

February 1, 2017

Name of listed company: Chugai Pharmaceutical Co., Ltd.
Code number: 4519 (1st Section of Tokyo Stock Exchange)
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Notice regarding introduction of a Restricted Stock Compensation Plan and a change of compensation amount for Directors

Chugai Pharmaceutical (the “Company”) hereby announces that, at the meeting of its Board of Directors held on February 1, 2017, the Directors reviewed the executive compensation plan of the Company and decided to introduce a restricted stock compensation plan (the “Compensation Plan”) and to submit a proposal regarding the introduction of the Compensation Plan to the 106th Annual General Meeting of Shareholders scheduled for March 23rd, 2017 (the “General Meeting of Shareholders”).

1. The purpose and conditions regarding the introduction of the Compensation Plan

(1) Purpose of the introduction of the Compensation Plan

The Compensation Plan is introduced in order to further promote shared value with shareholders and provide an incentive for the Company’s Executive Directors (excluding non-executive Directors, “Eligible Directors”) to sustainably increase the Company’s corporate value, strengthening linkage between their compensation and mid- to long-term business performance.

(2) Conditions for the introduction of the Compensation Plan

Under the Compensation Plan, since compensation for the Eligible Directors for granting restricted stocks shall be monetary compensation receivables, the introduction of the Compensation Plan is subject to approval at the General Meeting of Shareholders. The compensation amount of base pay and bonus for the Directors approved at the 96th Annual General Meeting of Shareholders on March 23 in 2007 is no more than 750 million yen per year, and the maximum amount of compensation to be paid to Directors (excluding non-executive Directors) in the form of stock options approved at the 98th Annual General Meeting of Shareholders on March 25, 2009 is 275 million yen per year. At the General Meeting of Shareholders, the Company plans to propose the introduction of the Compensation Plan as replacement for the current stock options, and the establishment of an amount for the Compensation Plan for the Eligible Directors for resolution.

2. Overview of the Compensation Plan

Under the Compensation Plan, the restricted stocks to be provided consist of the “tenure-based restricted stock” which requires continuous service for a certain period as Director of the Company, and the “performance-based restricted stock” which requires the attainment of the Company’s mid- to long-term business performance target on top of the aforementioned continuous service.

Compensation for the Eligible Directors for granting restricted stocks shall be monetary compensation receivables and the total amount of which shall not exceed 345 million yen per year for both “tenure-based restricted stock” and “performance-based restricted stock”, as deemed reasonable in light of the aforementioned objectives, in addition to the existing compensation amount for base pay and bonus, for which approval of

shareholders is hereby requested. Within the aforementioned amount, the amount equivalent to around 50% of the current compensation in the form of stock options (common stock option and stock option as a stock based compensation on a combined basis, not exceeding 275 million yen per year) will be the maximum amount of compensation for granting restricted stocks for the “tenure based restricted stock”, while for the “performance based restricted stock”, the maximum amount thereof is calculated by multiplying the amount equivalent to around 50% of the current compensation in the form of stock options (common stock option and stock option as a stock based compensation on a combined basis, not exceeding 275 million yen per year)) by 150% which is the maximum achievement level of the performance targets as separately set out by the Board of Directors.

Subject to the approval of the Compensation Plan at the General Meeting of Shareholders, stock options for Directors shall be discontinued except for those already granted, and the Company will not issue new stock acquisition rights as stock options for Directors. Specific timing of granting of restricted stocks and allocation to each Eligible Director shall be decided by the Board of Directors.

Based on the resolution of the Board of Directors, the Eligible Directors shall make in-kind contribution of all monetary compensation receivables to be granted according to the Compensation Plan, and shall, in return, receive the Company’s common stocks that will be issued or disposed of by the Company. The total number of common stocks of the Company to be issued or disposed of in this way shall not exceed 165,000 shares per year. (In the event of stock split, reverse split or any other unavoidable circumstance with respect to the Company’s common shares, involving the necessity to adjust the number of shares, the number of shares to be issued or disposed of may be reasonably adjusted.) The amount to be paid per share shall be the closing price of common stock of the Company on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution by the Board of Directors (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day.)

For the purpose of such issuance or disposal of common shares of the Company, a certain agreement including the following contents shall be concluded between the Company and each Eligible Director.

- 1) The Eligible Directors shall not transfer, create a security interest on, or otherwise dispose of the allotted shares during a certain restriction period
- 2) The Company shall acquire free of charge all or part of the allotted shares in case where certain events happen
- 3) Subject to continuous service during a restriction period, the Company shall remove restriction according to the achievement level of the performance targets, including Total Shareholders Return, which have preliminarily been set by the Board of Directors at the expiry of the restriction period

Subject to approval by the Board of Directors, the Company plans to provide “tenure-based restricted stock” to some of executive officers of the Company including Vice Presidents, on condition that an agreement which includes 1), 2) and excludes 3) in the aforementioned agreement is concluded with the Company, by issuance or disposal of common shares of the Company.