



Corporate Governance to Put Our Corporate Philosophy into Practice

Chugai's mission is 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.

To fulfill this mission and achieve our fundamental goal of becoming a top pharmaceutical company, we have a unique business model. Under the strategic alliance with Roche, one of the world's largest pharmaceutical manufacturers, Chugai is a member of the Roche Group, but at the same time maintains managerial autonomy and independence as a separate listed company. Chugai pursues management that fulfills the mandate of many stakeholders appropriately and fairly.

Fifteen years have passed since the start of the alliance with Roche. Chugai's management has achieved significant results during that time, but will continue its steady efforts to enhance corporate governance for ongoing growth in corporate value.

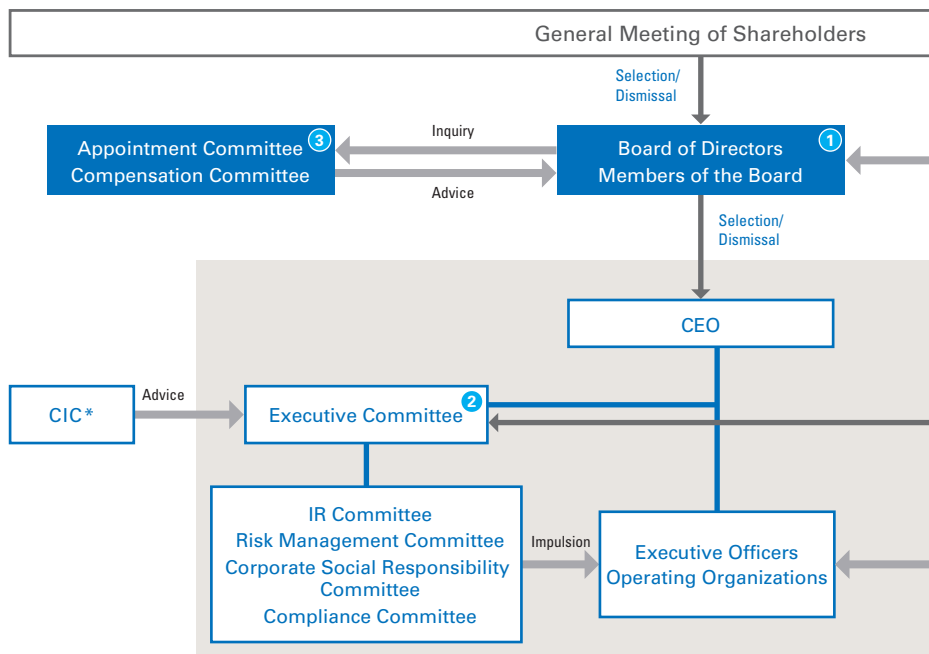
① Board of Directors: The Board of Directors makes decisions on management issues of primary importance and receives quarterly reports on the state of business execution as well as reports on key decisions made at the Executive Committee. It is also responsible for oversight of the execution of business operations. The board consists of nine directors including three independent outside directors.

② Executive Committee: The Executive Committee makes decisions on Company-wide management strategy and important matters concerning business execution. It consists of executive directors, including the CEO, and key executive officers and full-time Audit & Supervisory Board members. In addition, the IR Committee, Risk Management Committee, Corporate Social Responsibility Committee and Compliance Committee have been established under the Executive Committee.

③ Appointment Committee and Compensation Committee: As an advisory board to the Board of Directors, the Appointment Committee deliberates on the selection of director candidates and candidates to succeed the executive directors, including the CEO. The Appointment Committee consists of one member from inside the Company and at least three outside members, including at least one independent outside director. The member from inside the Company is appointed by the Board of Directors from among the representative directors and persons with experience as representative directors. The outside committee members are appointed by the Board of Directors from among the non-executive directors and persons with experience as non-executive directors.

As an advisory board to the Board of Directors, the Compensation Committee deliberates on remuneration policy and the remuneration of individual directors. It consists of at least three outside committee members, including at least one outside director, appointed by the Board of Directors from among the non-executive directors including outside directors and persons with experience as non-executive directors.

Chugai's Corporate Governance System (As of April 1, 2018)



* Chugai International Council (CIC): Chugai established the CIC as an advisory body composed of Japanese, American and European industry leaders and professionals in various sectors to respond accurately to changes in the global business environment and conduct business in an appropriate manner, and to provide advice to further enhance decision-making.

Implementing the PDCA Cycle to Enhance Governance

At Chugai, corporate governance is an integral part of management. We believe that raising the effectiveness of corporate governance is important because simply creating systems and mechanisms is insufficient for increasing corporate value. In other words, constantly implementing the PDCA cycle to continuously examine and improve corporate governance is essential. Making consistent efforts toward that objective is a major responsibility of management. We are currently applying all of the principles of the Corporate Governance Code of the Tokyo Stock Exchange, but given the rapid pace of change in our operating environment and strategies, we plan to periodically reconfirm the sufficiency of our efforts to ensure sustainable growth.

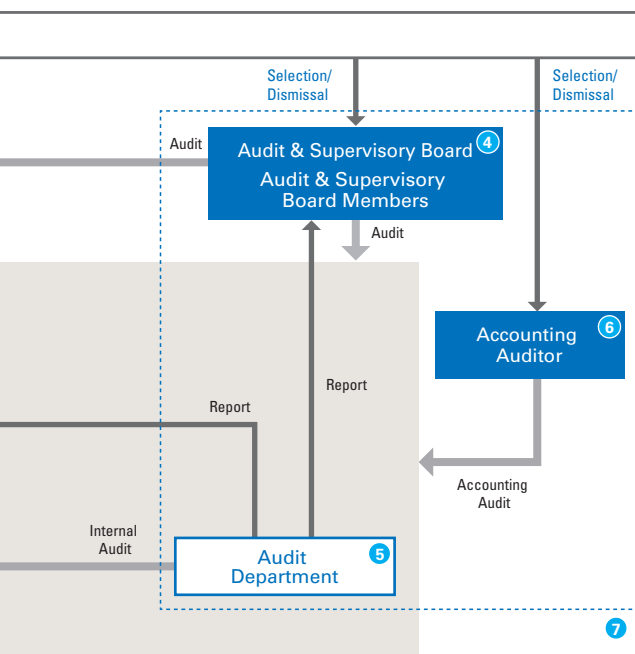
To fulfill our accountability to shareholders and other investors, Chugai's corporate governance initiatives and policies are clearly stated in the Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy, which is disclosed on our website.¹

Improvements and Progress in 2017

In 2017, we again gathered the opinions of directors and outside directors, Audit & Supervisory Board members, and external experts (attorneys). These opinions formed the basis for a self-assessment survey of each director, which was used to evaluate the effectiveness of the Board of Directors. We identified issues, conducted multiple analyses and studies with external experts, determined how the Board of Directors could improve, and moved to implement enhancements.

One main area of improvement was increasing opportunities to provide information to outside directors and Audit & Supervisory Board members to enhance the ability of the Board of Directors to deliberate. At the same time, trends in the industry environment and other information were provided through a "Chairman's Message" by the Chairman of the Board of Directors at the beginning of board meetings. Supplementary information on agenda items was provided to outside directors by the Executive Office as necessary.

1. <https://www.chugai-pharm.co.jp/english/ir/policy/governance.html>



4 Audit & Supervisory Board Member Audits: Chugai has an Audit & Supervisory Board, and audits of management decision-making and business execution are conducted independently from business operations by four Audit & Supervisory Board members, including two outside members.

Audit & Supervisory Board members express their opinions in real time from the standpoint of appropriate corporate governance in a variety of situations including at meetings of the Board of Directors, the Executive Committee (full-time Audit & Supervisory Board members only) and the Audit & Supervisory Board.

5 Internal Audits: The Audit Department, with a staff that includes certified internal auditors and certified fraud examiners, conducts audits of the status of business execution of the Chugai Group, including subsidiaries, from various standpoints, such as the effectiveness, efficiency and compliance of business activities; reports and makes recommendations to the Executive Committee; and reports to the Audit & Supervisory Board. In addition, Audit Department staff serve as Audit & Supervisory Board members at subsidiaries.

In addition, the Audit Department assesses whether effective internal controls are established and being implemented in accordance with internal control standards generally accepted as fair and appropriate in Japan to ensure the reliability of financial reporting based on the Financial Instruments and Exchange Act.

6 Accounting Audits: KPMG AZSA LLC handles accounting audits and internal control audits.

7 Cooperative Auditing: Audit & Supervisory Board members, the Audit Department and the Accounting Auditor cooperate closely by regularly exchanging information to improve the effectiveness of their respective audits. Audit & Supervisory Board members and the Accounting Auditor confirm each other's audit plans and hold regular meetings to exchange opinions on matters including the results of quarterly audit reports. In addition, they work to strengthen governance at Group companies by coordinating with Audit & Supervisory Board members at subsidiaries on quarterly reports, fiscal year-end reports and other matters. The Office of Audit & Supervisory Board Members ensures the independence and enhances the auditing functions of Audit & Supervisory Board members.

In addition, as in the previous year, liaison meetings for outside officers were held and a facility tour was conducted at the Utsunomiya Plant, Chugai's main biopharmaceutical production base, following a board meeting at the facility. The tour was a good chance to follow up on the capital investment, and was also an effective means of providing information to outside directors and Audit & Supervisory Board members.

Main New Initiatives for Analyzing and Evaluating the Effectiveness of the Board of Directors

- A "Chairman's Message" by the Chairman of the Board of Directors at the beginning of board meetings
- Increased opportunities to provide information to outside directors and Audit & Supervisory Board members through lectures by external experts

Chugai's Corporate Governance in 2017

Organizational form		Company with an Audit & Supervisory Board
Management and execution		Separated
Introduction of external perspectives		Implemented <ul style="list-style-type: none"> • 3 outside directors (3 of whom are independent), 2 outside Audit & Supervisory Board members (1 of whom is independent), and 3 non-executive directors • Appointment Committee and Compensation Committee as advisory boards • CIC (Chugai International Council)
Board of Directors	Composition	10 members (4 executive directors, 6 non-executive directors (of whom 3 are independent))
	Number of meetings in 2017	9
Executive Committee	Composition	Management Strategy Committee: ¹ 15 members (4 directors, 9 executive officers (excluding directors), and 2 Audit & Supervisory Board members) Business Operation Committee: ² 13 members (2 directors, 9 executive officers (excluding directors) and 2 Audit & Supervisory Board members)
	Number of meetings in 2017	Management Strategy Committee: 32 Business Operation Committee: 15
Appointment Committee	Chairperson	Outside director
	Composition	4 members (1 director, 2 outside directors and 1 person with experience as an outside director of Chugai)
	Number of meetings in 2017	3
Compensation Committee	Chairperson	Person with experience as an outside director of Chugai
	Composition	3 members (1 outside director, 1 person with experience as an outside director of Chugai and 1 non-executive director)
	Number of meetings in 2017	3
Audit & Supervisory Board	Composition	4 members (2 full-time Audit & Supervisory Board members and 2 outside Audit & Supervisory Board members including 1 who is independent)
	Number of meetings in 2017	11 (including 1 extraordinary meeting)
Internal committees		Established IR Committee, Risk Management Committee, Corporate Social Responsibility Committee and Compliance Committee

1. Management Strategy Committee agenda items: Largely fundamental strategies and policies relevant to overall management

2. Business Operation Committee agenda items: Specific policies and other items that are important for business execution

Principal Matters Deliberated by the Board of Directors

Matters Concerning the General Meeting of Shareholders	<ul style="list-style-type: none"> • Calling of the General Meeting of Shareholders and determination of the agenda items • Approval of the Business Report, financial statements and other documents • Selection of director and Audit & Supervisory Board member candidates
Matters Concerning Directors and Audit & Supervisory Board Members	<ul style="list-style-type: none"> • Selection and dismissal of representative directors and executive directors • Directors' remuneration and bonuses • Approval of selection and dismissal of executive officers and advisors
Matters Concerning Stock	<ul style="list-style-type: none"> • Repurchase of shares, issue of new shares, etc. • Payment of interim dividend
Matters Concerning Management in General	<ul style="list-style-type: none"> • Formulation of plans and policies, and reports on their progress • Discussion of new business plans, alliances and other matters • Discussion of decision-making structure and organizations • Matters concerning finance and assets
Other Matters	<ul style="list-style-type: none"> • Approval and reporting of competing transactions • Approval and reporting of conflict of interest transactions • Implementation and reporting of evaluation of the effectiveness of the Board of Directors • Status of voting on proposals at the General Meeting of Shareholders • Verification of cross-shareholdings

Roles of Directors

Executive Directors

Responsible for business execution and supervision, executive directors report on and explain business execution matters and hold discussions on management. They execute the strategies decided in Board of Directors meetings.

Chairman of the Board of Directors

Ensures that the main points of resolutions and the direction of discussions are clear so that sound, transparent decision-making can be carried out expeditiously at board meetings. The Chairman also works to ensure the provision of information necessary for discussion and encourages vigorous debate.

“I will focus on monitoring management and resource allocation, taking into consideration the outlook of the external environment. I will also work to continuously enhance governance, giving weight to the views of outside directors and Audit & Supervisory Board members.”

Osamu Nagayama

Representative Director & Chairman
Outside Director and Chairman of the Board of Directors of Sony Corporation

“To respond to the increasing expectations and requirements of stakeholders, I will strive to enhance corporate value through innovation and the fusion of economic performance, social awareness and human development on a higher plane.”

Motoo Ueno

Representative Director & Deputy Chairman
In charge of Corporate Social Responsibility Dept., Audit Dept.

“As the CEO, I am committed to realizing sustainable growth by focusing on clarification of the Company's direction, appropriate resource allocation, and improvement of employee motivation. My aim is to help make Chugai a company of continuous innovation.”

Tatsuro Kosaka

Representative Director, President & CEO
Outside Director of Asahi Group Holdings, Ltd.

Non-Executive Directors (Outside Directors)

Appointed based on their knowledge and expertise as outside corporate executives or as medical, academic and other professionals. Their role is to provide advice concerning management, exercise supervisory functions and participate in discussions and decision-making at Board of Directors meetings from an objective, outside perspective.

“I will draw on my experience as a doctor and researcher to contribute to the creation of innovative medicines and the enhancement of safety and risk management and offer suggestions and advice to establish Chugai's reputation as a company that puts patients first.”

Dr. Yasuo Ikeda (Independent Director)

Vice-Chairman of the Board of Directors, Musashi Academy of the Nezu Foundation,
Specially Appointed Professor of Waseda University,
Professor Emeritus of Keio University

“As an outside director, I will closely monitor execution to support Chugai's unparalleled value creation, which is backed by the strategic alliance with Roche.”

Masayuki Oku (Independent Director)

Outside Director of Kao Corporation
Outside Director of Komatsu Ltd.
Outside Director of Panasonic Corporation
Outside Audit & Supervisory Board Member of Nankai Electric Railway Co., Ltd.
Non-Executive Director of The Bank of East Asia (China) Ltd.

“I will offer recommendations and advice to management from an objective standpoint as an outside director to help Chugai earn the trust of stakeholders through the creation of innovative drugs and the provision of solutions.”

Yoichiro Ichimaru (Independent Director)

Executive Advisor of Toyota Motor Corporation
Senior Advisor of Aioi Nissay Dowa Insurance Co., Ltd.

Non-Executive Directors (Directors)

Provide an objective, expert perspective from a standpoint that is independent from business execution, offer recommendations and advice regarding strategies and management, and participate in discussions at Board of Directors meetings.

“I will strive to ensure management based on mutual respect, integrity and a long-term orientation so that Chugai continues to deliver value to society as an innovative, science-driven company.”

Dr. Christoph Franz

Chairman of the Board of Directors, Roche Holding Ltd.
Member of the Board of Directors of Stadler Rail AG (Switzerland)
Member of the Board of Directors of Zurich Insurance Group Ltd. (Switzerland)

“I see my role as supporting Chugai in pushing the boundaries of what is possible in pursuit of innovation, expanding access to medicines and strengthening compliance. I am also constantly looking to provide the best returns to shareholders, including minority shareholders.”

Daniel O'Day

CEO of Roche Pharmaceuticals,
Member of the Corporate Executive Committee,
Member of the Genentech (USA) Board of Directors

“To support innovation, I will focus on selecting the best people for each role to scout and assess external innovation through teaming up with internal stakeholders. I foster an environment in which people are empowered and excel through teamwork.”

Dr. Sophie Kornowski-Bonnet

Head of Roche Partnering and Member of the Roche Enlarged Corporate Executive Committee

The Essence of Chugai's Management: The Relationship with Roche and Securing the Rights and Equality of Shareholders

Roche, the parent company of Chugai, holds 59.89 percent of Chugai's outstanding shares based on the strategic alliance agreement between the two companies. Roche and Chugai have agreed to cooperate in maintaining the listing of Chugai's common stock on the First Section of the Tokyo Stock Exchange.²

The aim of this alliance is to establish a new business model that differs from conventional corporate acquisitions and joint ventures. Although Roche Holding Ltd. includes Chugai in its consolidated accounts, Chugai functions as an independent listed company and makes all of its own management decisions based on the principle of self-governance. Chugai believes that autonomy and diversity are key to generating innovation, that maintaining its independent management brings diversity to the

Roche Group, and that the pharmaceuticals it creates as a result contribute to all stakeholders, including patients and minority shareholders. Chugai recognizes that the various benefits from being listed on the First Section of the Tokyo Stock Exchange – such as its solid credit rating, flexible fund procurement, name recognition and social presence – are supported by the understanding of minority shareholders and investors who are potential shareholders, in addition to Roche. That is why in its business dealings with the Roche Group, Chugai conducts all transactions fairly using third-party prices to protect the interests of minority shareholders.

As of April 1, 2018, three of Chugai's nine directors are from the Roche Group. However, they do not comprise a majority of the Board of Directors, and thus Chugai considers its management independence to be secure. Chugai will continue to manage its business with autonomy and independence as a publicly listed company.

Chugai believes that securing substantially equal treatment of shareholders is very important. We therefore emphasize giving due consideration

2. The Tokyo Stock Exchange requires delisting if the ratio of tradable shares to listed shares is less than 5 percent.

Restrictions on Roche's Shareholding

Period	Maximum Shareholding
Oct. 1, 2002 – Sep. 30, 2007	50.1%
Oct. 1, 2007 – Sep. 30, 2012	59.9%
Oct. 1, 2012 and thereafter	Cooperate in maintaining Chugai's listing



Dr. Severin Schwan
Roche Group CEO

Based on our unique business model, we will continue to create value for all stakeholders.

I highly appreciate the collaborative and trustful partnership Roche and Chugai have established over the past 15 years. Our unprecedented business model successfully combines Chugai's autonomous management and research activities with specific cooperation within the Roche Group. Roche's global organisation delivers Chugai's novel medicines to patients around the world, whilst Chugai also brings Roche's medicines to Japanese patients. This arrangement incentivises Chugai's drug discovery and maximises the value for patients in all countries and ultimately for all our stakeholders, including minority shareholders.

The global development of the breakthrough hemophilia A medicine Hemlibra and the delivery of this novel treatment to patients worldwide is the latest striking example that the diversity of approaches fosters innovation. Going forward, we expect an even more competitive market environment, but I am confident that novel Chugai products such as Actemra, Alecensa and Hemlibra will help to drive growth for the Roche Group.

In 2017, Chugai and Roche celebrated the 15th anniversary of our strategic alliance. I could not be prouder of what we have achieved. I am also excited about the future. The appointment of Tatsuro Kosaka as Chugai's new CEO places leadership of the company in extremely capable hands, further building on the legacy of Osamu Nagayama's outstanding record of achievements. Together we will continue to create and market breakthrough medicines that bring new hope to millions of patients worldwide.

to minority and foreign shareholders and to maintaining an environment that allows them to exercise their rights.

Therefore, recognizing that business plans are a commitment to shareholders, Chugai promotes the disclosure of a variety of information and constructive dialogue with shareholders and investors. Directors and executive officers make every reasonable effort to meet requests for interviews from shareholders and investors.

The Basic Governance Structure That Supports Chugai's Business Model

Separating management decision-making and business execution to expedite business execution and clarify executive responsibility is essential for promoting Chugai's unique business model while ensuring its effectiveness. To that end, the Board of Directors is responsible for making decisions on management issues of primary importance, while other decisions on business execution are made at organizations such as the Executive Committee. Starting from March 2018, the Chief Executive Officer (CEO) has ultimate responsibility for making decisions on Company-wide management strategies and important matters concerning business execution.

Introduction of Outside Perspectives to Enhance Objectivity and Responsiveness to Change

To reflect diverse stakeholder viewpoints in business decisions, Chugai has taken measures to obtain outside perspectives, such as nominating outside directors and establishing a council made up of domestic and overseas specialists.

Chugai International Council (CIC)

To respond accurately to changes in the global business environment and conduct international business in an appropriate manner, Chugai works to further enhance decision-making by operating the Chugai International Council (CIC), which is composed of Japanese and international professionals in various sectors. Of the 11 council members, including the CIC Chair, one is a woman.

Outside Directors

Chugai has appointed outside directors to reflect a broader range of stakeholder views in management decision-making. Outside directors point out issues and give advice concerning Chugai's management from their abundant experience and knowledge as corporate executives, physicians or university professors. The average rate of attendance by outside directors at the nine board meetings in 2017 was 100 percent.

Support System for Outside Directors and Outside Audit & Supervisory Board Members

Chugai appoints staff in the Secretarial Department to support the activities of outside directors. Managers including the General Manager of the Corporate Planning Department provide, as needed, reports on major changes in the operating environment and advance explanation of particular items to further enhance decision-making.

The Office of Audit & Supervisory Board Members is responsible for supporting the activities of Audit & Supervisory Board members in ways such as conveying internal information and providing materials for board meetings in advance.

In addition, Chugai invigorates the deliberations of the Board of Directors by preparing materials containing adequate information relevant to agenda items and distributing them to outside directors and outside Audit & Supervisory Board members well in advance of meetings. Chugai also provides additional information required by outside directors and outside Audit & Supervisory Board members and takes advantage of opportunities to provide advance explanation.

Officer Remuneration That Emphasizes Linkage with Performance and Stock Price

Chugai's fundamental policy for remuneration of directors and Audit & Supervisory Board members is to attract outstanding people and appropriately motivate them in order to continuously increase the Chugai Group's corporate value. At the same time, remuneration levels and the remuneration system are designed to link compensation of officers with the Company's performance and align their interests with those of shareholders.

Chugai International Council (CIC) Composition

CIC Chair

- Henry L. Nordhoff (U.S.)
Former Chairman of the Board, Gen-Probe, Inc.

CIC Members

- Virginia Bottomley (U.K.)
Former Health Secretary of the U.K.
- William M. Burns (U.K.)
Former Chief Executive Officer of the Pharmaceuticals Division, F. Hoffmann-La Roche Ltd
- Andrew von Eschenbach (U.S.)
Former Commissioner of the U.S. Food and Drug Administration
- Victor Halberstadt (Netherlands)
Professor, Leiden University
- Andre Hoffmann (Switzerland)
Vice Chairman, Roche Holding Ltd.
- Franz B. Humer (Switzerland)
Former Chairman, Diageo plc
Former Chairman, Roche Holding Ltd.
- Robert A. Ingram (U.S.)
Former Vice Chairman of Pharmaceuticals, GlaxoSmithKline plc
- Arnold J. Levine (U.S.)
Professor Emeritus at the Institute for Advanced Study, Princeton University
Discoverer of the p53 cancer suppressor protein
- Abraham D. Sofaer (U.S.)
Senior Fellow at the Hoover Institution, Stanford University
Former legal advisor to the U.S. Department of State
- Sonosuke Kadonaga (Japan)
President, Intrinsics

System for Remuneration of Directors and Audit & Supervisory Board Members

	Fixed Regular Compensation	Performance-based Remuneration		
	Regular Compensation	Bonuses	Long-term Incentive (Stock-based Compensation)	
			Tenure-based Restricted Stock	Performance-based Restricted Stock
Executive Directors	●	●	●	●
Non-executive Directors (including Outside Directors)	●	—	—	—
Audit & Supervisory Board Members	●	—	—	—

In order to further clarify the link between remuneration and the Company's business performance and shareholder value, and to raise directors' ambition and motivate them to improve performance, remuneration of executive directors consists of bonuses paid according to performance in each fiscal year and restricted stock compensation linked to mid- and long-term performance (tenure-based and performance-based) as a long-term incentive to continuously increase corporate value, in addition to fixed regular compensation. These three components are paid by resolution of the Board of Directors based on the Company's criteria within the limits on remuneration approved by the General Meeting of Shareholders. The Compensation Committee sets policies and deliberates details concerning remuneration of directors with specific titles to ensure the objectivity and transparency of the remuneration-setting process.

Remuneration of non-executive directors and Audit & Supervisory Board members (including outside members) consists solely of fixed regular compensation, and is paid by resolution of the Board of Directors for non-executive directors and through consultation with the Audit & Supervisory Board for Audit & Supervisory Board members. The amounts are set within the limits approved by the General Meeting of Shareholders.

A resolution was passed in the 98th Annual General Meeting of Shareholders held in March 2009 to abolish the retirement benefits system for directors. A resolution was passed in the 95th Annual General Meeting of Shareholders held in March 2006 to abolish the retirement benefits system for outside directors and Audit & Supervisory Board members (including outside members).

Amount of Remuneration Paid to Directors and Audit & Supervisory Board Members (2017)

Position	Total Remuneration, etc. (Millions of yen)	Total Amount by Type of Remuneration, etc. (Millions of yen)						Number of Eligible Officers
		Regular Remuneration	Bonuses	Restricted Stock Compensation		Stock Options		
				Tenure- based	Performance- based	Common	Stock-based Compensation	
Directors (Excluding Outside Directors)	765	288	234	92	35	83	34	5
Outside Directors	45	45	—	—	—	—	—	4
Total	811	567		127		83	34	9
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	63	63	—	—	—	—	—	3
Outside Audit & Supervisory Board Members	22	22	—	—	—	—	—	2
Total	85	85		—		—	—	5

- The table above includes two directors and one Audit & Supervisory Board member who retired during the fiscal year under review.
- The amount of remuneration, etc. (regular remuneration and bonuses) paid to all directors was not more than ¥750 million per year as per the resolution passed in the 96th Annual General Meeting of Shareholders for the year ended December 31, 2006 held in March 2007. Apart from this, the maximum amount of compensation paid to directors (excluding non-executive directors and including outside directors) in the form of restricted stock compensation (tenure-based and performance-based) was not more than ¥345 million per year as per the resolution passed at the 106th Annual General Meeting of Shareholders for the year ended December 31, 2016 held in March 2017.
- The amount of remuneration for all Audit & Supervisory Board members was not more than ¥100 million per year as per the resolution passed at the 95th Annual General Meeting of Shareholders for the year ended December 31, 2005 held in March 2006.
- The amounts of bonuses shown in the table above are the amount of provision for reserve for bonuses to directors for the fiscal year under review.
- The amounts of "restricted stock compensation (tenure-based and performance-based)" shown in the table above are the amounts that were posted as expenses for the fiscal year as each respective restricted stock compensation.
- No new stock options have been granted in the fiscal year under review but the amount granted in the previous fiscal year that was posted as expenses in the current fiscal year is shown in Stock Options above.
- A resolution was passed at the 98th Annual General Meeting of Shareholders for the year ended December 31, 2008 held in March 2009, to abolish the retirement benefits system for executive directors, and to pay retirement benefits corresponding to their residual term up to the abolishment of the system to each concerned director remaining in office after the closing of the 98th Annual General Meeting of Shareholders for the year ended December 31, 2008, at the respective time of their retirement.
- Apart from the ¥191 million in provision for reserve for bonuses to directors noted in the Business Report for the previous fiscal year as bonuses for directors for the previous fiscal year, ¥23 million was paid to five directors (excluding non-executive directors and including outside directors) during the current fiscal year.

Amount of Remuneration Paid to Representative Directors (2017)

Name	Total Consolidated Remuneration, etc. by Type (Millions of yen)						Total Consolidated Remuneration, etc. (Millions of yen)
	Regular Remuneration	Bonuses	Restricted Stock Compensation		Stock Options		
			Tenure-based	Performance-based	Common	Stock-based Compensation	
Osamu Nagayama	125	298	47	18	37	16	542
Motoo Ueno	58	26	17	6	14	6	126
Tatsuro Kosaka	61	33	19	7	14	7	141

- Amounts are rounded to the nearest million yen.
- Other than the representative directors in the table above, no director or Audit & Supervisory Board member received total remuneration of more than ¥100 million.

At the 106th Annual General Meeting of Shareholders held on March 23, 2017, a resolution was passed to newly introduce restricted stock in place of the current stock options for executive directors of the Company. The aggregate amount of such compensation shall not exceed ¥345 million on top of the aforementioned fixed regular compensation and bonuses. (For details of director remuneration, please refer to pages 39-41 of the “Notice of Convocation of the 107th Annual General Meeting of Shareholders for the Business Term Ended December 31, 2017.”)

Internal Control System and Risk Management That Form the Basis of Corporate Management

On May 18, 2006, the Company approved the Board of Directors’ resolutions concerning the Internal Control System as its basic policies in maintaining systems for ensuring appropriate business operations. The status of implementation of the Internal Control System is reported regularly at Board of Directors meetings, and any necessary revisions are made in a timely manner to maintain effective internal controls.

Chugai views risk management as a key issue pertaining to the Company’s core operations. Chugai has established Risk Management Regulations based on its Risk Management Policy to prevent the materialization of risks that could affect the Company’s business activities, as well as to ensure prompt and appropriate handling of problems that arise. We have also established a Risk Management Committee under the Executive Committee, and Division Risk Management Committees. Division Risk Management Committees summarize and create risk maps of all the risks facing their divisions, make proactive efforts to prevent the materialization of such risks, and submit reports on the progress of those efforts to the Risk Management Committee. The Risk Management Committee identifies Group-wide risk issues that may have a material impact on management and submits a progress report to the Executive Committee concerning preventive measures. (See “Business Risks” on page 104 for details.)

Our Commitment to Corporate Ethics over Profits (Compliance)

Rooted in its belief that corporate ethics take priority over profit, Chugai places paramount importance on respect for life, and strives for fair and transparent corporate activities based on high ethical standards, along with sincere scientific initiatives.

As well as strictly complying with laws and regulations such as the Law for Ensuring the Quality, Efficacy and Safety of Drugs and Medical Devices

and the voluntary Code of Practice for the industry established by the Japan Pharmaceutical Manufacturers Association (JPMA), Chugai proactively takes part in the activities of the Fair Trade Council of the Ethical Pharmaceutical Drugs Marketing Industry, the JPMA Code Compliance Committee and other organizations. In addition, by establishing its own two guidelines for transparency, Chugai works to ensure a high level of ethics, morality and transparency in its various business activities including collaboration with medical institutions and other parties and cooperation with patient groups. (For details about these transparency guidelines, see the Chugai website.)

In light of increasing societal demands for greater compliance in the pharmaceutical industry, we have strengthened compliance measures Company-wide. In addition to working to enhance compliance education in each of our training programs, we conduct compliance risk management measures in each organizational unit. Moreover, every six months the Corporate Social Responsibility Department conducts monitoring surveys regarding compliance status. They are conducted for the entire organization, including subsidiaries and affiliated companies in Japan and overseas, and the results are reported to the Compliance Committee. Each organization appoints a Compliance Manager and Compliance Officer who work to ensure thorough legal compliance in the workplace and hold corporate ethics courses twice a year, among other programs.

The BCG Hotline and internal and external Harassment Hotlines have been established to receive employee inquiries and reports concerning laws, Company rules, the Chugai Business Conduct Guidelines (BCG) and other related matters.

Enhancement of Global Compliance

In January 2017, the compliance oversight functions that were previously handled by multiple committees to comply with pharmaceutical regulations, general laws, industry standards, Company rules and healthcare compliance, were consolidated, and the Compliance Committee, a corporate management committee, was established to create an administrative system linked more directly to management. The intention of this change is to facilitate proper and appropriate judgments and actions based on the societal norms and values required of pharmaceutical companies given the diversification of businesses and their employees due to the accelerating pace of globalization. It is also aimed at properly and appropriately responding to increasingly diverse and stringent regulatory regimes, including extraterritorial application of the laws of various countries, notably the antitrust and anti-bribery laws of the United States. Compliance oversight functions (Corporate Social Responsibility Department, Quality & Regulatory Compliance Unit) were established to monitor, lead and support the compliance of the Chugai Group as a whole, including overseas subsidiaries, creating a horizontal global compliance management framework.