

Name of listed company: Chugai Pharmaceutical Co., Ltd.  
Code number: 4519 (1<sup>st</sup> Section of Tokyo Stock Exchange)  
Head office: 1-1, Nihonbashi-Muromachi 2-Chome, Chuo-ku, Tokyo  
President & CEO: Osamu Nagayama  
Inquiries to: Mamoru Togashi, General Manager,  
Corporate Communications Dept.  
Tel: +81-(0)3-3273-0881

## **Abolishment of Directors' Retirement Gratuities System and Granting of Stock Options**

As part of the review of the compensation system for directors, at the Board of Directors held today, it was decided to place two related proposals on the agenda for voting at the 98th Annual General Meeting of Shareholders, which is scheduled to be convened on March 25, 2009. These are: (1) Abolishment of Retirement Gratuities System for Directors and Final Payment and (2) Determination of the Amount and Contents of Stock Option Remuneration for Directors. The details are as follows.

### **1. Abolishment of Retirement Gratuities System for Directors**

The system for paying retirement gratuities to Directors with executing power will be abolished as of the conclusion of the 98th Annual General Meeting of Shareholders scheduled for March 25, 2009. For those Directors whose retirement gratuities will be abolished, the Company will make a final lump-sum payment equivalent to the retirement gratuities that accrue up to the conclusion of the Annual General Meeting scheduled for March 25, 2009. This payment will be made when the Directors in question retire.

### **2. Granting of Stock Options**

The Company will allot two types of stock acquisition rights as stock options to Directors with executing power. Specifically, stock options as stock-based compensation involve abolishing the Directors' retirement gratuities system and issuing stock acquisition rights amounting to no more than 150 million yen per year, as remuneration that is linked more closely to business performance.

In addition, common stock options involve issuing stock acquisition rights amounting to no more than 100 million yen per year, as remuneration aimed at boosting motivation and morale to improve business performance as well as increasing the Chugai Group's corporate value by securing superior human resources.

The details of the two types of stock options are as follows.

#### **I. Stock Options as Stock-based Compensation**

##### **1. Reasons for issuing stock acquisition rights as compensation for Directors**

Stock acquisition rights will be issued in the form of stock options as stock-based compensation to the Company's Directors for the purpose of further enhancing the link between the Company's business

performance and the 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.

## **2. Details of stock acquisition rights**

### **(1) Type and number of shares issued upon exercise of stock acquisition rights:**

The number of shares that can be received by exercising the stock acquisition rights issued within one (1) year of the Company's annual general meeting of shareholders for each fiscal year shall be capped at 100,000 shares of the Company's common stock.

If the Company wishes to execute a stock split or stock consolidation, the number of shares issued upon the exercise of stock acquisition rights shall be adjusted based on the following formula. However, such adjustments shall be implemented with respect to the number of shares that are issuable upon the exercise of stock acquisition rights that are yet to be issued at that point in time, and any fraction of one share resulting from the adjustments shall be rounded down.

Number of shares after adjustments = Number of shares before adjustments x Stock split/consolidation ratio

In addition to the above, in unavoidable circumstances where the number of shares need to be adjusted after the day on which the Board of Directors passed a resolution on the terms of the offer, the Company will adjust the number of shares as deemed necessary within reasonable bounds.

### **(2) Total number of stock acquisition rights:**

The total number of stock acquisition rights issued within one (1) year of the annual general meeting of shareholders of the Company for each fiscal year shall be capped at 1,000 units. The number of shares issued per stock acquisition right exercised (hereinafter called "the number of shares granted") shall be 100 shares. (However, if the number of shares were adjusted as prescribed in (1), the number of shares granted shall also be subject to similar adjustments.)

### **(3) Value of assets payable upon exercise of stock acquisition rights:**

Cash payment shall be required for the exercise of the stock acquisition rights. The amount shall be one (1) yen per share to be delivered upon the exercise of the stock acquisition rights multiplied by the number of shares granted.

### **(4) Exercise period of the stock acquisition rights:**

The exercise period of the stock acquisition rights shall be no more than thirty (30) years from the day on which the stock acquisition rights are allotted.

### **(5) Limitation on acquisition of stock acquisition rights by transfer:**

Acquisition of stock acquisition rights by transfer shall be subject to the approval of resolution by the Board of Directors.

**(6) Conditions for the exercise of stock acquisition rights:**

- (i) Any person to whom the stock acquisition rights have been allotted (“Holder of Stock Acquisition Rights”) may exercise the stock acquisition rights within ten (10) days counting from the day after he/she loses the position of Director in the Company.
- (ii) The other conditions shall be stipulated in the Stock Acquisition Right Granting Agreement to be concluded between the Company and each Holder of Stock Acquisition Rights based on resolution by the Board of Directors.

**(7) Other details of stock acquisition rights:**

The details of items (1) to (6) and other matters shall be determined at the meeting of the Board of Directors in which the issuance of the stock acquisition rights will be resolved.

## **II. Common Stock Options**

### **1. Reasons for issuing stock acquisition rights as compensation for Directors**

In order to enhance the Directors’ motivation and morale leading to the growth of the business results of the Company, and to increase corporate value of the group through securing top-class human resources, the Company will issue stock acquisition rights as stock options to Directors.

### **2. Details of stock acquisition rights**

**(1) Type and number of shares issued upon exercise of stock acquisition rights:**

The number of shares that can be received by exercising the stock acquisition rights issued within one (1) year of the Company’s annual general meeting of shareholders for each fiscal year shall be capped at 150,000 shares of the Company’s common stock.

If the Company wishes to execute a stock split or stock consolidation, the number of shares issued upon the exercise of stock acquisition rights shall be adjusted based on the following formula. However, such adjustments shall be implemented with respect to the number of shares issuable based on stock acquisition rights that are yet to be issued at that point in time, and any fraction of one share resulting from the adjustments shall be rounded down.

Number of shares after adjustments = Number of shares before adjustments x Stock split/consolidation ratio

In addition to the above, in unavoidable circumstances where the number of shares need to be adjusted after the day on which the Board of Directors passed a resolution on the terms of the offer, the Company will adjust the number of shares as deemed necessary within reasonable bounds.

**(2) Total number of stock acquisition rights:**

The total number of stock acquisition rights issued within one (1) year of the annual general meeting of shareholders of the Company for each fiscal year shall be capped at 1,500 units. The number of shares issued per stock acquisition right exercised (hereinafter called “the number of shares granted”)

shall be 100 shares. (However, if the number of shares were adjusted as prescribed in (1), the number of shares granted shall also be subject to similar adjustments.)

**(3) Value of assets payable upon exercise of stock acquisition rights:**

Cash payment shall be required for the exercise of the stock acquisition rights. The amount shall be an amount per share to be delivered upon exercise of the stock acquisition rights (hereinafter called the “Exercise Price”), multiplied by the number of shares granted.

The Exercise Price shall be an amount obtained by multiplying the average of the closing prices (regular way) of the Company’s shares of common stock on the Tokyo Stock Exchange for each day (excluding days on which no trading was reported) of the month immediately preceding the month to which the allotment date of stock acquisition right belongs, by 1.05 with any fraction of one (1) yen rounded upwards; provided however, that if the Exercise Price is lower than the closing price of the shares of the Company on the allotment date of stock acquisition right, such closing price shall become the Exercise Price (if no transaction is made on that day, the closing price of the Company’s shares on the day immediately preceding shall become the Exercise Price).

If it is appropriate to make adjustments to the Exercise Price due to stock split or stock consolidation, etc., the Company shall implement adjustments as necessary (with any fraction of one (1) yen rounded upwards).

**(4) Exercise period of the stock acquisition rights:**

The exercise period of the stock acquisition rights shall be determined by the Board of Directors not exceeding a period of ten (10) years from the day of the meeting of the Board of Directors in which the allotment of the stock acquisition rights is resolved.

**(5) Limitation on acquisition of stock acquisition rights by transfer:**

Acquisition of stock acquisition rights by transfer shall be subject to the approval of resolution by the Board of Directors.

**(6) Conditions for the exercise of stock acquisition rights:**

- (i) The persons to whom the stock acquisition rights are allotted (the “Holder(s) of Stock Acquisition Rights”) need to maintain their positions as Directors, Corporate Auditors or employees of the Company or its subsidiaries at the time of the exercise, except where such persons have resigned at the expiration of their terms of office, or retired upon reaching the age limit or for other reasonable reasons.
- (ii) The other conditions shall be stipulated in the Stock Acquisition Right Granting Agreement to be concluded between the Company and each Holder of Stock Acquisition Rights based on resolution by the Board of Directors.

**(7) Other details of stock acquisition rights:**

The details of items (1) to (6) and other matters shall be determined at the meeting of the Board of Directors in which the issuance of the stock acquisition rights will be resolved.

Note) The above issues are subject to approval at the 98th Annual General Meeting of Shareholders, which is scheduled to be convened on March 25, 2009.