

Corporate Governance

Chugai's Corporate Governance

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, we have structured a unique business model, with a management emphasis on innovation. 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. Director composition and monitoring mechanisms are also based on this mindset.

In addition, corporate governance is an integral part of management at Chugai. We believe that both raising the effectiveness of corporate governance and creating systems and mechanisms for increasing corporate value are important. In other words, we realize that 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.

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

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

Responding to the Corporate Governance Code

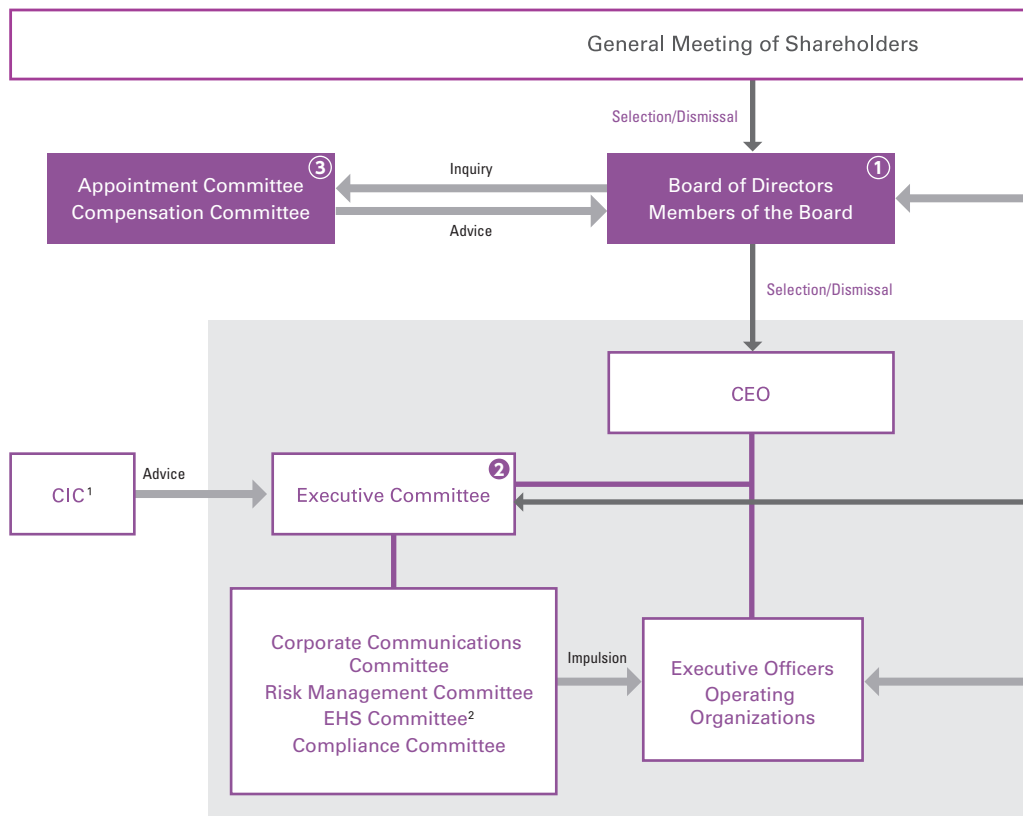
We have verified and reviewed the status of compliance with each principle of the Corporate Governance Code of the Tokyo Stock Exchange in accordance with the

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. In addition, the Corporate Communications Committee, Risk Management Committee, EHS Committee and Compliance Committee have been established under the Executive Committee.

③ Appointment Committee and Compensation Committee: As an advisory body to the Board of Directors, the Appointment Committee deliberates on the selection of director candidates and succession plans for or dismissal of 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.

Chugai's Corporate Governance System (As of April 1, 2019)



1. 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.

2. Environment, Health and Safety Committee. Promotes EHS activities for the Chugai Group.

revision of June 2018. Specifically, we clarified and announced policies for issues including the election and dismissal of executive directors, planning for and development of successors to the CEO and other top executives, verifying the suitability of holding and reducing cross-shareholdings, and the roles of corporate pension funds as asset owners. We also revised the Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy. In addition, our operating environment and strategy will continue to change quickly, so we plan to regularly verify these policies to support sustainable growth in the future.

The following two items are aligned with the concepts of the Corporate Governance

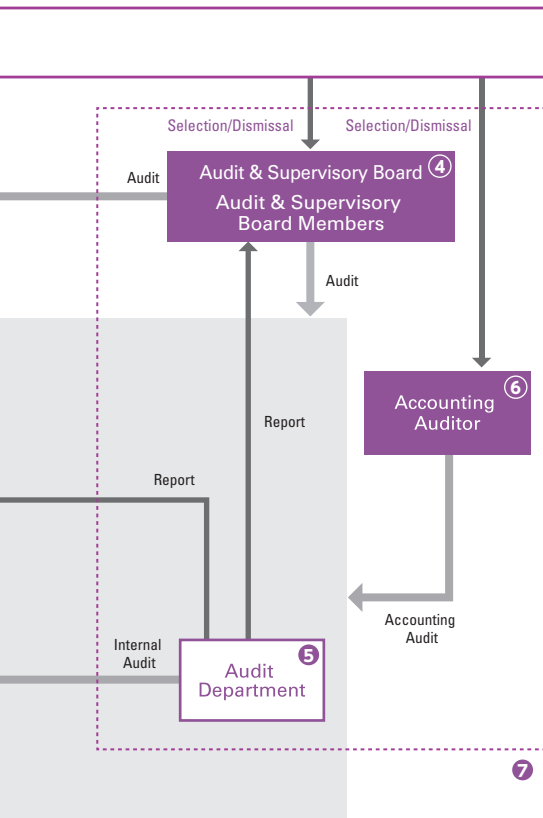
Code. However, they are not applied at present or in all cases due to differences in specific structures, roles and for other reasons.

Principle 4-1-3: Appropriate Oversight of a Succession Plan for the CEO and Other Top Executives

Chugai revised the Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy. The Appointment Committee now deliberates on the succession plan for the CEO and other executive directors. The Appointment Committee provides the Board of Directors with policy, summary and progress reports to enable the Board to supervise successor candidate development that is conducted systematically with sufficient time and resources.

Principle 4-10-1: Establishment of Independent Advisory Committees

Independent outside directors do not make up the majority of Chugai's Compensation Committee members. However, the committee comprises non-executive directors including one or more independent outside directors. Therefore, in consideration of the purpose of the Corporate Governance Code, Chugai believes that the current mechanism enables transparent and objective deliberation on compensation.



As an advisory body 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 nonexecutive directors including outside directors and persons with experience as non-executive directors.

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 five Audit & Supervisory Board members, including three 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.

PDCA Cycle to Enhance Governance (Items Revised in 2018)

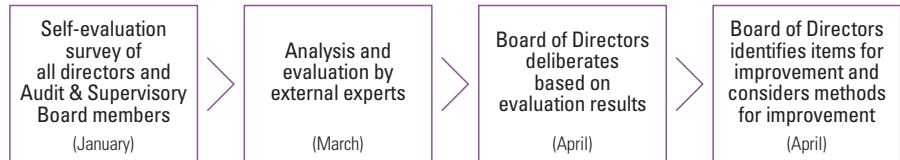
Based on the belief that constantly implementing the PDCA cycle to improve corporate governance is essential, Chugai emphasizes evaluation of the effectiveness of the Board of Directors and improvement activities based on evaluation results.

Chugai has been evaluating the effectiveness of the Board of Directors since 2015, and did so for the fourth time in 2018. We conduct a self-assessment survey in January every year for directors and Audit & Supervisory Board members who were in office during the applicable period, and discuss the results after receiving reports from the Secretariat for the Board of Directors. Based on the advice of external experts, the Secretariat for the Board of Directors prepares the survey, collects the directors' responses and reports the results to the Board of Directors after having them aggregated, analyzed and evaluated by the external experts. A large number of responses for each item of the self-evaluation survey indicate achievement, and the percentage of responses indicating achievement has increased, confirming the overall effectiveness of the Board of Directors.

An analysis of results in 2017 indicated items that needed improvement, including consultation prior to discussion and enhanced explanation of complex agenda items. In response, in 2018 we were assiduous about deadlines for the submission of materials by divisions responsible for agenda items. We also confirmed complex agenda items with relevant divisions including governance and legal matters, and set required responses including additional information and advance explanation.

In 2019, we plan further improvements to the mechanism for evaluating the effectiveness of the Board of Directors. Formerly, attorneys conducted third-party evaluation and analysis based on the self-evaluations. We will consider having third parties other than attorneys evaluate effectiveness to add weight to the third-party perspective and increase objectivity.

Process for Evaluating Effectiveness of Board of Directors



Status of Improvements Identified through Evaluation of the Effectiveness of the Board of Directors

	Main Items for Improvement	Main New Initiatives Implemented after Analysis and Evaluation
2016	<ul style="list-style-type: none"> Review structure of self-evaluation survey and answer options Assiduously provide materials for Board of Directors meetings at least four business days prior to the event Enhance content of reports provided to Board of Directors and make materials easily understood 	<ul style="list-style-type: none"> Began providing information on industry environment trends and other information to outside directors in a Chairman's Message at the beginning of the Board of Directors meetings Provided Board of Directors meeting schedule for the coming year at an early date Implemented factory tours
2017	<ul style="list-style-type: none"> Change the procedure for providing materials to outside officers Enhance topics for reports to the Board of Directors 	<ul style="list-style-type: none"> Held lectures (information on trends of general shareholders meetings) by external experts (attorneys)
2018	<ul style="list-style-type: none"> Conduct prior and additional explanations on agenda items with complex content such as governance and legal matters 	<ul style="list-style-type: none"> Issued the Chugai IR Activities Report to outside officers (every quarter) Provided a glossary of technical terms, abbreviations and the like to outside officers

Chugai's Corporate Governance in 2018

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 (of whom 3 are independent), 2 outside Audit & Supervisory Board members (of whom 2 are independent), and 3 other non-executive directors Appointment Committee and Compensation Committee as advisory bodies Chugai International Council (CIC) 	
Board of Directors	Composition	9 members (3 executive directors, 6 non-executive directors (of whom 3 are independent))
	Number of meetings in 2018	9
Executive Committee	Composition	12 members (2 directors, 10 executive officers (excluding directors))
	Number of meetings in 2018	35
Appointment Committee	Chairperson	Independent outside director
	Composition	4 members (1 director, 3 non-executive directors (of whom 2 are independent))
	Number of meetings in 2018	2
Compensation Committee	Chairperson	Non-executive director
	Composition	3 members (3 non-executive directors (of whom 1 is independent))
	Number of meetings in 2018	2
Audit & Supervisory Board	Composition	4 members (2 full-time Audit & Supervisory Board members and 2 outside Audit & Supervisory Board members including 2 who are independent)
	Number of meetings in 2018	11 (including 1 extraordinary meeting)
Internal committees	Established IR Committee, Risk Management Committee, Corporate Social Responsibility Committee and Compliance Committee	

The 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. The Chief Executive Officer (CEO) has ultimate responsibility for making decisions on Company-wide management strategies and important matters concerning business execution.

Composition of the Board of Directors

Chugai's Board of Directors comprises three types of directors: executive directors, independent outside directors, and non-executive directors. The balance of experience among directors of each type enables effective corporate governance that ensures management autonomy as an independent publicly listed company within the Roche Group, and helps to increase corporate value.

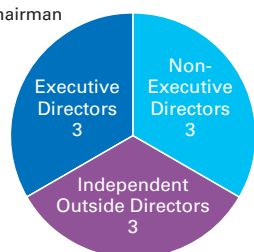
Roles are as follows. Executive directors are responsible for business execution and supervision, report on and explain business execution matters and hold discussions on management. They execute the strategies decided in Board of Directors meetings. Currently, three executive directors are representative directors. Independent outside directors are 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. Other non-executive directors are principally appointed from the management team of the Roche Group. They 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.

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 • Selection and dismissal of executive officers and advisors
Matters Concerning Stock	<ul style="list-style-type: none"> • 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

Composition of the Board of Directors

- Osamu Nagayama
Representative Director, Chairman
- Motoo Ueno
Representative Director, Deputy Chairman
- Tatsuro Kosaka
Representative Director, President & CEO
- Dr. Christoph Franz
Chairman of the Board of Directors of Roche Holding Ltd.
- William N. Anderson
CEO of Roche Pharmaceuticals
- Dr. James H. Sabry
Global Head of Roche Pharma Partnering



- Dr. Yasuo Ikeda
Outside 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
- Masayuki Oku
Outside Director
Outside Director of Komatsu Ltd.
Outside Director of Panasonic Corporation
Outside Corporate Auditor of Nankai Electric Railway Co., Ltd.
Non-Executive Director of The Bank of East Asia (China)
- Yoichiro Ichimaru
Outside Director
Senior Advisor of Aioi Nissay Dowa Insurance Co., Ltd.

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
- **Sonosuke Kadonaga (Japan)**
President, Intrinsic

Introduction of Outside Perspectives

To reflect diverse stakeholder viewpoints in business decisions, Chugai has actively taken measures to obtain outside perspectives, such as nominating outside directors and outside Audit & Supervisory Board members, enhancing support for outside officers, 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 current 10 council members, including the CIC Chair, one is a woman and one is Japanese.

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

Director Roles and Expertise in 2018

	Roles and Responsibilities	Name	Expertise	Board of Directors Meeting Attendance in 2018	Chugai Shares Owned
Executive Directors	Representative Director, Chairman	Osamu Nagayama	Corporate management Pharmaceuticals and healthcare	9 of 9	298,900 shares
	Representative Director, Deputy Chairman In charge of Corporate Social Responsibility Dept., Audit Dept.	Motoo Ueno	Corporate management Pharmaceuticals and healthcare	9 of 9	788,300 shares
	Representative Director, President & CEO	Tatsuro Kosaka	Corporate management Pharmaceuticals and healthcare	9 of 9	34,700 shares
Independent Outside Directors	Director	Dr. Yasuo Ikeda	Research Medical science and healthcare	9 of 9	0 shares
	Director	Masayuki Oku	Corporate management Global Group governance	9 of 9	0 shares
	Director	Yoichiro Ichimaru	Corporate management Global Group governance	9 of 9	0 shares
Non-Executive Directors	Director	Dr. Christoph Franz	Corporate management Global Group governance	8 of 9	0 shares
	Director	Daniel O'Day	Corporate management Pharmaceuticals and healthcare	9 of 9	0 shares
	Director	Dr. Sophie Kornowski-Bonnet	Corporate management Pharmaceuticals and healthcare	8 of 9	0 shares

required by outside directors and outside Audit & Supervisory Board members and takes advantage of opportunities to provide advance explanation.

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, Roche and investors who are potential shareholders. 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 March 28, 2019, 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 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.

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

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.

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).

At the 106th Annual General Meeting of Shareholders held on March 23, 2017, a resolution was passed to newly introduce

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

System for Remuneration of Directors and Audit & Supervisory Board Members

Type of Remuneration	Eligible Officers			Payment Criteria	Payment Method	
	Executive Directors	Non-executive Directors (including Outside Directors)	Audit & Supervisory Board Members			
Fixed Regular Compensation	Regular Compensation	●	●	●	Paid according to position and other factors	Monthly (Cash)
Performance-based Remuneration	Bonuses	●			Paid according to performance in each fiscal year	Yearly (Cash)
	Long-term Incentive (Stock-based Compensation)	Tenure-based Restricted Stock	●		Paid according to fixed length of service	Yearly (Common stock)
		Performance-based Restricted Stock	●		Paid according to performance over fixed period in addition to above	Yearly (Common stock)

Amount of Remuneration Paid to Directors and Audit & Supervisory Board Members (2018)

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)	533	261	123	57	72	21	—	5
Outside Directors	43	43	—	—	—	—	—	3
Total	576	427	129	21	—	—	—	8
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	63	63	—	—	—	—	—	2
Outside Audit & Supervisory Board Members	24	24	—	—	—	—	—	2
Total	87	87	—	—	—	—	—	4

1. The table above includes one director who retired during the fiscal year under review.

2. 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.

3. 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.

4. 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.

Accordingly, "number of eligible officers" includes one director who retired during the fiscal year under review and one director who retired during the previous fiscal year.

5. 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.
6. 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.
7. Apart from the ¥234 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, ¥136 million was paid to four directors (excluding non-executive directors and including outside directors) during the current fiscal year.

Amount of Remuneration Paid to Representative Directors (2018)

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	126	37	21	30	9	—	223
Motoo Ueno	58	26	14	17	4	—	118
Tatsuro Kosaka	68	60	19	24	4	—	174

1. Amounts are rounded to the nearest million yen.

2. Other than the representative directors in the table above, no director or Audit & Supervisory Board member received total remuneration of more than ¥100 million.

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 43-44 of the "Notice of Convocation of the 108th Annual General Meeting of Shareholders for the Business Term Ended December 31, 2018.")

Internal Control System and Risk 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. On April 22, 2015, the Company revised the Board of Directors' resolutions concerning the Internal Control System in response to the main revisions of the Partial Amendment to the Companies Act and the amended Ordinance for Enforcement of the Companies Act, namely "enhancement of systems for groups of enterprises," "enhancement of audit systems," and "obligation to disclose status of operations," which came into effect in 2015. Since this revision, the status of implementation of the Internal Control System is regularly reported at Board of Directors meetings, and 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 Division Risk Management Committees and a Risk Management Committee under the Executive Committee. 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 120 for details.)

Chugai and 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.)*

* <https://www.chugai-pharm.co.jp/english/csr/transparency/index.html>

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 CCC Hotline and internal and external Harassment Hotlines have been established to receive employee inquiries and reports concerning laws, Company rules, the Chugai Group Code of Conduct 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.