their fair values are calculated based on the quoted price obtained from the financial institutions.

2. Financial instruments whose fair values are not readily determinable

(Millions of Yen)

Category	Carrying amount
Unlisted equity securities	312

These items are not included in "(3) Marketable securities and investment securities," because there is no market price, and it is very difficult to identify fair values.

3. Redemption schedule of monetary assets and securities with contractual maturities  
(Millions of Yen)

	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	76,212	—	—	—
Trade notes and accounts receivable	113,391	—	—	—
Marketable securities and investment securities:				
Of which, securities with contractual maturities:				
Bonds				
(1) Corporate bonds	1,000	1,499	—	—
(2) Others	4,695	—	—	—
Others	54,004	—	—	—
Total	249,304	1,499	—	—

(Additional information)

Beginning the consolidated fiscal year under review, the Company has applied the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, issued on March 10, 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued on March 10, 2008).

**Notes to the Per Share Information**

- |                         |         |
|-------------------------|---------|
| 1. Net assets per share | ¥821.87 |
| 2. Net income per share | ¥76.14  |



## **NON-CONSOLIDATED STATEMENT OF INCOME**

(January 1, 2010 to December 31, 2010)

(Millions of Yen)

ITEM	AMOUNT	
Total revenues		367,478
Cost of Sales		<u>164,503</u>
Gross Profit		202,974
Selling, general and administrative expenses		<u>145,369</u>
Operating Income		57,605
Non-Operating Income:		
Interest and dividend income	447	
Other	<u>3,013</u>	3,460
Non-Operating Expenses:		
Interest expense	8	
Other	<u>3,270</u>	<u>3,279</u>
Recurring Profit		57,786
Extraordinary Gain:		
Gains on sales of noncurrent assets	8	
Gain on sales of investment securities	<u>95</u>	103
Extraordinary Loss:		
Loss on sales of noncurrent assets	0	
Impairment loss	41	
Restructuring loss	43	
Loss on sales of investment securities	2	
Loss on revaluation of investment securities	<u>1</u>	<u>88</u>
Income Before Income Taxes and Minority Interests		57,801
Income Taxes - current	19,583	
Income Taxes - deferred	<u>964</u>	20,547
Net Income		37,254

## **NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

(January 1, 2010 to December 31, 2010)

(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	827
Changes during the period	
Reversal of reserve for advanced depreciation of fixed assets	(29)
Net change during the period	<u>(29)</u>
Balance as of the end of the year	<u>797</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	119,721
Changes during the period	
Reversal of reserve for advanced depreciation of fixed assets	29
Dividends paid	(21,767)
Net income	37,254
Deposition of treasury stocks	(8)
Net change during the period	<u>15,507</u>
Balance as of the end of the year	<u>135,229</u>
Treasury stock, at cost	
Balance as of the end of the previous year	(36,274)
Changes during the period	
Purchase of treasury stocks	(9)
Deposition of treasury stocks	27
Net changes during the period	<u>17</u>
Balance as of the end of the year	<u>(36,256)</u>
Total shareholders' equity	
Balance as of the end of previous year	405,756
Changes during the period	
Dividends paid	(21,767)
Net income	37,254
Purchase of treasury stocks	(9)
Deposition of treasury stocks	19
Net change during the period	<u>15,495</u>
Balance as of the end of the year	<u>421,252</u>

(Millions of Yen)

Item	Amount
Valuation and translation adjustments	
Net unrealized gain on securities	
Balance as of the end of previous year	1,636
Changes during the period	
Net changes except for shareholders' equity	<u>(295)</u>
Net change during the period	<u>(295)</u>
Balance as of the end of the year	<u>1,341</u>
New share warrants	
Balance as of the end of the previous year	536
Changes during the period	
Net changes except for shareholders' equity	<u>238</u>
Net change during the period	<u>238</u>
Balance as of the end of the year	<u>775</u>
Total net assets	
Balance as of the end of previous year	407,929
Changes during the period	
Dividends paid	(21,767)
Net income	37,254
Purchase of treasury stocks	(9)
Deposition of treasury stocks	19
Net changes except for shareholders' equity	<u>(56)</u>
Net change during the period	<u>15,439</u>
Balance as of the end of the year	<u>423,368</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.
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      While the Company abolished 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.

### **Notes to the Non-Consolidated Balance Sheet**

1. Accumulated depreciation of property, plant and equipment    ¥87,439 million
2. Receivables and payables with affiliates

Short-term receivables from affiliated companies	¥31,959 million
Short-term debt to affiliated companies	¥4,467 million
Long-term receivables from affiliated companies	¥170 million
3. Contingent liabilities

Guarantees of (housing) loans of employees	¥352 million
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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	¥363,988 million
Other operating income	¥3,489 million
2. Transactions with affiliates

Net sales to affiliates	¥5,860 million
Purchase from affiliates	¥140,240 million
Supply of raw materials to affiliates for a fee	¥92,115 million
Non-operating transactions with affiliates	¥1,584 million

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

Type and number of treasury stocks as of December 31, 2010

Common stock	15,491,466 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	Contract manufacturing of pharmaceuticals	127,038	Accounts payable	1,458
				Supply of pharmaceutical ingredients for a fee	92,115	Payments receivable	12,900
			Sharing of directors	Lending of funds Collection of funds Receipt of interest	33,100 20,600 93	Short-term loans	17,300

(\*): 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	87,840	Accounts payable	11,874
				Sales of pharmaceuticals	15,537	Accounts receivable	3,161
				Cost-sharing in joint developments (receivable)	5,931	Payments receivable	4,922

(\*): 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) With regard to the cost-sharing in joint developments, conditions of the transactions are determined according to the license agreements with F. Hoffmann-La Roche Ltd. and other factors.

### Notes to the Per Share Information

- |                         |         |
|-------------------------|---------|
| 1. Net assets per share | ¥776.55 |
| 2. Net income per share | ¥68.46  |

**Independent Auditors' Report**

January 25, 2011

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, 2010 to December 31, 2010. 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 25, 2011

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, 2010 to December 31, 2010, 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, 2010 to December 31, 2010:

**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 Corporate Law; 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.

### (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.

January 31, 2011

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

## Proposals and Matters for Reference:

### First Proposal:                      Appropriation 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 40% or more.

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 appropriation 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

Total: 12,516,471,729 yen

The total dividend for FY2010 is 40 yen per share, including the interim dividend of 17 yen per share.

(3) Date when dividends of surplus takes effect:

March 25, 2011

**Second Proposal: Election of Three (3) Directors**

Of all the twelve (12) Directors, the term of office of two (2) Directors, namely, Mr. Mitsuo Ohashi and Mr. Abraham E. Cohen will expire, and Dr. Erich Hunziker will resign at the closing of this annual general meeting of shareholders. Therefore, it is proposed that three (3) 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	Mitsuo Ohashi (January 18, 1936)	<p>Mar. 1959 entered into The Mitsui Bank Limited.</p> <p>Dec. 1961 entered into Showa Denko K.K. (SDK)</p> <p>Mar. 1989 Director and Chief Manager, Corporate Planning Department, SDK</p> <p>Mar. 1993 Managing Director, SDK</p> <p>Mar. 1995 Senior Managing Director, SDK</p> <p>Mar. 1997 Representative Director and President (CEO), SDK</p> <p>Jan. 2005 Representative Director and Chairman of the Board of Directors, SDK</p> <p>Mar. 2005 Director of the Company (Chugai) (to present)</p> <p>Mar. 2010 Senior Advisor, SDK (to present)</p>	0 shares
2	Abraham E. Cohen (June 24, 1936)	<p>Mar. 1957 entered into Merck Sharp &amp; Dohme International Division</p> <p>Jul. 1977 President of Merck Sharp &amp; Dohme International Division</p> <p>Jun. 1992 Member of the Board of Directors of Akzo Novel N.V.</p> <p>Nov. 1992 Director of Teva Pharmaceutical Industries, Ltd. (to present)</p> <p>Feb. 1994 Chairman of the Board of Directors of Neurobiological Technologies, Inc.</p> <p>Jul. 1995 Director of Chugai Biopharmaceuticals, Inc.</p> <p>Apr. 1998 Chairman of the Board of Directors of Chugai Pharma USA, Inc.</p> <p>Jun. 2001 Director of the Company (Chugai) (to present)</p> <p>Mar. 2002 Chairman of the Board of Directors of Chugai USA, Inc. (to present)</p> <p>Mar. 2002 Director of Chugai Pharma USA, LLC</p> <p>Jan. 2005 Chairman of the Board of Directors of Chugai Pharma USA, LLC (to present)</p> <p>Nov. 2009 Director of BioTime, Inc. (to present)</p>	0 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	Daniel Zabrowski (May 25, 1959)	<p>Jan. 1987 G.D. Searle &amp; Company Research Investigator</p> <p>Sep. 1989 School of Pharmacy, University of Illinois – Chicago Adjunct Assistant Professor, Medicinal Chemistry and Pharmacognosy</p> <p>Jan. 1990 G.D. Searle &amp; Company Manager, Regulatory Affairs</p> <p>Feb. 1992 Fujisawa Pharmaceutical Company, USA Associate Director, North American Regulatory Affairs</p> <p>Apr. 1993 Syntex, USA Regulatory Program Director</p> <p>Apr. 1994 Syntex USA Executive Director, Drug Regulatory Affairs</p> <p>Jul. 1995 Roche Pharma, USA Vice President, Drug Regulatory Affairs</p> <p>Aug. 1997 Roche Pharma HQ, Switzerland Global Head, Drug Regulatory Affairs and Vice President, Pharma Development, Nutley</p> <p>Jan. 2002 Roche Pharma, USA Global Head Pharma Development Operations</p> <p>Jul. 2007 Roche Basel, Switzerland Head Pharma Partnering (to present)</p> <p>Jan. 2010 Member of the Enlarged Roche Corporate Executive Committee (to present)</p>	0 shares

(Notes)

1. Mr. Mitsuo Ohashi is a candidate for an Outside Director. The Company recommends him to expect advising and supervising the Company based on his extensive experience, knowledge, etc. in various fields, particularly in corporate management. He will have held the position of Outside Director of the Company for 6 years as at the closing of this general meeting of shareholders. He has no special interest in the Company. Incidentally, the Company has designated him as an independent director/corporate auditor and registered him as such at the Tokyo Stock Exchange.
2. Mr. Abraham E. Cohen is a candidate for an Outside Director. The Company recommends him to expect advising and supervising the Company based on his extensive experience, knowledge, etc. in the management of global pharmaceutical business. He will have held the position of Outside Director of the Company for 9 years and 9 months as at the closing of this general meeting of shareholders. He has no special interest in the Company.
4. Dr. Daniel Zabrowski is a candidate for an Outside Director. He is the executive member of the enterprise group to which the Company's parent Roche Pharmholding B.V. belongs (the Roche Group). The Company recommends him to expect advising and supervising the Company about its management and businesses.
5. The Company has entered into a limited liability agreement with each of Mr. Mitsuo Ohashi and Mr. Abraham E. Cohen, 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. The Company also plans to enter into such Agreement with each of them if they are elected as Directors, and enter into a similar agreement with Dr. Daniel Zabrowski if he is elected as a Director. The limit of liability in the Agreement is equal to the minimum liability limit stipulated by laws and ordinances.

**Third Proposal: Election of One (1) Corporate Auditor**

Of all the four (4) Corporate Auditors, the term of office of one (1) Corporate Auditor, namely, Mr. Shigetoshi Matsumoto will expire at the closing of this annual general meeting of shareholders. Therefore, it is proposed that one (1) Corporate Auditor be elected.

This Proposal has obtained the consent of the Board of Corporate Auditors.

The candidate is as follows:

Name (Date of birth)	Summary of Career, Position in the Company, and Important Concurrent Positions Held	Shares of the Company Owned
Kotaro Miwa (March 3, 1954)	Apr. 1979 entered into the Company Mar. 2004 General Manager of Human Capital & Personnel Dept. of the Company Mar. 2005 Vice President, General Manager of Human Capital & Personnel Dept. of the Company Jul. 2005 Vice President, General Manager of Human Resources Management Dept. of the Company Jul. 2009 Vice President, Department Manager of PT Planning Dept. (to present)	0 shares

(Note) The candidate has no particular interest in the Company.

**Fourth Proposal: Election of Accounting Auditor**

The term of office of Accounting Auditor, Ernst & Young ShinNihon LLC will expire and it will retire from the position of Accounting Auditor at the closing of this annual general meeting of shareholders.

Therefore, it is proposed to appoint KPMG AZSA LLC, a collaborative partner of its parent Roche Group, as the Accounting Auditor for the purpose of integrity and efficiency across the Group in which the Company belongs.

This Proposal has obtained the consent of the Board of Corporate Auditors.

The outline of the candidate is as follows:

Name	KPMG AZSA LLC	
Office	Head Office	1-2 Tsukudo-cho, Shinjuku-ku, Tokyo
	Domestic Offices	23
	Main Offices	Tokyo, Osaka, Nagoya
	Regional Offices	Sapporo, Morioka, Sendai, Takasaki, Higashikanto, Kitakanto, Yokohama, Shizuoka, Niigata, Hokuriku, Toyama, Gifu, Mie, Kyoto, Kobe, Okayama, Hiroshima, Shimonoseki, Matsuyama, Fukuoka
History	Jul. 1985	Asahi Shinwa & Co. was established
	Oct. 1993	Asahi Shinwa & Co. merged with Inoue Saito Eiwa Audit Corporation (established in April 1978) and changed its name to Asahi & Co.
	Jan. 2004	Asahi & Co. merged with AZSA Co. (established in February 2003) and changed its name to KPMG AZSA & Co.
	Jul. 2010	KPMG AZSA & Co. became a limited liability audit corporation and changed its name to KPMG AZSA LLC
Profile (as of December 31, 2010)	Amount of Capital	3,000 million yen
	Number of Employees	
	CPA	2,485
	(of which, 32 senior partners and 522 partners)	
	Junior CPA	125
	Newly Certified	1,609
	Professionals	817
	<u>Other</u>	<u>571</u>
	Total	5,607
	Number of Corporate Clients	
	Audit	3,371
	Other	1,144

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