

# News Release

## **Continuation of the Long-Term Incentive Plan for Members of the Board of Directors in Fiscal 2017**

**Osaka, Japan, May 11, 2017** -- Takeda Pharmaceutical Company Limited (“Company”) announced today that the meeting of the Board of Directors resolved to continue the long-term incentive plan (“LTI”) for members of the Board of Directors, which has been adopted since fiscal 2016<sup>(\*)</sup>.

### 1. Outline of the LTI

- (1) Whereas the Company has introduced the LTI for Directors of the Company since fiscal 2016. Specifically, (1) for Directors who are not members of the Audit and Supervisory Committee (excl. Outside Directors and Directors residing overseas) (“Directors Eligible for Performance-linked Compensation”), the highly transparent and objective compensation system for Directors that is closely linked to company performance has been adopted in order to improve the Company’s mid- and long-term performance as well as raise awareness of the need to help increase the Company’s value, and on the other hand, (2) for Directors who are members of the Audit and Supervisory Committee and Outside Directors (“Directors Not Eligible for Performance-linked Compensation”), the highly transparent and objective compensation system for Directors that is not linked to company performance has been adopted, in order to ensure that their compensation is within the appropriate scope in consideration of the role to be fulfilled by them, and to thereby further promote their awareness of sharing common interest with the shareholders, while ensuring their audit/supervisory functions for the Company’s management<sup>(\*)</sup>.
- (2) The LTI utilizes a mechanism called a Board Incentive Plan Trust (“BIP Trust”) under which the BIP Trust shall be established (including the cases where the Trust period of BIP Trust already established in the previous year is extended to allow the said BIP Trust to be continued; the same shall apply hereinafter) for Directors who are not members of the Audit and Supervisory Committee (excluding Directors residing overseas who are not Outside Directors) and Directors who are members of the Audit and Supervisory Committee (BIP Trust associated with Directors who are not members of the Audit and Supervisory Committee shall be referred to as the “NSV (Non-Supervisory) Trust” and those who are as the “SV (Supervisory) Trust” hereinafter.)

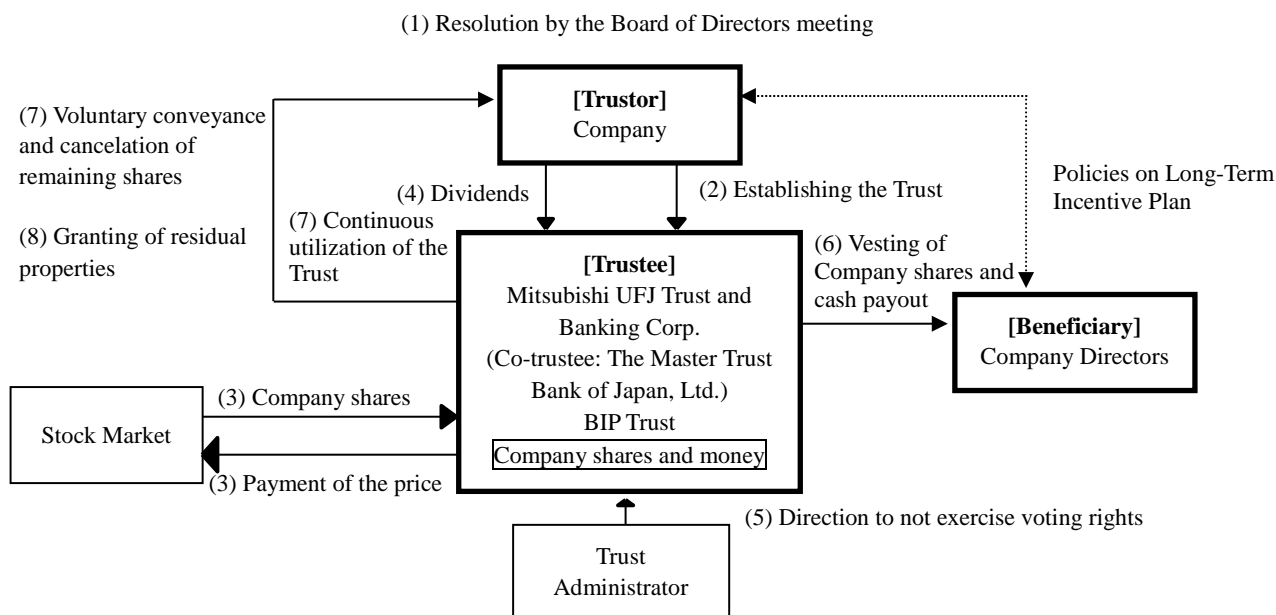
The NSV Trust in fiscal 2017 is formed by partially revising the existing BIP Trust, which was established as a long-term incentive plan (“old LTI”) for Directors (excl. Outside Directors and Directors residing overseas) of a then Company with Board of Company Auditors in 2014, according to the content of the LTI to include an extension of the Trust term thereof and additional entrustment of money thereto, so that the said BIP Trust can be continued. No SV Trust in fiscal 2017 will be newly established as there is no newly appointed Director who is a member of the Audit and

Supervisory Committee and thus becomes eligible therefor.

- (3) The BIP Trust is an incentive plan for Directors based on the Performance Share system and Restricted Stock system. The Company shares that are acquired by the BIP Trust and the amount of money equivalent to Company shares converted into cash (“Company Shares, etc.”) will be vested or paid (“vested, etc.”) to (1) Directors Eligible for Performance-linked Compensation based on the achievement of performance goals, etc.<sup>(\*3)</sup> at a set time along with dividends from Company shares. (2) For Directors Not Eligible for Performance-linked Compensation, the Company shares shall be vested, etc., at the time of resignation, a set amount regardless of the achievement of performance goals, etc. along with dividends from Company shares in light of securing proper and objective audit/supervisory function on the validity of execution.

- (\*1) The compensation for Directors who are not members of the Audit and Supervisory Committee (excluding Outside Directors) consists of “Base Compensation,” “Bonus,” and “Performance-linked stock compensation.” The compensation for Directors who are members of the Audit and Supervisory Committee and Outside Directors consists of “Base Compensation” and “Non-Performance-linked stock compensation.”
- (\*2) The Company has established the Compensation Committee with an Outside Director as its Chairperson, to serve as an advisory organization for the Board of Directors to ensure the appropriateness of Directors' compensation, etc. and the transparency in the decision-making process thereof. The continuation of this LTI has been deliberated at the Compensation Committee, prior to the resolution by the Board of Directors. The evaluation of the achievement of performance goals, etc. will be discussed at the Compensation Committee, and deliberated and determined at the Board of Directors.
- (\*3) Performance goals are linked with mid- to long-term performance indicators, and adopt targets involving the achievement, etc. of transparent and objective indicators such as consolidated revenue, free cash flow, EPS, and R&D target, etc.

## 2. Structure of the BIP Trust (extension)



- (1) On adoption of the LTI, the Company shall adopt a resolution on the continuation of the LTI for fiscal 2017 by the Board of Directors Meeting.
- (2) For Directors who are not members of the Audit and Supervisory Committee and those who are, the Company extends the term of the Trust already established (“Trust”) wherein Mitsubishi UFJ Trust and Banking Corporation is a Trustee and Company Directors who meet the beneficiary requirements are Beneficiaries, and entrusts additional money to the Trust to the extent approved by the resolution at the Shareholders’ Meeting.
- (3) The Trustee (of the Trust) acquires Company shares from the stock market using money contributed in procedure (2) in accordance with the directions of the Trust administrator.
- (4) Dividends will be paid for Company shares under the Trust as well as for other Company shares.
- (5) Voting rights will not be exercised during the Trust term with regard to Company shares under the Trust.
- (6) During the Trust term, pursuant to the policies on the Long-Term Incentive Plan of the Company, Beneficiaries will receive Company shares equivalent to a certain ratio of share conversion points after the points have been granted. Meanwhile, the Company shares in a number equivalent to the remaining share conversion points will be converted into cash in the Trust determined by the provision of the Trust Agreement and Beneficiaries will receive the monetary equivalent (Dividends from Company shares will also be paid to Beneficiaries corresponding to the number of Company Shares, etc. that are vested, etc. by the Trust.)
- (7) If there are residual shares at the expiry of the Trust term due to non-achievement of performance targets, resignation because of his/her own convenience, dismissal or for other reasons during the Trust term, the Trust may continue to be used as an incentive plan related to this LTI by changing the trust agreement and entrusting additional money to the Trust, or the Trust may voluntarily convey the said residual shares to the Company and the Company may acquire them without payment and cancel the residual shares by a resolution of the Board of Directors meeting.
- (8) Residual properties after distribution to Beneficiaries at the end of the Trust will belong to the Company to the extent of allowances for trust expenses, which are calculated by deducting the funds to acquire Company shares from the trust money. The portion exceeding the allowances for trust expenses will be donated to groups that have no conflict of interest with the Company and the Company Directors.

(Note) If there are no Company shares under the Trust due to the vesting, etc. of Company Shares, etc. to Beneficiaries, the Trust will be discontinued before expiry of the Trust term. The Company may entrust additional money to the Trust as funds to acquire Company shares and the Trust may acquire additional Company shares to the extent of funds necessary to acquire shares that were approved by the 140<sup>th</sup> annual Shareholders Meeting held on June 29, 2016 and to the extent of the Upper Limit Number for

the Vesting of Shares set for Plan I & II and Plan III.

### 3. Content of the LTI and Plans

The LTI comprises plans for Directors who are not members of the Audit and Supervisory Committee (excluding Outside Directors and Directors residing overseas) (“Plan I”), Outside Directors (excluding Directors who are members of the Audit and Supervisory Committee) (“Plan II”), and Directors who are members of the Audit and Supervisory Committee (“Plan III”). In the LTI, the Company establishes the NSV Trust for Plan I and II, and the SV Trust for Plan III.

The Company establishes the NSV Trust in fiscal 2017 by allowing the BIP Trust already established in fiscal 2014 to be continued, but does not newly establish a SV Trust in fiscal 2017 as there is no newly appointed Director who is a member of the Audit and Supervisory Committee and thus becomes eligible therefor.

Directors who are not members of the Audit and Supervisory Committee		Directors who are members of the Audit and Supervisory Committee	
Internal Directors <sup>(*)4</sup>	Outside Directors	Internal Directors	Outside Directors
Directors Eligible for Performance-linked Compensation	Directors Not Eligible for Performance-linked Compensation		
Plan I	Plan II	Plan III	
NSV Trust		SV Trust	

<sup>(\*)4</sup> Excluding Directors residing overseas.

#### 3.1 Plan I & II

##### (1) Period and Framework

The NSV Trust established in fiscal 2017 (“NSV Trust”) will vest, etc. a specified amount of Company Shares, etc., along with dividends from Company shares, as a compensation for Directors for three years, from the fiscal year ended March 31, 2018 up to the fiscal year ended March 31, 2020 (“Period A”).

Compensations under Plan I will consist of a Fixed Portion, in which a specified amount of Company Shares, etc. is vested, etc. each year, and a Variable Portion, where Company Shares, etc. are vested, etc. based on the achievements of performance goals, etc. during Period A.

Compensations under Plan II will consist of a Fixed Portion only, in which a specified amount of Company Shares, etc. is vested, etc. at the time of resignation.

The Company plans to continue the incentive plans related to Plan I & II following the next fiscal year and thereafter by establishing new BIP Trusts, or changing the existing BIP Trust, for which the Trust term will be expired, entrusting additional money, and thereby allowing the said BIP Trust to be continued. The incentive plans to be implemented in the next fiscal year and thereafter will be determined by resolution of the Board of Directors to the extent of the resolution approved by the 140<sup>th</sup> annual Shareholders’ Meeting held on June 29, 2016.

## (2) Eligibility for the Plan (Requirements for Beneficiaries)

Those who hold office as Directors who are not members of the Audit and Supervisory Committee (excl. Outside Directors and Directors residing overseas, “Internal Directors”) at the time of establishment of the NSV Trust (“Eligible Persons I”) may be vested, etc. the number of Company Shares, etc. corresponding to the share conversion points (provided in (4), below) on completing the specified procedures to be designated as a Beneficiary, if the Director satisfies the following requirements for Beneficiaries, at specified time annually from the NSV Trust.

Requirements for Beneficiaries in Plan I are as follows:

- (i) a person holds office as Internal Director as of June 1 of the given year during Period A; <sup>(\*)5)</sup> <sup>(\*)6)</sup> and
- (ii) a person satisfies other requirements found necessary to accomplish the purpose of the LTI Plan.

(\*)5) If an Eligible Person I resigns (excluding the case of resignation due to his/her own convenience or dismissal), the share conversion points will be granted to the person and he/she may be vested, etc. the number of Company Shares, etc. corresponding to the share conversion points from the NSV Trust, just as if he/she had held office as an Internal Director upon expiry of the Trust term.

(\*)6) If an Eligible Person I were to die during the trust period, an inheritor of the Eligible Person I may receive the amount of money equivalent to Company shares converted into cash corresponding to the share conversion points from the NSV Trust upon completing the specified procedures to be designated as a Beneficiary.

Those who hold office as Outside Directors (excl. Directors who are members of the Audit and Supervisory Committee; The same shall apply hereinafter) at the time of establishment of the NSV Trust (“Eligible Persons II”) may be vested, etc. the number of Company Shares, etc. corresponding to the share conversion points (provided in (4), below) from the NSV Trust after resignation on completing the specified procedures to be designated as a Beneficiary, if the Director satisfies the following requirements for Beneficiaries.

Requirements for Beneficiaries in Plan II are as follows:

- (i) a person held office as Outside Director as of June 1, 2018 ;
- (ii) a person has resigned as an Outside Director <sup>(\*)7)</sup>; and
- (iii) a person satisfies other requirements found necessary to accomplish the purpose of the LTI Plan.

(\*)7) If an Eligible Person II were to die during the trust period, an inheritor of the Eligible Person II may receive the amount of money equivalent to Company shares converted into cash corresponding to the share conversion points from the NSV Trust upon completing the specified procedures to be designated as a Beneficiary.

## (3) Trust Term to be Extended

The Trust term shall be approximately three years, from May 16, 2017 (scheduled) until the end of August 2020 (scheduled).

The NSV Trust may be continued as the incentive plan related to the Plan I & II by changing the trust agreement and entrusting additional money at the expiry of the extended Trust term. At the expiry of the extended trust term, when an Eligible Person II possibly meeting the requirements for Beneficiary holds office as Outside Director, the points shall not be granted to the concerned Eligible Person II thereon, though, the trust term of the NSV Trust may be extended to the maximum of ten years until the resignation of the concerning Eligible Person II from the office of Outside Director and the completion of vesting, etc. of Company Shares, etc. to the concerned Eligible Person II.

(4) Company Shares, etc. to be Vested, etc. to Eligible Person I & II

The number of Company shares to be vested, etc. to Eligible Person I & II is determined by the share conversion points that are granted in accordance with the following, where one share is equivalent to one share conversion point<sup>(\*8)</sup>:

(\*8) If Company shares under the NSV Trust increase or decrease due to share splitting, gratis allotment, reverse share splitting, etc., the Company will adjust the number of Company shares to be vested, etc. per share conversion point with a reasonable method.

First, the base points shall be granted to an Eligible Person I who holds office as Internal Director or an Eligible Person II who holds office as Outside Director as of July 1, 2017, by the following calculation formula.

[Base Points Calculation Formula]

Base annual compensation amount  $\times$  Target ratio / Closing price of the Company share at the Tokyo Stock Exchange as of July 1, 2017 (if a closing price on the said date does not exist, the closing price on the day on which transactions were made immediately preceding the said date will be applicable.)

- \* Fractions after the decimal point are disregarded.
- \* Base annual compensation amount and Target ratio will be determined in consideration of the content and responsibility of duties of each Director, and the percentage of monetary and stock compensation in the overall compensation for Directors, and other factors.

Eligible Person I who holds office as Internal Director as on June 1 of each year from 2018 to 2020 shall be granted share conversion points calculated by the following formula.

[Calculation Formula of Share Conversion Points granted to Eligible Person I]

(i) For 2018 and 2019

[Initial base points  $\times$  50%  $\times$  1/3]

(ii) For 2020

[Initial base points  $\times$  50%  $\times$  1/3] + [Initial base points  $\times$  50%]  $\times$  Achievement linked coefficient

- \* Fractions after the decimal point are disregarded regarding the share conversion points in Years 1 and 2, and the total of fractions are added to the share conversion points in Year 3, where the fractions after the decimal point for the total shall be disregarded.
- \* An achievement linked coefficient shall be determined between 0 and 200% based on the target achievements, etc. of consolidated revenue, free cash flow, EPS, R&D target, etc. for the period ending March 2020, which will be set at the establishment of Plan I. In this regard, however, when an Internal Director who is not a member of the Audit and Supervisory Committee resigns and is appointed Director as a member of the Audit and Supervisory Committee, the achievement linked coefficient shall be 100% for the calculation regardless of the achievements, etc. of the Company's performance goals during Period A.
- \* Evaluation of performance achievements, etc. is deliberated and determined by the Board of Directors after reviewed by the Compensation Committee.
- \* Base points granted to Eligible Person I shall be reduced by the number equivalent to the base points used for the calculation of share conversion points in each fiscal year, i.e., the result of the calculation by [ ] employing the above formula.

If Eligible Person I resigns from the post of Internal Director (excluding the case of resignation due to his/her own convenience or dismissal), the share conversion points will be granted to the person and he/she may be

vested, etc. the number of Company Shares, etc. corresponding to the share conversion points from the NSV Trust, just as if he/she had held office as Internal Director until the expiry of the Period A.

Eligible Person II who holds office as Outside Director as of June 1, 2018, shall be granted the share conversion points by the following formula.

[Calculation Formula of Share Conversion Points granted to Eligible Person II]

Initial base points  $\times$  100%

\* All of the base points granted to Eligible Person II shall be reduced at the calculation of share conversion points.

If an Eligible Person II resigns from the post of Outside Director (excluding the case of resignation due to his/her own convenience or dismissal) on or before June 1, 2018, the share conversion points shall be calculated based on the above formula according to the base points accumulated up to the time of resignation and shall be promptly granted by the NSV Trust.

(5) Method and Timing of Vesting, etc. of Company Shares, etc. to Eligible Person I & II

Eligible Persons I who meet the requirements as Beneficiaries may, by following the specified procedures to be designated as a Beneficiary each year from 2018 to 2020, receive 50% of the Company shares (the number of shares less than share unit will be disregarded) corresponding to the share conversion points and also receive money equivalent to the residual Company shares (including those equivalent to the number of shares less than share unit described above) that are converted into cash under the NSV Trust after a specified period from the receipt of the share conversion points.

Eligible Persons II who meet the requirements as Beneficiaries may, by following the specified procedures to be designated as a Beneficiary at the time of resignation, receive 50% of the Company shares (the number of shares less than share unit will be disregarded) corresponding to the share conversion points and also receive money equivalent to the residual Company shares (including those equivalent to the number of shares less than share unit described above) that are converted into cash under the NSV Trust.

(6) Treatment of the Death of Eligible Person I & II

If Eligible Person I/II were to die during the Trust term, the base points granted will be converted into share conversion points. An inheritor of the Eligible Person I/II may receive money equivalent to the number of Company shares that correspond to the share conversion points by following the specified procedures to be designated as a Beneficiary.

(7) Scheduled Amount of Trust Money contributed to and Company Shares to be Vested, etc. by the NSV Trust

The Company is scheduled to pay Trust money of JPY 0.8Bn to the NSV Trust.

The aforementioned scheduled amount is calculated by adding trust fees and trust expenses to the funds to acquire shares calculated in consideration of current basic compensation, etc. of the Eligible Persons I & II.

During the Trust term to be extended, the total amount of Company Shares, etc. to be vested, etc. pursuant to (5) above, shall be up to the number that is obtained by dividing the upper limit of the trust money as approved by the 140<sup>th</sup> annual Shareholders' Meeting held on June 29, 2016, which is JPY 3 Bn.(JPY 2.7

Bn. for Plan I and JPY 0.3 Bn. for Plan II) paid to the NSV Trust by the closing price of Company share at the Tokyo Stock Exchange as of July 1 of the year in which the NSV Trust was established (“Upper Limit Number of the Vesting of Shares for Plan I & II”). If a closing price of the said date does not exist, the closing price of the date on which the transactions are made immediately before the said date will be applicable.

(8) Method for the NSV Trust to Acquire Company Shares

The NSV Trust shall schedule the acquisition of Company shares from the stock market to the extent of the funds to acquire shares, as specified in (7) above.

For Plan I, the remaining shares in the BIP Trust already established in 2014 will be succeeded.

(9) Exercising Voting Rights Related to Company Shares under the NSV Trust

Voting rights related to Company shares under the NSV Trust, i.e., Company shares before being vested, etc. to Eligible Persons I & II pursuant to the above (5) and (6), shall not be exercised during the Trust term, to ensure the neutrality of Company management.

(10) Treatment of Dividends Related to Company Shares under the NSV Trust

Dividends related to Company shares under the NSV Trust shall first be received by the NSV Trust and then paid to Eligible Persons I & II (or its inheritor in case of (6)) corresponding to the number of Company Shares, etc. that are vested, etc. each year from the NSV Trust, along with Company Shares, etc. that are vested, etc. pursuant to the above (5) and (6). Any residuals at the expiry of the Trust will be donated to organizations that have no conflict of interest with the Company and the Company Directors.

(11) Treatment at the End of the Trust Term

If there are residual shares at the end of the Trust term due to non-attainment of performance targets, resignation due to his/her own convenience, dismissal, etc. during the Period A, the NSV Trust may continue to be used as the incentive plan related to Plan I & II by changing the trust agreement and paying additional money to the Trust. If the NSV Trust is terminated by expiry of the Trust term, the NSV Trust will voluntarily convey the residual shares to the Company as a measure of shareholder returns, and the Company will cancel the said shares by resolution of the Board of Directors.



(Reference)

[Trust Agreement]

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| (1) Type of Trust:                          | Money trust other than a specified money trust for separate investment<br>(Third party benefit trust)  |
| (2) Purpose of Trust:                       | To grant incentives to Directors who are not members of the Audit and Supervisory Committee.   |
| (3) Trustor:                                | The Company  |
| (4) Trustee:                                | Mitsubishi UFJ Trust and Banking Corporation<br>(Co-trustee: The Master Trust Bank of Japan, Ltd.)   |
| (5) Beneficiaries:                          | Person(s) who meet beneficiary requirements among Directors who are not members of the Audit and Supervisory Committee.  |
| (6) Trust administrator:                    | A third person who has no conflict of interest with the Company<br>(Certified public accountant)   |
| (7) Date of trust agreement:                | August 4, 2014 (an amendment agreement is scheduled to be executed regarding the extension of the Trust term as of May 16, 2017)   |
| (8) Trust term:                             | August 4, 2014 (scheduled) to the end of July 2017 (the Trust term is scheduled to be extended to the end of August 2020 by the amendment agreement executed as of May 16, 2017)   |
| (9) Start of the Plan:                      | Granting base points on July 1, 2017 (scheduled)   |
| (10) Exercise of voting rights:             | No voting rights will be exercised   |
| (11) Type of acquired shares:               | Common Company shares  |
| (12) Total amount of shares to be acquired: | 0.8 billion yen (scheduled) (including trust fees and trust expenses)  |
| (13) Time to acquire shares:                | From May 17, 2017 (scheduled) to the end of June, 2017 (scheduled)<br>(excluding the five business days before the end of each fiscal period<br>(including the quarterly fiscal period))   |
| (14) Manner of share acquisition:           | To be acquired from the stock exchange market  |
| (15) Vested rights holder:                  | The Company  |
| (16) Residual properties:                   | Residual properties that the Company, which is the holder of vested rights, can receive are within the extent of allowances for trust expenses, which are calculated by deducting funds to acquire Company shares from the Trust money |

[Affairs related to Trust and Shares]

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|--------------------------------|--|
| (1) Affairs related to trust:  | Mitsubishi UFJ Trust and Banking Corporation will be the Trustee of the BIP Trust and will engage in affairs related to the Trust.   |
| (2) Affairs related to shares: | Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. will engage in affairs related to vesting Company shares to Beneficiaries based on the agreement of entrustment of affairs. |

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