

Name of listed company: Chugai Pharmaceutical Co., Ltd.
 Code number: 4519 (1st Section of Tokyo Stock Exchange)
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Notice of Disposal of Treasury Shares as Restricted Stock Compensation Plan

Chugai Pharmaceutical Co., Ltd. (the “Company”) hereby announces that, at the meeting of its Board of Directors held on March 22, 2018, the Directors decided to dispose treasury shares (the “Disposal of Treasury Shares” or the “Disposal”) as follows.

1. Outline of the Disposal

(1)	Disposal date	April 20, 2018
(2)	Class and number of shares to be disposed	60,300 shares of Common stock of the Company
(3)	Disposal price	¥5,400 per share
(4)	Total value of shares to be disposed	¥325,620,000
(5)	Allottees and number thereof, number of shares to be disposed	Directors: 3 32,700 shares Vice Presidents: 18 15,300 shares Employees: 101 12,300 shares
(6)	Others	The Disposal of Treasury Shares is conditioned on the Securities Registration Statement taking effect in accordance with the Financial Instruments and Exchange Act.

2. Purposes and Reasons of the Disposal

At the meeting of its Board of Directors held on February 1, 2017, for the purpose of further promoting shared value with shareholders and providing an incentive for the Company’s Executive Directors (excluding non-executive Directors, the “Eligible Directors”) as well as Vice presidents and Employees (collectively, the “Eligible Directors etc.”) to sustainably increase the Company’s corporate value, strengthening linkage between their compensation and mid- to long-term business performance, the Directors decided to introduce a restricted stock compensation plan (the “Compensation Plan”), and at the 106th Annual General Meeting of Shareholders on March 23rd, 2017 (the “General Meeting of Shareholders”), based on the Compensation Plan, as the monetary compensation to serve as invested assets to acquire the restricted stocks (the Restricted Stock Compensation), it was approved that the amount of the Restricted Stock Compensation for the Eligible Directors shall not exceed 345 million yen, and that the restricted period on stock transfer shall be decided by its Board of Directors from three (3) years to five (5) years.

The following presents the overview of the Plan.

[Outline of the Plan]

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

The Eligible Directors etc., shall make in-kind contribution of all monetary compensation claims or monetary claims to be provided by the Company according to the Compensation Plan, and shall, in return, receive shares of

common stock of the Company that shall be issued or disposed by the Company. The total number of shares of common stock of the Company to be issued or disposed for the Eligible Directors shall not exceed 165,000 shares per year, and 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 disposal of shares of common stock of the Company under the Compensation Plan, the Company and each Eligible Directors etc., shall make an agreement on allotment of restricted stocks (the “Allotment Agreement”), which includes (1) The Eligible Directors etc., shall not transfer, create a security interest on, or otherwise dispose of the allotted shares during a certain restriction period, and (2) The Company shall take back all or part of the allotted shares without cost in case where certain events happen.

Considering the purpose of the Plan, responsibility of the Eligible Directors etc., and levels of compensations for directors and executives officers in the Japanese pharmaceutical industry, the Company has decided to provide the total sum of the monetary compensation claims and monetary claims of ¥325,620,000 (the “Total Monetary Compensation Claims”), and 60,300 shares of common stock of the Company, in order to promote competent people as executive officers and to further increase motivation of the Eligible Directors etc.

For the Disposal of Treasury Shares, 122 of the Eligible Directors etc., shall make in-kind contribution of all monetary compensation claims or monetary claims to the Company according to the Compensation Plan, and shall receive disposed shares of common stock of the Company.

3. Overview of the Allotment Agreement

(1) Transfer restriction period: April 20, 2018-April 30, 2021

(2) Conditions for releasing transfer restriction for “tenure-based restricted stock”

On the condition that the Eligible Directors etc., maintain the positions of the Eligible Directors etc., continuously during the transfer restriction period, the Company shall release transfer restriction for all of the allotted shares at the expiration of the transfer restriction period.

(3) Conditions for releasing transfer restriction for “performance-based restricted stock”

On the condition that the Eligible Directors maintain their positions continuously during the transfer restriction period, the Company shall release transfer restriction for the number of allotted shares, which are calculated by multiplying the number of shares that the Eligible Directors obtain at the expiration of the transfer restriction period by the release rate that is determined by the growth rate on the three-year Total Shareholders Return (TSR) for the peer group as a performance goal decided by the Board of Directors in advance (the “Evaluation Period”). The release rate is applied against the number of shares that is provided at the beginning of the restriction period by multiplying the maximum coefficient of 150%, ranging from 0% to 150% separately set by Chugai’s Board, and is set from 0% to 100%.

TSR calculation formula:

$$\text{TSR} = \frac{\text{Increased amount of the stock price during the Evaluation Period (B-A) + Dividends during the Evaluation Period}}{\text{Initial stock price (A)}}$$

A: Initial stock price (Average closing price for the three months prior to the start of the Evaluation Period)

B: Final stock price (Average closing price for the three months prior to the end of the Evaluation Period)

Evaluation Period: Three years from January 2018 to December 2020

(4) Treatment in cases the Eligible Directors etc., retire from its position due to expiration of the term of office, reaching retirement age, death, the inability to perform the duties resulting from illness or injury, or other due cause approved by Chugai’s Board.

- (I) Time of release
 - i. Tenure-based restricted stock
Immediately after retirement
 - ii. Performance-based restricted stock
Upon expiry of the transfer restriction period (for retirement due to death, immediately after the death)

- (II) Number of shares subject to release
 - i. Tenure-based restricted stock
The number of shares obtained by multiplying the number of shares held by the Eligible Directors etc., by value obtained as a result of dividing the number of months from the month including Date of Payment to the month including the date of retirement (the “Employment Period”) by 12 (if the value is above 1, then 1 is applied.) shall be released.
 - ii. Performance-based restricted stock
(Retirement due to death)
In case the Eligible Directors retire due to death before the expiration of the Evaluation Period, as the estimated performance evaluation, the release rate is calculated based on the performance evaluation during the period up to the last day of the fiscal year preceding to the death. The number of shares obtained by multiplying the number of shares held by the Eligible Directors by the aforementioned release rate and further by dividing the number of months from the month including Date of Payment to the month including the date of retirement by the transfer restriction period (months) shall be released. In case the Eligible Directors retire due to death after the expiration of the Evaluation Period and the transfer restriction period remains, the treatment below-mentioned shall be applied.
(Retirement due to reasonable reasons other than death)
In case the Eligible Directors retire due to reasonable reasons other than death, the number of shares obtained by multiplying the number of shares held by the Eligible Directors by the release rate that is determined by the growth rate on the three-year Total Shareholders Return (TSR) for the peer group as a performance goal and further by dividing the number of months from the month including Date of Payment to the month including the date of retirement by the transfer restriction period (months) shall be released.

- (5) Take-back without cost by the Company
The Company shall automatically take back all the allotted shares without cost immediately after expiration of the transfer restriction period, if transfer restriction on the allotted shares in question is still to be released.

- (6) Control of stocks
To ensure compliance with the transfer restriction during the transfer restriction period, the allotted shares shall be managed in a dedicated account at Nomura Securities Co., Ltd., opened by the Eligible Directors etc. The Company and each Eligible Directors etc., execute the memorandum on the control of the dedicated accounts of the Eligible Directors etc., with Nomura Securities Co., Ltd., in order to secure the effectiveness of the transfer restriction pertaining to the allotted stocks. In addition, the Company shall separately obtain the consent from the Eligible Directors etc., on the contents of the transfer restriction etc.

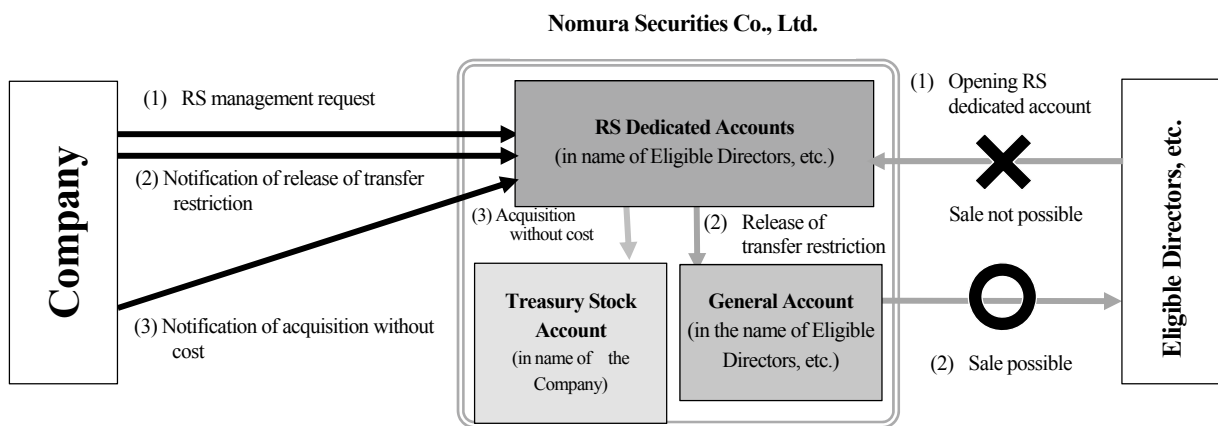
- (7) Treatment during reorganization, etc.
If, during the transfer restriction period, matters relating to a merger agreement in which the Company is the dissolving company, a share exchange agreement or share transfer plan in which the Company becomes a wholly owned subsidiary, or other reorganization are approved at the Company’s General Meeting of Shareholders (or in the case where the approval at the Company’s General Meeting of Shareholders is not required, in relation to the reorganization in question, a meeting of its Board of Directors), based on the

resolution of the Board of Directors, the number of shares that is reasonably calculated considering the number of months from the beginning of the transfer restriction period to the month including the approval day of the reorganization shall be released prior to the date the reorganization becomes effective.

4. Basis of Calculation and Specific Details for the Payment Amount

The Disposal of Treasury Shares to the Eligible Directors etc., shall be funded by monetary compensation claims or monetary claims which the Company provided as the Restricted Stock Compensation for 2018 in accordance with the Compensation Plan. To eliminate arbitrariness in the disposal price, the closing price for the common shares of the Company on the First Section of the Tokyo Stock Exchange on March 20, 2018 (the business day prior to the day of resolution at the meeting of the Board of Directors) of ¥5,400 is used as the disposal price. As this is the market price the day prior to the day of resolution of the Board of Directors, we believe it is valid and does not represent a particularly favorable price.

(Reference) [Restricted Stock (RS) Management Flow in the Restricted Stock Plan]



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