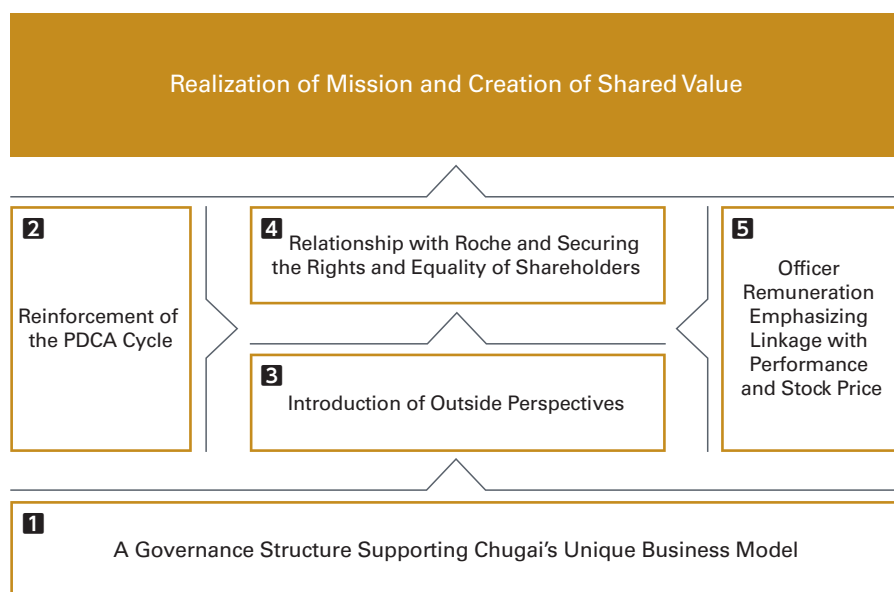


# Enhancement of Corporate Governance



## Chugai's Corporate Governance

Chugai's Mission is to dedicate itself to adding value by creating and delivering innovative products and services for the medical community and human health around the world. Under this Mission, Chugai aims to achieve the advanced and sustainable patient-centric healthcare set forth in its Envisioned Future through the creation of shared value with its various stakeholders.

To create shared value, Chugai considers it important to establish and evolve its unique system for corporate governance, which is an integral part of management.

Based on the above, Chugai has identified five priority issues for corporate governance.

① **Board of Directors:** Makes decisions on management issues of primary importance, receives quarterly reports on the state of business execution as well as reports on key decisions made at the Executive Committee, and conducts oversight.

- Chair: Executive Director
- Composition: 9 members (3 executive directors, 6 non-executive directors (including 3 independent outside directors))
- Convened: 9 times in 2019

② **Executive Committee:** Makes decisions on Company-wide management strategy and important matters concerning business execution. Corporate management committees (⑨) have also been established under the Executive Committee.

- Composition: 12 members (2 directors, 10 executive officers (excluding directors))
- Convened: 32 times in 2019

③ **Appointment Committee:** As an advisory body to the Board of Directors, deliberates on the selection of director candidates and succession plans for or dismissal of executive directors, including the CEO. Members from inside the Company are appointed by the Board of Directors from among the representative directors and persons with experience as representative directors. Members from outside the Company are appointed by the Board of Directors from among the non-executive directors and persons with experience as non-executive directors.

- Chair: Independent outside director
- Composition: 4 members (1 executive director, 3 non-executive directors (including 2 independent outside directors))
- Convened: 3 times in 2019

④ **Compensation Committee:** As an advisory body to the Board of Directors, deliberates on remuneration policy and the remuneration of individual directors. It consists solely of members from outside the Company, appointed by the Board of Directors from among the non-executive directors, including outside directors, and persons with experience as non-executive directors.

- Chair: Non-executive director
- Composition: 3 members (3 non-executive directors (including 1 independent outside director))
- Convened: 2 times in 2019

⑤ **Audit & Supervisory Board Member Audits:** Chugai is a company with an Audit & Supervisory Board. Chugai's Audit & Supervisory Board members conduct audits of management decision-making and business execution independently from business operations. 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.

- Composition: 5 members (2 full-time members, 3 outside members (all 3 of whom are independent Audit & Supervisory Board members))
- Convened: 11 times (including 1 extraordinary meeting) in 2019

⑥ **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.

⑦ **Accounting Audits:** KPMG AZSA LLC handles accounting audits and internal control audits.

⑧ **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 coordinate 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.

⑨ **Corporate Management Committees:** The Corporate Communications Committee makes decisions and oversees promotion of activities regarding information disclosure and dialogue with stakeholders; the Risk Management Committee oversees risk management and promotes activities to identify and measure major risks; the EHS Committee works to integrate management of environment and occupational health and safety issues by making decisions, formulating strategies and overseeing the activities of each department; and the Compliance Committee reinforces the PDCA cycle for compliance activities and monitors the status and implementation of countermeasures for particular items. Collectively referred to as the corporate management committees.

**1** A Governance Structure Supporting Chugai's Unique Business Model—a prerequisite for all that follows. It is essential for value creation. Chugai has a highly 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. Director composition and monitoring mechanisms are also based on this mindset. Furthermore, demonstrating the true value of this unique business model to generate innovation is a key requirement of management.

**2** Reinforcement of the PDCA Cycle—a core responsibility of management. Chugai

constantly implements the PDCA cycle to continuously examine and improve corporate governance in order to increase corporate value.

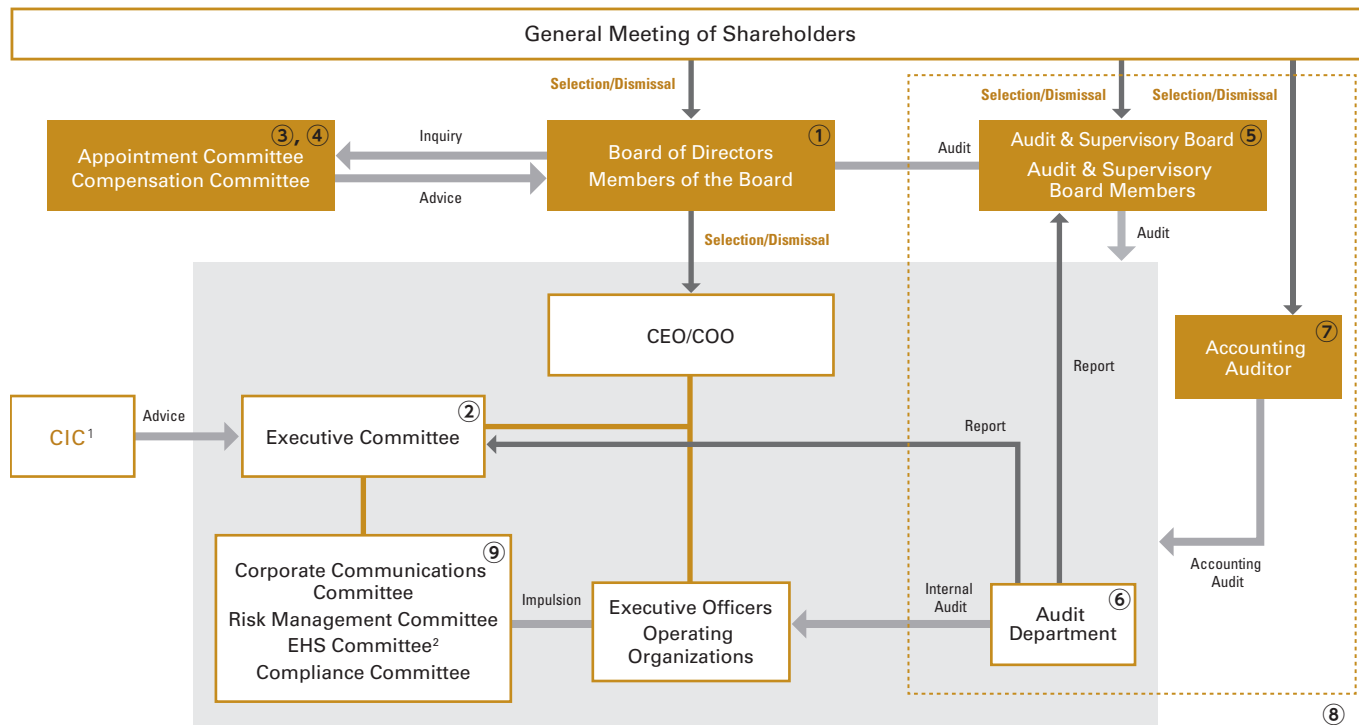
**3** Introduction of Outside Perspectives—important for ensuring a stakeholder viewpoint and objectivity in order to create shared value with stakeholders under this unique business model. **4** Relationship with Roche and Securing the Rights and Equality of Shareholders—a priority issue for properly ensuring the interests of minority shareholders as well as Roche, the majority shareholder. **5** Officer Remuneration Emphasizing Linkage with Performance and Stock Price—indispensable for improvement and evolution with regard to the first four issues. The following pages explain Chugai's corporate governance in terms of these priority issues.

Chugai continuously verifies and reviews the status of compliance with each principle of the Tokyo Stock Exchange's Corporate Governance Code in accordance with the revision of June 2018. The following item has not been implemented, the reason for which is also disclosed on the Company's website and elsewhere.

Principle 4-10-1: Establishment of independent advisory committees. Chugai's Compensation Committee consists solely of non-executive directors, including one or more independent outside directors. Therefore, Chugai believes that the current mechanism enables transparent and objective deliberation on compensation.

Corporate Governance  
<https://www.chugai-pharm.co.jp/english/profile/governance/>

**Chugai's Corporate Governance System** (As of April 1, 2020)



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.

## 1 A Governance Structure Supporting Chugai's Unique Business Model

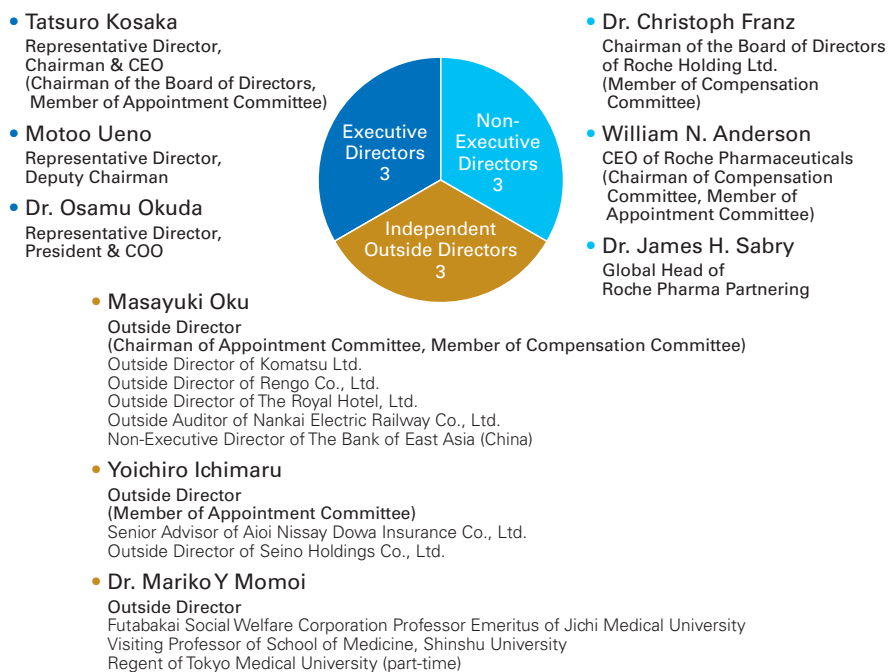
In order to promote Chugai's unique business model while ensuring its effectiveness, we separate management decision-making (Board of Directors) and business execution (Executive Committee and others), thereby expediting business execution and clarifying executive responsibility. The Chief Executive Officer (CEO) has ultimate responsibility for making decisions on Company-wide management strategies and the Chief Operating Officer (COO) has ultimate responsibility for making decisions on important matters concerning business execution.

### Composition of the Board of Directors

To demonstrate the true value of its unique business model, 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.

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,

### Composition of the Board of Directors in 2020



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 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.

### Results and Progress in 2019

In 2019, two non-executive directors retired and two new non-executive directors were appointed (William N. Anderson and Dr. James H. Sabry; both from the Roche Group). One full-time Audit & Supervisory Board member retired and a new full-time member was appointed, and one independent outside Audit & Supervisory Board member was newly appointed. Dr. Yuko Maeda, who was newly appointed as an independent outside Audit & Supervisory Board member, has extensive experience and knowledge in areas including utilization of intellectual property and industry-academia collaboration, and Chugai determined that she is qualified to be an Audit & Supervisory Board member for the promotion of Chugai's strategies going forward. As a result, she was appointed as Chugai's first female Audit & Supervisory Board member.

### Principal Matters Deliberated by the Board of Directors

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

At the General Meeting of Shareholders held on March 30, 2020, proposals were approved for the retirement and appointment of new members for one executive director, one independent outside director and one independent outside Audit & Supervisory Board member (Osamu Okuda, Mariko Y Momoi and

Kenichi Masuda were newly appointed). Mariko Y Momoi, who was newly appointed as director, has extensive experience and knowledge as a physician and university professor, as well as organizational management experience, including at universities and hospitals. Consequently, Chugai has determined that she is qualified

to appropriately provide advice and oversight on the Company's management. Kenichi Masuda is a registered attorney with extensive experience and knowledge as an expert in corporate law, and Chugai determined that he is qualified to appropriately perform his duties as an Outside Audit & Supervisory Board member.

## Message from Retiring Director Osamu Nagayama



**Osamu Nagayama**

Senior Advisor,  
Honorary Chairman  
Former Representative  
Director & Chairman

As I retire from the position of Representative Director, which I have held since 1989, I would like to express my sincere thanks to Chugai's shareholders, investors, and other stakeholders for their support.

With the conviction that enhancing new drug discovery capabilities and globalizing the Company are crucial to contributing to patients around the world, Chugai's management has been focusing on establishing a drug discovery technology platform that continuously generates innovation and strengthening its management platform to be able to withstand global competition. The highlight was the formation of the strategic alliance with Roche. Compared with 2002, when the alliance started, Chugai has achieved four-fold growth in revenues and eight-fold growth in operating income as of December 31, 2019, and contributed to healthcare through patient prescriptions for Chugai's drugs in more than 100 countries worldwide.

In 2012, Deputy Chairman Motoo Ueno, President Tatsuro Kosaka and I formed a three-person management structure. In 2018, Mr. Kosaka became President and CEO, and as of 2020 this troika consists of Mr. Kosaka in his new position as Chairman and CEO, Deputy Chairman Ueno, and newly appointed President and COO Dr. Osamu Okuda. During this time, Chugai has aggressively conducted initiatives to contribute to future growth, including enhancing its therapeutic antibody engineering technologies, reinforcing its drug discovery platform for the new modality of middle molecule drugs, and commencing construction of Chugai Life Science Park Yokohama. I believe that the succession plan we developed over several years, centered on discussions by the

Appointment Committee, has functioned effectively and that we have created a governance system for sustainable growth. In addition, since entering into the strategic alliance as a member of the Roche Group that is also listed on the Tokyo Stock Exchange, we have firmly established a stance that emphasizes fairness to all our shareholders by consistently giving full consideration to the interests of minority shareholders.

Nevertheless, the operating environment of the medical and pharmaceutical industry is severe, with the trend toward reductions in drug prices worldwide, intensifying global competition in drug creation and rapidly rising costs. With greater changes expected in this environment from the disruptive technologies of AI and the Internet of Things, we are entering an era where the common practices and conventions of old no longer apply. The very structure of the industry is also likely to change. Under these circumstances, we must continue to create shared value with society to contribute to its sustainable development in the course of our growth. Even amid uncertain conditions, I am sure that Chugai will continue to create value under a management system capable of speedy decision-making.

Actually, I believe Chugai is an innovative company that has been highly responsive to change, including its commitment to drug discovery of first-in-class products and its proactive efforts for industry-academia cooperation. Looking back over our history, we have made decisions that laid the foundation for the Chugai of today, including those made in times of difficulty, such as business structure reforms that achieved a shift to the prescription drug business, and our pioneering focus on biopharmaceuticals. The entire Company has worked together to take on unprecedented challenges that have included large-scale investment in therapeutic antibody drug discovery, ensuring the success of the strategic alliance with Roche and taking the initiative to build a new scheme for industry-academia cooperation with the Osaka University Immunology Frontier Research Center (IFReC) from the basic research stage.

Even in a rapidly changing operating environment, I expect Chugai to continue to contribute to patients and society as an innovation-driven healthcare industry leader.

I hope that you will continue to look forward to great things from Chugai.

In addition, we have examined and reviewed support for a series of external international initiatives. In February 2020, we announced our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Decisions on matters relating to climate change are overseen and deliberated by the EHS Committee, with final decisions made by the Executive Committee.

### Change in Representative Directors in 2020

At a meeting held after the close of the General Meeting of Shareholders on March 30, 2020, the Board of Directors approved a change in representative directors. Former President Tatsuro Kosaka

was appointed Representative Director and Chairman, retaining the concurrent position of CEO, and former Executive Vice President Osamu Okuda was appointed Representative Director, President and COO. Regarding the change, the Appointment Committee (chaired by an outside director) had been discussing a succession plan for a smooth generational change of the management team. Osamu Nagayama, who has led Chugai for many years, retired from the Board of Directors and was appointed Senior Advisor, Honorary Chairman under a newly established special advisory system.

Since Mr. Kosaka was appointed CEO in March 2018, Chugai has been building a system for cooperation to continuously generate innovation. At the same time,

the operating environment for healthcare has changed significantly, with stricter policies to contain healthcare costs in Japan and overseas, the emergence of new technologies in the life science and digital fields, and other factors, necessitating speedier decision-making in all aspects of management. As a result of this personnel change, the CEO will handle important issues related to Company-wide management strategies, and the COO will handle individual policy issues regarding the execution of business, thereby resulting in faster, more precise decision-making for the entire Company.

## 2 Reinforcement of the PDCA Cycle (Items Revised in 2019)

Based on the belief that constantly implementing the PDCA cycle to improve corporate governance is essential, Chugai has focused on evaluation of the effectiveness of the Board of Directors and improvement activities based on evaluation results since 2015.

As its process for evaluating effectiveness up to 2018, Chugai conducted a self-assessment survey in January every year for directors and Audit & Supervisory Board members who were in office during the applicable period, and discussed 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 prepared the survey, collected the

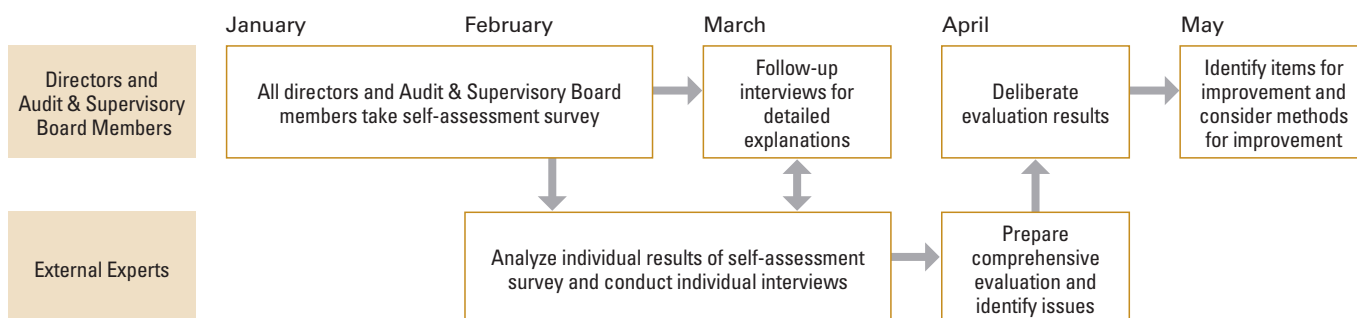
directors' responses and reported the results to the Board of Directors after having them aggregated and analyzed by the external experts.

### Results and Progress in 2019

Ensuring greater diversity of the Board of Directors and providing more information to outside directors and outside Audit & Supervisory Board members were identified as items for improvement from an analysis of 2018 results. In response, in 2019 we examined how to ensure diversity and endeavored to provide information in ways such as holding briefings on business in forums other than Board of Directors meetings, and holding Board of Directors meetings and site tours at business sites the Board had not previously visited.

Starting with the 2019 effectiveness evaluation, to further enhance outside perspectives and objectivity, we have changed from the former aggregation, evaluation and analysis by external experts based on self-assessment to the method shown below. Under this method, external experts act as third-party evaluators to analyze the grounds for self-assessment, the rationality of the logic leading to the results of self-assessments and other matters, then conduct individual interviews for a comprehensive evaluation, and report issues and effective countermeasures to the Board of Directors.

### Process for Evaluating the Effectiveness of the 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"> <li>Review structure of self-evaluation survey and answer options</li> <li>Assiduously provide materials for Board of Directors meetings at least four business days prior to the event</li> <li>Enhance content of reports provided to Board of Directors and make materials easily understood</li> </ul>	<ul style="list-style-type: none"> <li>Began providing information on industry environment trends and other information to outside directors in a CEO message at the beginning of the Board of Directors meetings</li> <li>Provided Board of Directors meeting schedule for the coming year at an early date</li> <li>Implemented factory tours</li> </ul>
2017	<ul style="list-style-type: none"> <li>Change the procedure for providing materials to outside officers</li> <li>Enhance topics for reports to the Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>Held lectures (information on trends of general shareholders meetings) by external experts (attorneys)</li> </ul>
2018	<ul style="list-style-type: none"> <li>Conduct prior and additional explanations on agenda items with complex content such as governance and legal matters</li> </ul>	<ul style="list-style-type: none"> <li>Issued the Chugai IR Activities Report to outside officers (every quarter)</li> <li>Provided a glossary of technical terms, abbreviations and the like to outside officers</li> </ul>
2019	<ul style="list-style-type: none"> <li>Ensure greater diversity of the Board of Directors</li> <li>Provide more information to outside directors and outside Audit &amp; Supervisory Board members</li> </ul>	<ul style="list-style-type: none"> <li>Deliberation by the Appointment Committee</li> <li>Convened a Board of Directors meeting and conducted a tour at the Fujieda Plant</li> <li>Held briefings on departmental operations</li> </ul>



#### Masayuki Oku

Independent Outside Director  
 Outside Director of Komatsu Ltd.  
 Outside Director of Rengo Co., Ltd.  
 Outside Director of The Royal Hotel, Ltd.  
 Outside Auditor of Nankai Electric Railway Co., Ltd.  
 Non-Executive Director of The Bank of East Asia (China)

## Enhancing the Effectiveness of Governance (Message from an Outside Director)

Chugai is a company with a “parent-child listing” arrangement (a publicly listed subsidiary of a publicly listed parent), with Roche owning about 60 percent of Chugai’s shares. The key points in this arrangement with Roche are how to protect the rights of minority shareholders and how to continue finding meaning in a relationship of this kind. The unique, win-win business model has worked effectively so far, but continuing to increase corporate value by developing the model in a rapidly changing environment will not be easy.

In governance, we must take these characteristics and challenges into account. We outside directors in particular must act as spokespersons for minority shareholders by supervising management while supporting and encouraging value creation by executive directors. Speaking in generalizations and requesting rationales for decisions are not enough. As outside directors, we must deploy our collective experience to prepare the way for value creation.

To establish Chugai’s unique style of governance, the Board of Directors focuses on enhancing its effectiveness. For example, my suggestions in effectiveness assessments have been adopted immediately, including starting off meetings with a CEO message in which information such as trends in the industry environment and strategic direction is shared with outside directors, and conducting factory tours to give outside directors a better sense of frontline operations. Information is shared early with directors, and board meetings have become forums for discussion and debate rather than simply reporting and voting. Also, successor development is being systematically carried out, as illustrated by the recent appointment of the new president.

One remaining issue to address is diversity. Promotion of women in the workplace is an area where Chugai clearly lags behind companies at the global level. In addition to appointing female outside directors and Audit & Supervisory Board members, it is important to increase the number of women in all executive positions. This may take time, but Chugai firmly believes diversity accelerates innovation, so I am confident that it will make greater efforts in this area.

### 3 Introduction of Outside Perspectives

To reflect diverse stakeholder viewpoints in business decisions, Chugai actively takes measures to obtain outside perspectives under the basic management policy of creating shared value. These measures include 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 from 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

Secretarial Department staff provide support for outside directors. Managers including the Head of the Corporate Planning Department provide, as needed, reports on major changes in the operating environment and advance explanation of particular items. 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

#### Chugai International Council 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

#### Director Roles and Expertise in 2020

	Roles and Responsibilities	Name	Committees	Expertise of Non-Executive and Independent Outside Directors					Board of Directors Meeting Attendance in 2019
				Corporate Management	International Operations	Organizational Management	Medicine	Pharmaceuticals	
Executive Directors	Representative Director, Chairman & CEO Chairman of the Board of Directors	Tatsuro Kosaka	Chairman of the Board of Directors Appointment Committee						9 of 9
	Representative Director, Deputy Chairman In charge of Sustainability Dept., Audit Dept.	Motoo Ueno	Board of Directors						9 of 9
	Representative Director, President & COO	Dr. Osamu Okuda	Board of Directors						—
Independent Outside Directors	Director	Masayuki Oku	Board of Directors Chairman of Appointment Committee Compensation Committee	●	●	●			9 of 9
	Director	Yoichiro Ichimaru	Board of Directors Appointment Committee	●	●	●			9 of 9
	Director	Mariko Momoi	Board of Directors			●	●		—
Non-Executive Directors	Director	Dr. Christoph Franz	Board of Directors Compensation Committee	●	●	●		●	9 of 9
	Director	William N. Anderson	Board of Directors Appointment Committee Chairman of Compensation Committee	●	●	●		●	7 of 7
	Director	Dr. James H. Sabry	Board of Directors	●	●	●		●	6 of 7

takes advantage of opportunities to provide advance explanation.

### Results and Progress in 2019

At its meeting in November 2019, the CIC's agenda included discussion of topics such as medium- to long-term global megatrends that merit close attention,

Chugai's business opportunities and risks, and changes in medicine resulting from advances in digital technology, as well as a review of mid-term business plan IBI 21.

In addition, Chugai adopted the creation of shared value as its basic management policy in 2019. Consequently, with the involvement of executive directors and key

executive officers, Chugai has been holding discussions on strengthening sustainable platforms with the Chugai Sustainability Advisory Committee, which consists of external experts, and on issues including corporate governance and support and design of scenarios for external international initiatives with external specialist consultants.

## 4 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.<sup>3</sup>

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 shareholders other than Roche, i.e., minority shareholders and



**Dr. Severin Schwan**

Roche Group CEO

### Chugai and Roche are well positioned in an intensely competitive environment to maximize value creation for the benefit of all stakeholders.

It is exciting to see the important medical advances we are bringing to millions of patients with difficult to treat diseases in Japan and globally through the strategic alliance between Chugai and Roche. We have a truly win-win partnership that successfully leverages our respective strengths. The relationship is anchored firmly in a mutually beneficial business model. Although Roche is the majority shareholder, Chugai maintains its Japanese culture and identity and is managed autonomously, yet closely coordinated with Roche. This approach fosters self-reliance and an entrepreneurial spirit at Chugai that drives innovation in research and drug discovery. Roche's global organization delivers Chugai's breakthrough medicines such as Actemra, Alecensa, and Hemlibra to patients around the world, whilst Chugai brings Roche's medicines to Japanese patients.

Today, disruptive technology, coupled with advances in life sciences, are altering the way we work and search for innovative solutions, and competition grows more intense every year. I am confident, however, that our focus on science and innovation, combined with the strengths of our strategic alliance will enable Chugai and the Roche Group to become faster and more agile in maximizing value creation for the benefit of patients globally and ultimately for all our stakeholders, including minority shareholders.

The appointment of Tatsuro Kosaka as Chairman & CEO and Osamu Okuda as President & COO places the transition to a new generation of strong leaders to further build on Chugai's outstanding record of achievements. Together we will continue to create and deliver breakthrough innovations that bring new hope to millions of patients worldwide.



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, and is working to gain their trust.

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.

### Results and Progress in 2019

Following the announcement that Chugai will place greater emphasis on dialogue with stakeholders under IBI 21, we held an ESG meeting for investors for the first time in 2019 and increased opportunities for dialogue involving directors and executive officers.

▶ See “Communication with Shareholders, Investors and Other Stakeholders” on page 68.

3. The Tokyo Stock Exchange requires delisting if the ratio of tradeable 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


## 5 Officer Remuneration That Emphasizes Linkage with Performance and Stock Price

Chugai has designed its remuneration plan for directors and Audit & Supervisory Board members to attract outstanding people and appropriately motivate them in order to continuously increase the Chugai Group’s corporate value.

As part of this plan, we target market-competitive levels of remuneration. Executive director remuneration is determined by benchmarking levels against a group of major Japanese corporations and other domestic pharmaceutical companies. Specifically, the Board of Directors decides remuneration levels annually after deliberation by the Compensation Committee based on the results of a survey by an external expert organization and other factors.

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, executive director remuneration consists of bonuses paid according to performance and other factors in each fiscal year as a short-term incentive and restricted stock compensation linked to medium- and long-term performance (tenure-based and performance-based) as a long-term incentive, in addition to fixed regular compensation. Remuneration of non-executive directors, including outside directors, and Audit & Supervisory Board members consists solely of fixed regular compensation. The guideline for the composition of CEO remuneration is 35 percent regular compensation, 30 percent bonuses and 35 percent restricted stock compensation, and the composition for other executive directors is determined in consideration of duties and other factors.

 [https://www.chugai-pharm.co.jp/english/ir/share/agm/files/200227eChugai\\_109thAGM\\_Convo.pdf#page=21](https://www.chugai-pharm.co.jp/english/ir/share/agm/files/200227eChugai_109thAGM_Convo.pdf#page=21)

Bonuses, which are a short-term incentive, are determined by multiplying the standard amount set for each position by an evaluation coefficient corresponding to the degree of achievement of Company and individual performance targets in the previous fiscal year. For restricted stock compensation granted as a long-term incentive, 50 percent is tenure-based restricted stock with a transfer restriction period of three to five years, and 50 percent is performance-based restricted stock. The number of shares to be granted is determined by dividing the standard amount set for each position by the closing price of the Company’s shares on the day before the resolution for their allotment by the Board of Directors. The transfer restriction shall be removed at the expiration of the transfer restriction period for the shares granted, provided that the recipient has held the position of director of the Company continuously during the transfer

### 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)
	Bonuses	●	—	—		
Performance-based Remuneration	Long-term Incentive (Stock-based Compensation)	●	—	—	Paid according to performance in each fiscal year	Yearly (Cash)
	Tenure-based Restricted Stock	●	—	—		
	Performance-based Restricted Stock	●	—	—	Paid according to fixed length of service	Yearly (Common stock)
					Paid according to performance over fixed period in addition to above	Yearly (Common stock)

restriction period. For performance-based restricted stock, the number of shares for which the transfer restriction shall be removed is additionally based on the result of a comparison between the total shareholder returns of domestic pharmaceutical companies and total shareholder returns of the Company.

Officer remuneration is determined by resolution of the Board of Directors for directors and following deliberation by the Audit & Supervisory Board members for Audit & Supervisory Board members, both within the total amounts approved at the General Meeting of Shareholders. The Compensation Committee, which consists of three or more external members appointed by the Board of Directors,

#### Criteria for Performance-Based Remuneration and the Method to Determine Its Amount

Type of Remuneration		Indicators and Evaluation Methods
Bonuses		<ul style="list-style-type: none"> <li>Comprehensive evaluation is based on degree of achievement of factors including Core operating profit, revenues, R&amp;D performance and Company-wide tasks in the previous fiscal year</li> <li>After deliberation by the Compensation Committee, the amount paid is determined by the Board of Directors within a range of 0% to 200% of the standard amount</li> </ul>
Restricted Stock Compensation	Tenure-Based	<ul style="list-style-type: none"> <li>Continuous service during the transfer restriction period</li> </ul>
	Performance-Based	<ul style="list-style-type: none"> <li>Determination of the number of shares for which transfer restrictions are to be removed is based on the result of a comparison between the total shareholder returns of domestic pharmaceutical companies and total shareholder returns of the Company, in addition to the condition of continuous service</li> <li>Evaluation period for total shareholder returns is three fiscal years</li> <li>Removal of transfer restrictions is within a range of 0% to 100% of allotted shares</li> </ul>

including at least one independent outside director, deliberates on remuneration of individual directors to ensure the

transparency and objectivity of the determination process.

#### Results in 2019: Amount of Remuneration Paid to Directors and Audit & Supervisory Board Members

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		
				Tenure-Based	Performance-Based	
Directors (Excluding Outside Directors)	552	254	136	86	76	3
Outside Directors	43	43	—	—	—	3
<b>Total</b>	<b>596</b>	<b>433</b>		<b>162</b>		<b>6</b>
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	63	63	—	—	—	3
Outside Audit & Supervisory Board Members	33	33	—	—	—	3
<b>Total</b>	<b>96</b>	<b>96</b>		<b>—</b>		<b>6</b>

- Amounts are rounded to the nearest million yen.
- The table above includes one Audit & Supervisory Board Member who retired during 2019, and two directors and one Audit & Supervisory Board member who retired at the conclusion of the Ordinary General Meeting of Shareholders on March 30, 2020.
- 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 under review as each respective restricted stock compensation.

- In addition to the above total remuneration, the following is provided as retirement benefits for directors from the time of inauguration to the termination of the retirement benefits system as follows.  
Retired director (internal): One person, ¥498 million

#### Results in 2019: Amount of Remuneration Paid to Representative Directors

Name	Total Consolidated Remuneration, etc. by Type (Millions of yen)				Consolidated Remuneration Total (Millions of yen)
	Regular Remuneration	Bonuses	Restricted Stock Compensation		
			Tenure-Based	Performance-Based	
Osamu Nagayama	126	37	17	31	211
Motoo Ueno	58	30	26	19	132
Tatsuro Kosaka	71	69	43	26	209

- 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.
- Osamu Nagayama retired at the conclusion of the Annual General Meeting of Shareholders on March 30, 2020, and has been paid ¥498 million as retirement benefits.

## Risk Management

Chugai views risk management as a priority issue pertaining to the Company's core operations and strives to promote the evolution of risk management on a day-to-

day basis. For its risk management system, 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 any problems that arise. We have also

established the Risk Management Committee, which is a corporate management committee chaired by a representative director, as well as division risk management committees in each division and at subsidiaries in Japan and overseas. The Risk Management Committee monitors and evaluates risk management at each division with a Company-wide perspective, identifies risks that may have a material impact on management as Group-wide risk issues, and submits progress reports on Company-wide

measures to the Executive Committee. Division risk management committees create and quantitatively evaluate risk maps that identify the risks in the respective divisions. To address priority risks, the division risk management committees draw up annual response plans for priority risks and submit quarterly reports on the progress of the plans to the Risk Management Committee.

▶ See “Business Risks” on page 124.

To effectively comprehend and analyze Group-wide risk information, Chugai developed an original risk management system and began implementing it globally in 2019. Using the database for centralized management, divisions can record their risk maps and annual risk response plans. This enables us to analyze risks for the Group as a whole, and monitor countermeasures at each division.

## 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.

Chugai strictly complies with laws, regulations and voluntary industry standards and proactively takes part in the compliance activities of various associations and organizations. Chugai has also established its own guidelines for transparency, helping 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.

In response to the external environment and the diversification of our business activities, we consolidated oversight functions for compliance promotion for the whole Chugai Group, including overseas subsidiaries, and established the Compliance Committee as a corporate management committee, thereby creating a compliance system linked more directly to management. At the same time, we established compliance oversight functions (Sustainability Department, Quality & Regulatory Compliance Unit) to monitor, lead and support compliance of the Chugai Group, including overseas subsidiaries. We conduct monitoring surveys every six months and improvement activities for all organizations, and enhance compliance education through training programs. In

addition, each division appoints a Compliance Manager and Compliance Officer who work to ensure thorough legal compliance in the workplace.

The internal and external consultation desks have been established to receive inquiries and reports from Chugai Group employees concerning laws, Company rules, the Chugai Group Code of Conduct and other related matters.

 Chugai's Transparency Guidelines  
\* <https://www.chugai-pharm.co.jp/english/sustainability/transparency/>

### Communication with Shareholders, Investors and Other Stakeholders

To receive fair valuation in capital markets, Chugai has a policy of conducting timely, appropriate and fair disclosure of information to shareholders and investors in accordance with laws and regulations. As one aspect of ensuring transparency, we provide easy access to the information we disclose by making it available in Japanese and English. To engage more proactively in discussions with our shareholders and investors, in 2019 we conducted briefings on ESG and R&D, topics of great interest to investors. We also give quarterly briefings on financial results and hold conference calls and investor meetings. We provide production site tours and briefings for individual shareholders and investors; senior management conducts visits to overseas institutional investors; and the CEO holds informal discussions with investors and analysts as an opportunity to speak directly in small groups.

Moreover, we emphasize proactive and straightforward communication of information in order to gain the support and trust of a wide range of stakeholders. Chugai takes an active approach to media relations through press releases, various types of information meetings and informal discussions with management. We also use our website and a variety of other tools to promote understanding among the general public of the broad range of activities through which our businesses contribute to healthcare, the environment, human rights, society, human resource development and other areas.

### Main Initiatives and Progress in 2019

- Media and IR information events: 25
- Meetings held with security analysts and institutional investors worldwide: 376 analysts and investors
- Briefings for individual investors and shareholders: 8
- Attendees at the General Meeting of Shareholders: 387
- Second Prize, Nikkei Annual Report Awards 2019
- Prize for Excellence in Integrated Reporting, 7th WICI Japan Award for Excellence in Integrated Reporting
- 3rd place, Pharmaceuticals Category, 2019 Awards for Excellence in Corporate Disclosure, The Securities Analysts Association of Japan
- 2nd place, Best IR Programs. (sell-side), The 2019 All-Japan Executive Team Rankings, *Institutional Investor magazine*
- Renewed Sustainability website

# Message from an Outside Audit & Supervisory Board Member



## Dr. Yuko Maeda

Outside Audit & Supervisory Board Member  
 Director, CellBank Corp.  
 Auditor (Part-time), Japan Agency for  
 Marine-Earth Science and Technology

### Auditing the Risks Involved in Improving Corporate Value over the Medium to Long Term

I was appointed as an independent outside Audit & Supervisory Board member in March 2019. I am very honored to take up this position at Chugai, an industry leader. Now that diversity in management teams is being emphasized, the fact that I am a woman was perhaps a major factor in my selection. However, in order to meet the expectations of shareholders, investors and other stakeholders, I must perform audits that contribute to raising Chugai's corporate value. As two other outside members with extensive skills and experience in law and accounting are charged with the responsibility of auditing those areas, as a person with a background in the field of technology I believe my duty is to leverage my own experience to help strengthen Chugai's corporate governance.

I have worked in research and new business startup roles at a manufacturing company, accumulated experience in supervising sustainability and conducted management as an executive officer. My other positions have included director of the technology transfer center at a national medical university, as well as establishing and operating a network for collaboration between industry and academia. At present, I serve as an Auditor (part-time) at the non-profit Japan Agency for Marine-Earth Science and Technology (JAMSTEC), a position equivalent to Audit & Supervisory Board member at a private-sector company.

I conduct audits with an awareness of the significance of the agency's existence for the citizens of Japan, who are its stakeholders.

In light of my experience in the fields of research and management, I view my role as, simply put, to audit the business risks involved in achieving sustainable improvement in corporate value. I will work to closely examine these risks and express my opinions to the executive members.

### Emphasis on Social Value, Human Resource Management and Drug Discovery

Specifically, my audits currently focus on three main points that are issues for Chugai.

The first is social value. At JAMSTEC, I conduct audits with a focus on the value of the agency's existence to society. As an industry leader, Chugai should also continue to create value for society while collaborating with other organizations and companies. Audits taking into account Chugai's responsibilities to patients, healthcare, society and other parties are essential.

The second is human resource management. Generating results at a higher level is not easy for a leading company that sets its own targets rather than following in others' footsteps, and to that end, its organizational culture and human resource strategy are extremely important. I am emphasizing audits from the standpoint of whether workplaces allow employees to take charge of their own growth, maintain good physical and mental health and have a sense of fulfillment.

The third is drug discovery. To maintain its win-win relationship with Roche, Chugai must continuously create innovative drugs. Applying my experience in research, I intend to closely examine the risks Chugai faces in generating ongoing innovation, including in areas such as resource allocation and speed sensitivity.

As an outside Audit & Supervisory Board member, I intend to proactively visit workplaces and concentrate on auditing that fully utilizes my technical background to help Chugai achieve sustainable improvement in corporate value.