

[Translation for Reference and Convenience Purposes Only]

CHUGAI PHARMACEUTICAL CO., LTD.

CORPORATE GOVERNANCE

Please note that the following is an unofficial English translation of the Japanese original text of the Corporate Governance Report of CHUGAI PHARMACEUTICAL CO., LTD. (“Chugai” or the “Company”), which is reported to the Tokyo Stock Exchange. For the convenience of capital market participants, Chugai makes efforts to provide English translations of the information disclosed in Japanese, provided that the Japanese original prevails over its English translation in the case of any discrepancy found between documentation. Please also refer to our “Disclosure Policy” on the Chugai corporate website for details.

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An Overview of Corporate Governance at Chugai Pharmaceutical Co Ltd. Is Described Below.

I Basic Policy Regarding Corporate Governance, and Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Policy

Chugai is committed to continuously increase corporate value and respond appropriately and fairly to the requests of shareholders and other stakeholders. To fulfill this commitment, we have positioned the enhancement of corporate governance as an important management task and are building a system that emphasizes prompt decision-making, clarification of executive responsibilities, and management transparency.

Based on these concepts, Chugai has taken measures to strengthen functions of the Board of Directors and speed up its decision-making, such as optimizing the number of directors, nominating outside directors to check management from the stakeholder viewpoint, and introducing an executive officer system that aims at clarifying executive responsibilities. Going forward, the Company will further pursue sound management and promote swifter decision-making, clarification of executive responsibility and enhancement of management transparency.

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2. Capital Structure

Ratio of Shares Held by Foreigners	30% or more
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[Major Shareholders]

Name or Designation	Number of Shares Held (Shares)	Shareholding Ratio (%)
Roche Pharmholding B.V. (Standing proxy, Nishimura & Asahi)	335,223,000	59.89
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,776,000	2.99
Japan Trustee Services Bank, Ltd. (Trust Account)	14,067,000	2.51
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	12,626,000	2.25
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account (Standing Proxy, Mizuho Corporate Bank, Ltd., Kabuto-cho Securities Settlement Operation Center)	5,721,000	1.02
Tokio Marine & Nichido Fire Insurance Co., Ltd.	5,309,000	0.94
Morgan Whitefriars Equity Derivatives (Standing Proxy, Mizuho Corporate Bank, Ltd., Kabuto-cho Securities Settlement Operation Center)	5,155,000	0.92
Citibank Hong Kong PBG Clients H.K. (Standing Proxy, Citibank Japan Ltd.)	3,457,000	0.61
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,388,000	0.60
Japan Trustee Services Bank, Ltd. (Trust Account 4)	3,279,000	0.58

3. Corporate Attributes

Stock Exchange Listings and Market Classification	First Section, Tokyo Stock Exchange
Fiscal Year-end	December
Industry	Pharmaceuticals
Number of Employees (Consolidated)	1,000 or more
Net Sales (Consolidated)	¥100 billion or more and less than ¥1 trillion
Parent Company	Roche Holding Ltd. (Listing: abroad)
Number of Consolidated Subsidiaries	10 or more and less than 50

4. Other Exceptional Circumstances that Might Have a Material Impact on Corporate Governance

In accordance with an agreement on a strategic alliance between the Company and F. Hoffmann-La Roche Ltd. [Head Office: Switzerland] ("Roche"), Roche owns 59.9% of the total issued shares of the Company through its wholly owned subsidiary, Roche Pharmholding B.V. [Head Office: Holland] ("Roche Pharmholding").

In accordance with the abovementioned alliance agreement, the Company has become Roche's single pharmaceutical company in the Japanese market, and has the right of first refusal on the development and marketing in Japan of all development compounds advanced by the Roche Group. Moreover, Roche has the

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right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea, if Chugai decides that it requires a partner for such activities.

The aim of this alliance is to establish a new business model that differs from conventional practices in corporate acquisitions and the formation of joint ventures. Although Roche Pharmholding includes Chugai in its consolidated accounts, Chugai functions as an independent listed company and makes all of its own management decisions based on the principles of self-governance. In addition, all transactions with the Roche Group are conducted fairly on an arms-length basis to protect minority shareholders' interests.

Out of the 13 directors of the Company, five directors are from the Roche Group (four are outside directors from the Roche Group, and one is an Executive Vice President of the Company). However, these members do not make up a management majority and thus the Company recognizes that its management independence is ensured. Moreover, from the standpoint of further enhancement of the independence and objectivity of management, the Company has in place two outside directors from outside the Roche Group.

II Overview of Business Management Organization and Other Corporate Governance Systems Related to Managerial Decision-Making, Business Execution, and Management Supervision

1. Items relating to Organization Structure and Operations, etc.

Form of Organization	Company with a Board of Company Auditors
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[Directors]

Chairperson of the Board of Directors	President
Number of Directors	13
Election of Outside Directors	Elected
Number of Outside Directors	6

Relationship with the Company (1)

Name	Attributes	Relationship with the Company ^{*1}								
		a	b	c	d	e	f	g	h	i
Mitsuo Ohashi	Coming from another company				x	x			x	
Abraham E. Cohen	Coming from another company		x		x	x			x	
Severin Schwan	Coming from another company	x			x	x		x	x	
William M. Burns	Coming from another company	x			x	x		x	x	
Jonathan K.C. Knowles	Coming from another company	x			x	x		x	x	
Erich Hunziker	Coming from another company	x			x	x		x	x	

^{*1} Selection criteria regarding relationship with the Company

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- a. Coming from the parent company
- b. Coming from other affiliate company
- c. A major shareholder of the Company
- d. Serving concurrently as an outside director or outside corporate auditor of another company
- e. An executive director, executive officer, etc. of another company
- f. The spouse, relative within the third degree of consanguinity, or a person of similar status of an executive director, executive officer, etc. of the Company, or a specified related business entity of the Company
- g. Receives remuneration as an officer or other financial benefits from the parent company of the Company or its subsidiary
- h. Entered into a liability limit agreement with the Company
- i. Other

Relationship with the Company (2)

Name	Supplementary Explanation relating to These Items	Reason for Election as Outside Director
Mitsuo Ohashi	Chairman of the Board, Showa Denko K.K.	Recommended or appointed as the Company expects that he would provide advice and monitoring by leveraging his rich experience and knowledge
Abraham E. Cohen	Chairman of Chugai Pharma USA Outside Director, Teva Pharmaceutical Industries Ltd.	Recommended or appointed as the Company expects that he would provide advice and monitoring by leveraging his rich experience and knowledge
Severin Schwan	Chief Executive Officer, Roche	Managerial member of the Roche Group, to which the Company belongs. Recommended or appointed as the Company expects that he would point out issues and provide advice with respect to management and business of the Company.
William M. Burns	CEO of the Pharmaceuticals Division, Roche	Managerial member of the Roche Group, to which the Company belongs. Recommended or appointed as the Company expects that he would point out issues and provide advice with respect to management and business of the Company.
Jonathan K.C. Knowles	Head of Global Research, Roche	Managerial member of the Roche Group, to which the Company belongs. Recommended or appointed as the Company expects that he would point out issues and provide advice with respect to management and business of the Company.
Erich Hunziker	Chief Financial Officer, Roche	Managerial member of the Roche Group, to which the Company belongs.

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		Recommended or appointed as the Company expects that he would point out issues and provide advice with respect to management and business of the Company.
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Other Items relating to Major Activities of Outside Directors

Each outside director has provided advice proactively and pointed out issues at meetings of the Board of Directors and on other occasions as well. Because the residences of outside directors are scattered throughout Japan, the U.S. and Europe, due to time difference issues, it is difficult in some cases to have the attendance of all the outside directors at meetings of the Board of Directors. In fiscal 2008, a total of eight meetings of the Board of Directors were convened. The attendance rate by outside directors was as follows: 100% for the two directors residing in Japan; approximately 50% for one director residing in the U.S.; and an average of 30% for the four directors from the Roche Group (residing in Europe).

[Corporate Auditors]

Establishment of the Board of Corporate Auditors	Yes
Number of Corporate Auditors	4

Cooperation between Corporate Auditors and the Accounting Auditor

Corporate auditors meet with the accounting auditor six or seven times a year to exchange opinions on such matters as mutual checking of audit plans, the status of auditing programs and audit results reporting for interim accounting settlements, and the status of auditing programs and audit results reporting for year-end accounting settlements. Also, corporate auditors witness accounting audit reviews at the time of establishment of businesses and auditing of affiliate companies to exchange opinions on-site.

Cooperation between Corporate Auditors and Internal Audit Organization

The Board of Corporate Auditors receives explanations of audit plans and audit results by the Audit Department through full-time corporate auditors, and makes requests to the Audit Department where necessary with respect to the scope of internal audits, etc. As for audit plans by corporate auditors, the Audit Department is informed in writing by the Board of Corporate Auditors, and some business establishments carry out auditing during the same period while exchanging information.

Election of Outside Corporate Auditors	Elected
Number of Outside Corporate Auditors	2

Relationship with the Company (1)

Name	Attributes	Relationship with the Company ^{*1}								
		a	b	c	d	e	f	g	h	i

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Yasunori Fujii	Academian					x				x	
Toshio Kobayashi	Lawyer									x	

*1 Selection criteria regarding relationship with the Company

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- b. Coming from other affiliate company
- c. A major shareholder of the Company
- d. Serving concurrently as an outside director or outside corporate auditor of another company
- e. An executive director, executive officer, etc. of another company
- f. The spouse, relative within the third degree of consanguinity, or a person of similar status of an executive director, executive officer, etc. of the Company, or a specified related business entity of the Company
- g. Receives remuneration as an officer or other financial benefits from the parent company of the Company or its subsidiary
- h. Entered into a liability limit agreement with the Company
- i. Other

Relationship with the Company (2)		
Name	Supplementary Explanation relating to These Items	Reason for Election as Outside Corporate Auditor
Yasunori Fujii	Special Assigned Professor of Shizuoka Sangyo University	Recommended or appointed as the Company expects that he would provide accurate auditing by leveraging his rich experience and knowledge
Toshio Kobayashi	Partner, The Law Offices of Nagashima Ohno & Tsunematsu Visiting Professor, University of Tokyo Graduate Schools for Law and Politics	Recommended or appointed as the Company expects that he would provide accurate auditing by leveraging his rich experience and knowledge

Other Items relating to Major Activities of Outside Corporate Auditors

Outside corporate auditors attend meetings of the Board of Directors and vigorously present their views when required, with an attendance rate of approximately 90% in fiscal 2008. Also, at meetings of the Board of Corporate Auditors, they receive the results of audits, the results of witnessing accounting audits and the status of deliberations of the Executive Committee from full-time corporate auditors, and exchange their views. They have meetings with the Representative Director and President twice a year, with the Vice President once a year, and with the directors in charge of financial affairs four times a year, to provide their opinions as to the situation inside and outside the Company. Moreover, they inspect the facilities at one or two business establishments for the purpose of hearing from employees on-site.

[Incentives]

Status of Implementation of Measures to Grant Incentives to Directors	Introduction of performance-related remuneration system; introduction of stock options system
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Supplementary Explanation relating to These Items

The amount of remuneration and bonuses supplied to directors is determined within the scope of approval at the general meeting of shareholders, taking into account the management environment and the performance evaluations of corporate and individual performance. Moreover, the number of units of stock options to be granted to directors is determined depending on the post of each corporate official. However, no stock options were granted in fiscal 2008.

Grantees of Stock Options	Inside directors and employees, directors and employees of subsidiaries
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Supplementary Explanation relating to These Items

Inside directors and employees, and directors and employees of subsidiaries of the Company, who are engaged in the actual businesses of the Chugai Group, are eligible to receive stock options, aiming at improving the corporate value of the Chugai Group by enhancing willingness and morale toward improving corporate performance and ensuring excellent human resources.

[Directors' Remuneration]

Means of Disclosure	Securities report, business report
Disclosure Status	Disclosure of each total amount for inside directors and outside directors

Supplementary Explanation relating to These Items

Remuneration for directors and corporate auditors of the Company was stated as below in the securities report for fiscal 2008:

	Remuneration (Annual Amount)		Bonuses	
	Headcount	Amount	Headcount	Amount
Directors (Outside Directors)	15 persons (7 persons)	¥402 million (¥81 million)	6 persons —	¥193 million —
Corporate Auditors (Outside Corporate Auditors)	4 persons (2 persons)	¥84 million (¥21 million)	— —	— —

- (Notes) 1. The headcount as of the end of the fiscal year was 14 Directors and four Corporate Auditors. The difference between the headcount and the number of recipients was attributable to the retirement of one director and the appointment of two new directors.
2. The amount of remuneration, etc. paid to all directors was no more than ¥750 million per year as per the resolution passed in the 96th annual general meeting of shareholders held in March 2007.
3. The amount of remuneration for all corporate auditors was no more than ¥100 million per year as per the resolution passed in the 95th annual general meeting of shareholders held in March 2006.

4. The aforementioned amount of bonuses was accounted for as an expense, as a provision for bonuses to directors in the fiscal year under review.
5. In addition to the above, as a provision for reserve for directors' retirement benefits to six Directors (inside directors), ¥160 million was accounted for as an expense, and as directors' retirement benefits, ¥30 million was paid to one director in the fiscal year under review.
6. In the fiscal year under review, the amount of remuneration, etc. received from the Roche Group by four Directors, Franz B. Humer, William M. Burns, Jonathan K.C. Knowles and Erich Hunziker, totaled ¥2,862 million (converted into yen at the exchange rate as at the end of the fiscal year).

[Support System for Outside Directors (Outside Corporate Auditors)]

For outside directors, the staff in charge are appointed inside the Secretarial Department to support the activities of outside directors of the Company. In addition, the Company strives for further strengthened decision-making by making as necessary reports with respect to material changes in the management environment and prior explanations relevant to respective issues from the General Manager of Corporate Planning Department, etc. For outside corporate auditors, the Corporate Auditors' Support Section is in charge of supporting audit activities such as conveyance of in-house information, and prior provision of materials for the Board of Corporate Auditors.

2. Items relating to Functions of Business Execution, Audit and Supervision, Nomination, and Decision on Remuneration, etc.

The President and each executive officer are at the center of the execution of business. Important decision-making in relation to business execution delegated from Board of Directors is deliberated by the Executive Committee, composed of the President and key executive officers, and is normally held twice a month. Full-time corporate auditors also attend the Executive Committee, to provide opinions from the viewpoint of proper governance.

Furthermore, aiming at accurately responding to global business environmental changes and global business deployment with a proper corporate attitude, the International Advisory Council (IAC) is operated by specialists from various fields inside and outside Japan, for further improvements in decision-making.

The Board of Directors is in charge of decision-making with respect to the most important managerial matters, and supervises business execution, receiving reports on business execution status (such as regular reports for each quarter, and reports on matters determined by the Executive Committee).

The Board of Corporate Auditors performs proper audits on managerial decision-making and the status of business execution. Moreover, as an internal audit organization, the Audit Department, composed of staff including certified internal auditors has been established. The department conducts audits of the overall business execution of the Chugai Group to examine business activities from the viewpoints of compliance, effectiveness and efficiency. It provides reports and proposals to the Executive Committee, and reports to

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corporate auditors are also implemented. In addition, internal control self-assessment targeting all the divisions is implemented in efforts to maintain and improve sound execution. Corporate Auditors aim at mutual cooperation through regular meetings including reports of audit results with the Audit Department and accounting auditor.

The Certified Public Accountants in charge of the Company at its accounting auditor, Ernst & Young ShinNihon LLC, are Keiko Ota, Takao Kamiya and Yoko Tanaka, who have continued auditing for the Company for five years, four years and two years respectively.

III Status of Implementation of Measures related to Shareholders and Other Stakeholders

1. Measures toward Revitalization of the General Meeting of Shareholders and Facilitation of Exercise of Voting Rights

	Supplementary Explanation
Prompt Delivery of Convocation Notice of General Meeting of Shareholders	Usually, we forward the Notice of Convocation at least (around) twenty days prior to the date of the general meeting of shareholders.
Scheduling of General Meetings of Shareholders Avoiding the Days Concentrated	Our fiscal year-end is in December.

2. Investor Relations Activities

	Explanation by Representative	Supplementary Explanation
Holding Briefings for Individual Investors	No	Starting from 2008, information meetings for individual investors are held at the local branches of major securities houses.
Holding Regular Briefings for Analysts and Institutional Investors	Yes	Information Meetings on financial results and quarterly conference calls are each conducted on a regular basis of twice yearly. (CEO gives an explanation of the mid-term business plan.)
Holding Regular Briefings for Foreign Investors	No	Management roadshows are conducted at least once a year for each of Europe, America and Asia. (CEO gives an explanation of the mid-term business plan.)
Posting Investor Relations Materials on the Company Website	Yes	URL for IR: http://www.chugai-pharm.co.jp/english/ir Investor relations materials: Financial Statements (Non-audited) (<i>kessan tanshin</i> ; brief results announcements); Supplementary Materials;

		<p>presentation materials on financial results; Presentations; <i>Kabunushi-tsushin</i> (shareholder communications); Securities reports; Annual Reports; Facts and Figures; and other financial results related documents and presentations are posted on the Chugai corporate website. These postings on the Website are done in Japanese and English simultaneously (except for <i>Kabunushi-tsushin</i> and Securities reports). Webcasts of presentations at information meetings and audio files of the conference calls are also distributed on the Website.</p>
Establishment of Investor Relations Department (Liaison)	—	<p>The Company's designated IR unit is placed in the Corporate Communications Department. For supervision, the IR Committee, composed of executive officers in charge and managers of key organizations in related divisions, has been set up.</p>

3. Measures to Respect the Position of Stakeholders

	Supplementary Explanation
Provisions of Internal Regulations to Respect the Position of Stakeholders	<p>The following sentence is inscribed in the Mission Statement, which is the Company's corporate policy, as a core value of the Company: "7. We aim to achieve a fair return for our shareholders and to disclose information appropriately and in a timely manner." (posted on the Website of the Company).</p>
Promotion of Environmental Protection, Corporate Social Responsibility (CSR), and Other Activities	<p>In carrying out business activities as a pharmaceutical company, the Company aims at engaging in faithful corporate actions and contributing to the sustainable development of society in response to the wide variety of requests and expectations from our stakeholders, and the Company engages in unique activities for that purpose. A special committee in charge of social responsibility promotion for the Chugai Group and a department dedicated to that purpose have been formed for activities relating to social responsibility in connection to business activities of the Chugai Group, familiarization of stakeholders and the overall Chugai Group with basic policy, communication with stakeholders, and publishing of the Corporate Social Responsibility Report (CSR), etc.</p>
Establishment of Policy Concerning Disclosure of Information to Stakeholders	<p>Described in our "Disclosure Policy" (posted on the Website of the Company).</p>

IV Basic Policy and Status of Implementation of the Internal Control System

1. Basic Policy and Status of Implementation of the Internal Control System

With the mission “to dedicate 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,” Chugai has pursued transparent, fair and highly ethical corporate activities. Moreover, accompanying the enforcement of the Corporate Law, we adopted resolutions at the meeting of Board of Directors on basic policies concerning internal controls, and have built a robust system to ensure compliance in the execution of duties by all executives and employees in the Chugai Group with laws, regulations and the Articles of Incorporation.

Specific preparations and operational status of the internal controls system of the Company are as follows:

In order to ensure compliance in the execution of duties by Directors and employees with laws, regulations and the Articles of Incorporation, and besides to enhance further the execution of social responsibility, the Company has established the Chugai Business Conduct Guidelines (Chugai BCG) as a specific code of conduct. For the purpose of familiarization therewith, the Corporate Social Responsibility Committee, as a sub-organization of the Executive Committee, and the Corporate Social Responsibility Department, an organization dedicated for that purpose, have been formed. The Corporate Social Responsibility Committee and the Corporate Social Responsibility Department enhance and reinforce social responsibility promotion in overall compliance, corporate ethics, human rights, social contribution and the environment, through such things as implementation of corporate ethics training targeting all employees on a regular basis, in collaboration with members of Corporate Ethics Promotion Committee, who are appointed for each division.

Moreover, we are making efforts toward activities not just based on compliance but based on a high level of ethics and sense of morals as a company involved in human life. The BCG Hotline has been installed as a window for reporting and consultations on Chugai BCG violation matters, including so-called “public-interest whistleblowing.” A window for consultations by employees has also been installed outside the Company as well, to handle sexual harassment, etc. The Risk Management & Compliance Department has been formed as a section for controlling compliance.

For risk management, the Company has established the Risk Management Regulations to prevent risks that might have an impact on the corporate activities of the Chugai Group, and to ensure expeditious and proper handling should trouble take place. Thus, the Risk Management Committee, a sub-organization of the Executive Committee, and the Division Risk Management Committee have been formed. The Risk Management Committee summarizes the risks inside the division listed up by the Division Risk Management Committee and creates a risk map, and also specifies the risks that may have a material impact on the management as all Company-wide risk issues, and reports on the status of progress of the measures for prevention thereof to the Executive Committee. Moreover, when an emergency occurs that might have a material impact on the corporate activities of the Chugai Group, it has been determined that an emergency

headquarters, with the Representative Director as the General Manager, will be formed to handle countermeasures.

For promotion of compliance, compliance rules have been put in place and a Compliance Committee has been formed under the Risk Management Committee. Companywide compliance is implemented thoroughly through compliance managers and others responsible for compliance in each organization, and meanwhile (quarterly) monitoring investigations on a regular basis have been implemented to keep abreast of status related to compliance inside the Company, with the results reported to the Executive Committee.

Chugai carries out Group-wide efforts for internal controls, risk management and execution of our social responsibility, and strives for proper business management as an overall corporate group.

2. Basic Policy and Status of Implementation of Efforts towards Exclusion of Antisocial Forces

Chugai resolutely confronts antisocial forces that create a threat to the order and safety of society, and refuses to countenance any relationship with such antisocial forces. As basic policy for that purpose, the Chugai BCG stipulates, 1) strict adherence to the law; and 2) maintenance of fair and transparent relations, within reason, with external bodies. We strive for thorough familiarization of all executives and employees of the Company therewith.

V Others

1. Items relating to Takeover Defense

Not applicable.

2. Other Items relating to Corporate Governance System, etc.

Not applicable.

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Corporate Governance System

