



April 26, 2017

This document is an English translation of a statement originally written in Japanese. The Japanese original should be considered as the primary version.

Company name: Mitsubishi Tanabe Pharma Corporation  
Representative: Masayuki Mitsuka  
President and Representative Director  
Code number: 4508, First Section, Tokyo Stock Exchange  
Contact: Yoshifumi Mifune, General Manager  
TEL:+81-6-6205-5211

## Introduction of Performance-Linked Stock Compensation Plan for Board Directors

Mitsubishi Tanabe Pharma Corporation (the “**Company**”) resolved at its Board of Directors meeting held on April 26, 2017, that it will introduce a Performance-Linked Stock Compensation Plan for the Board Directors and Executive Officers (the “**Plan**”). This is a compensation plan to deliver the Company shares to the Board Directors and Executive Officers (excluding the Outside Directors, and the Directors and Officers who are non-residents of Japan; hereinafter referred to as “**Directors & Officers**”), according mainly to achievement of performance targets outlined in the Medium Term Management Plan (disclosed) after retiring from their offices.

The Company will submit a proposal of this Stock Compensation Plan for approval at the 10<sup>th</sup> Ordinary General Meeting of Shareholders to be held on June 21 (the “**10<sup>th</sup> Shareholders Meeting**”).

### 1. Introduction of the Stock Compensation Plan

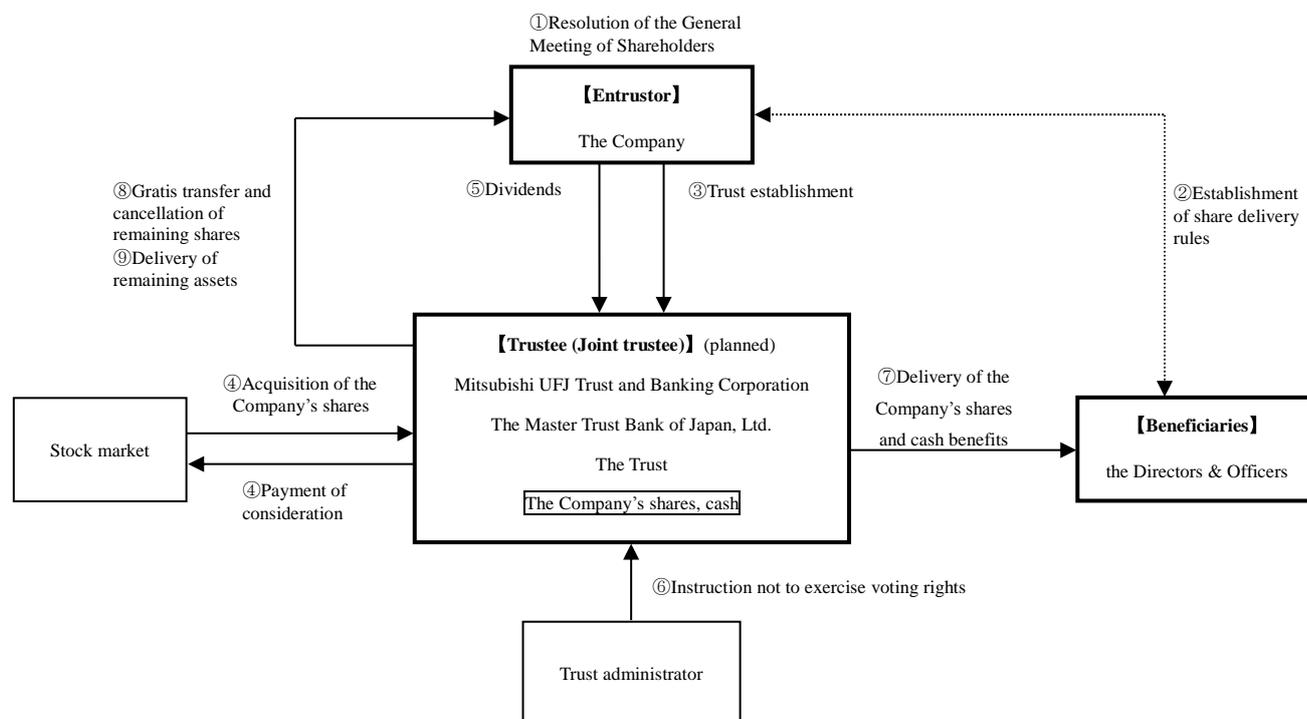
- (1) The Company will introduce the Plan for the Directors and Officers as a compensation plan closely linked to the corporate performance and having high transparency and objectivity, thereby aiming to boost motivation and morale of the Directors & Officers for sustainable growth of the Company Group and expansion of corporate value over the medium and long term. (See Note [1])
- (2) The introduction of the Plan is subject to approval at the 10<sup>th</sup> Shareholders Meeting.
- (3) The Company will adopt a framework called “Board Incentive Plan Trust” (the “**Trust**”). “Board Incentive Plan Trust” is a trust for stock compensation plan, like performance share and restricted stock plans in the U.S. and Europe, to make a delivery and payment (collectively “**Delivery**”) of the Company’s shares and cash equivalent to the amount obtained by converting a part of the shares into cash (collectively, the “**Stock Compensation**”) based on the position rank of each of Directors & Officers and degree of achievement for the Medium Term Management Plan. (See Note [2])
- (4) At the expiration of the trust period of the Trust, the Company plans to continue the Plan by setting a new Trust, or amending the trust agreement and entrusting additional funds to the Trust.

Note: [1] At the Company, the decision with respect to compensation for Directors and Officers is to be made at the Board of Directors Meeting through the deliberations of the Compensation Committee chaired by an Outside Director.

[2] If the Plan is approved and introduced as proposed, the compensation plan for the Directors & Officers will be comprised of “base compensation”, “bonuses” which are tied to short-term

performance, and “stock compensation” which is tied to medium- to long-term performance, with a greater degree of linkage with the Company’s performance and stock value. As reference information, the Outside Directors, who are not engaged in business execution, are compensated only with base compensation.

## 2. Structure of the Plan



- ① The Company will obtain an approval on Director’s compensations in relation to the introduction of the Plan at the 10<sup>th</sup> Shareholders Meeting.
- ② The Company will establish “share delivery rules” concerning Director’s compensations at the Board of Directors meeting, accompanied with introduction of the Plan.
- ③ The Company will entrust funds within the limit of compensation approved by the resolution at the 10<sup>th</sup> Shareholders Meeting referred to in Item ① above and establish a trust (the “Trust”) wherein the Directors & Officers that satisfy the beneficiary conditions are beneficiaries.
- ④ The Trust will acquire the Company’s shares from the stock market by using the funds entrusted under Item ③ above in accordance with the instructions of the trust administrator. The number of shares acquired by the Trust will be within the limit approved at the 10<sup>th</sup> Shareholders Meeting referred to in Item ① above.
- ⑤ The Company will pay dividends for the Company’s shares in the Trust in the same manner as other Company shares.
- ⑥ Voting rights of the Company’s shares in the Trust will not be exercised throughout the trust period.
- ⑦ Depending on the position rank of the Directors and Officers and levels of achievement of performance targets in the medium-term management plan, the number of points to be granted to

the Directors & Officers is determined every year. Points are accumulated during the trust period. To the Directors & Officers who satisfy certain predetermined beneficiary conditions, Delivery of the Stock Compensation will be made corresponding to the number of accumulated points of said the Directors & Officers at the time of retirement.

- ⑧ If there are remaining shares at the expiry of the trust period due to non-achievement of performance targets or any other reason, the Trust may continue to be used by modifying the trust agreement and making additional contributions to the Trust, or the Trust may transfer the said remaining shares to the Company without consideration and the Company may cancel such shares by a resolution of the Board of Directors.
- ⑨ Remaining assets after distribution to the Directors & Officers at the time of termination of the Trust will belong to the Company within the scope of reserve for trust expenses, which are obtained by deducting share acquisition funds from the trust funds. The portion exceeding the reserve for trust expenses will be donated to groups that have no vested interest with the Company or its Directors & Officers.

Note: [1] In the event that the Company's shares within the Trust become depleted as a result of the Delivery of the Stock Compensation to the Directors & Officers who satisfy the beneficiary conditions, the Trust may be terminated prior to the expiration of prescheduled trust period.

[2] The Company may make additional contributions to the Trust, as a fund to acquire the Company's shares subject to the Delivery to the Directors & Officers, within the limit of compensation approved by the resolution of the 10<sup>th</sup> Shareholders Meeting.

### **3. Contents of the Plan**

#### **(1) Outline of the Plan**

The Plan is a performance-linked stock compensation plan in which the Stock Compensation will be delivered to the Directors and Officers, depending on their position ranks and levels of achievement of performance targets in the Medium-Term Management Plan. The Plan will be applicable for a period of five (5) consecutive fiscal years (the "Eligible Period") that corresponds to the period of the Medium-Term Management Plan of the Company; provided, however, that the initial Eligible Period for the Plan starting from the current fiscal year will be for a period of four (4) fiscal years from the fiscal year ending March 31, 2018 to the fiscal year ending March 31, 2021, which corresponds to the remaining period of the ongoing Medium-Term Management Plan.

In the event that any period of the Trust is extended by amending the trust agreement and making additional contributions to the Trust (See Item (4) b) below), the Eligible Period will be successive five fiscal years corresponding to the then applicable Medium Term Management Plan.

#### **(2) Resolution by Shareholders Meeting on introducing the Plan**

The upper limit of the funds contributed to the Trust, total number of shares to be delivered to the Directors and Officers and other necessary conditions will be decided at the 10<sup>th</sup> Shareholders Meeting. In the case of extending the trust period by amending the trust agreement and making additional contributions to the Trust (See Item (4) below), the Board of Directors Meeting will decide conditions for the extended Trust within the limit of compensation approved at the 10<sup>th</sup> Shareholders Meeting.

#### **(3) Eligibility under the Plan (beneficiary conditions)**

The Directors & Officers who are confirmed to satisfy the beneficiary conditions\* by applicable procedures will, at the time of their retirement, receive the Company's shares for 70% of the Number of Cumulative Points (as defined in Item (5) below) (shares of less than one trading unit will be rounded up), and cash equivalent to the amount obtained by converting the remaining number of the Company's shares into cash within the Trust.

\* Beneficiary conditions

- a) Incumbent as a Director or Officer during the Eligible Period at or after the start of the Plan (includes persons who are newly appointed the Directors & Officers at or after the start of the Plan)
- b) Is retired from the position of a Director or Officer of the Company (See Note [1] and [2])
- c) Has not conducted certain illegal activities during time in his/her office
- d) The Number of Cumulative Points for him/her has been determined
- e) Other conditions requisite to achieve the intents of the performance-linked stock compensation plan (See Note [3])

Note: [1] A Director and/or Officer who resigned voluntarily for his/her personal reason or were dismissed due to a justifiable reason of dismissal will be excluded from the eligible Directors & Officers.

[2] If the Trust is extended in accordance with Item (4) c) and such extended trust period expires, then the Trust terminates at the time of expiration, and the Directors and Officers who are still in service at the time of termination will receive the Stock Compensation even though he or she does not retire.

[3] In the event that a Director or Officer, who satisfied beneficiary conditions, passes away during the trust period, his or her successor will receive the cash equivalent of the Company's shares that correspond to the Number of Cumulative Points after being converted from the Company's shares into cash within the Trust. In the event that a Director or Officer, who satisfies beneficiary conditions, is posted overseas and becomes a non-resident of Japan during the trust period, he/she will receive the cash equivalent of the Company's shares that correspond to the Number of Cumulative Points after being converted from the Company's shares into cash within the Trust.

#### (4) Trust Period

a) **Initial trust period:**

The initial trust period will be approximately four (4) years from August 2017 (planned) to August 2021 (planned).

b) **Continuation of the Trust:**

At the expiration of the trust period of the Trust, the Trust may continue, modifying the trust agreement and making additional contributions to the Trust. In such a case, the trust period of the Trust will be extended for additional five (5) years. For each extended trust period, the Company will make additional contributions within the limit of compensation approved at the 10<sup>th</sup> Shareholders Meeting, and continue to grant points to the Directors & Officers in accordance with the levels of achievement of performance targets under the Medium-Term Management Plan or other similar management plans of the Company applicable for the extended trust period. If the Company's shares (excluding the Company's shares corresponding to the points granted to the Directors & Officers that are not delivered) and/or cash (collectively, the "**Remaining Stock Compensation**") remain in the trust assets as of the final day of the trust period prior to extension, additional contributions will be made so that the total amount of the Remaining Stock

Compensation and the additional contributions will not exceed the limit of compensation approved by the 10<sup>th</sup> Shareholders Meeting. The extension will not be limited to once but may be repeated.

c) **Extension of trust period not accompanied by additional contributions:**

If the trust agreement should not be modified and additional contributions to the Trust should not be made at any expiration of the trust period, the Trust terminates and any point will not be granted to the Directors & Officers thereafter; provided, however, that if a Director or Officer, who may satisfy beneficiary conditions, is still in service at the time of expiration, the trust period of the Trust may be extended for some period of time.

**(5) The Stock Compensation subject to the Delivery to Directors & Officers**

On July 1st immediately following the end of each fiscal year during the trust period (the first fiscal year will end on March 31, 2018), the Company will grant points to the Directors & Officers who are in service at the end of such fiscal year (including a Director or Officers who has retired at the end of the fiscal year due to expiration of term of his/her office). The number of points to be granted to the Directors & Officers will be determined according to the position rank of each of the Directors & Officers and levels of achievement of performance targets. (See Note [1]) Delivery of the Stock Compensation will be made corresponding to the cumulative granted points (the “**Number of Cumulative Points**”) of said the Directors & Officers at the time of retirement (if a Director or Officer passes away, after his/her death).

One (1) point is equivalent to one (1) share of the Company. In the event that the number of the Company’s shares increases or decreases due to a share split, gratis share allotment, reverse share split or the like regarding shares during the trust period, the number of the Company’s shares (including those subject to conversion into cash) delivered per point will be adjusted according to the ratio of the increase or decrease.

Note: [1] For the Initial Eligible Period, consolidated revenue and net profit attributable to owners of the Company will be used as indicators to evaluate the levels of achievement of performance targets, and each indicator fluctuates from 0% to 200% depending on the levels of achievement of performance targets.

**(6) Upper limit of funds contributed to the Trust and upper limit of the number of the Stock Compensation** (including a part of such shares to be converted into cash)

Upper limit of funds contributed by the Company to the Trust and upper limit of the number of points granted to the Directors & Officers in the Trust will be, subject to approval by resolution of the 10<sup>th</sup> Shareholders Meeting, as shown the chart below; provided that upper limit of funds initially contributed to the Trust during the trust period will be ¥720 million. (See Note [1] and [2])

Note: [1] In the case of continuing the Trust in accordance with Item (4) B above, upper limit of funds will be ¥900 million

[2] Upper limit of funds for the Trust is calculated from the amount of money to acquire Company shares and fees and expenses to maintain the Trust, taking into account compensation level of Directors & Officers.

The maximum number of points granted to the Directors & Officers for each fiscal year will be 160,000 points. (See Note [3] and [4])

Note:[3] The maximum number of points to be granted to the Directors & Officers was established with mainly reference to the current stock prices of the Company’s shares, in consideration of the maximum amount of entrusted funds mentioned above.

[4] The maximum number of the Stock Compensation to be delivered from the Trust will be 640,000 shares which corresponds to a number of the upper limits of the total points granted to Directors & Officers for one fiscal year multiplied by four (4), i.e. years of the initial trust period. Where the Trust continues in accordance with Item (4) B above, the number of shares to be acquired during the extended trust period will not exceed 800,000 shares which are a number of the upper limits of the total points granted to Directors & Officers for one fiscal year multiplied by five (5), i.e. years of extended trust period.

Upper limit of funds contributed to the Trust	Initial:	¥720million (per four (4) years)
	Extended:	¥900 million (per five (5) years)
Upper limit of the total number of points to be granted to Directors & Officers	160,000 points (per fiscal year)	
Upper limit of the Stock Compensation to be delivered from the Trust	Initial:	640,000 shares (per four (4) years)
	Extended:	800,000 shares (per five (5) years)

**(7) Methods of acquisition of the Company’s shares by the Trust**

The Company’s shares acquired by the Trust are initially to be acquired from the stock market, within the respective upper limits of funds contributed to the Trust and the Stock Compensation.

**(8) Method and timing of Delivery of the Stock Compensation, to Directors & Officers**

The Directors & Officers who satisfy beneficiary conditions stated in Item (3) above need to take necessary procedures to formally confirm his/her status as beneficiaries, and thereafter receive the Company’s shares for 70% of the Number of Cumulative Points (shares of less than one trading unit will be rounded up), and cash equivalent to the amount obtained by converting the remaining number of the Company's shares into cash within the Trust. Please refer to “Note [3] of (3)” above to see conditions for a Director or Officer who satisfied beneficiary conditions, but passed away during the trust period or becomes a non-resident in Japan.

**(9) Voting rights for the Company’s shares within the Trust**

Voting rights in the Company’s shares within the Trust will not be exercised during the trust period, in order to ensure objectivity in management of the Company.

**(10) Dividends of the Company’s shares in the Trust**

Dividends paid on the Company’s shares in the Trust will be received by the Trust and appropriated for purposes of trust fees and trust expenses.

**(11) Residual shares and dividends upon the expiry of the trust period**

If there are remaining shares at the expiry of the trust period due to non-achievement of performance targets or any other reason (in the case of extension of the Trust as per Item (4) b) above, the expiry of the trust period thus extended), the Trust may transfer the said remaining shares to the Company without consideration, and the Company may cancel such shares as a measure on shareholder returns by a resolution of the Board of Directors.

In the event that the Trust is extended after the expiry of a trust period, the residual dividends from the Company’s shares in the Trust remaining at the time of expiry will be used as funds for purchasing Company’s shares. The Company intends that if the Trust terminates concurrently with expiry of the trust period, the Company will donate the residual dividends in excess of the reserve for trust expenses to the third parties having no vested interest with the Company or its Directors & Officers.

(Reference)

**【Details of the trust contract】**

- |       |                                 |   |
|-------|---------------------------------|---|
| i.    | Type of trust                   | Trust of money other than a specified individually operated monetary trust (third party beneficiary trust)  |
| ii.   | Purpose of trust                | Granting of incentives to Directors & Officers  |
| iii.  | Settlor                         | The Company   |
| iv.   | Trustee                         | Mitsubishi UFJ Trust and Banking Corporation (planned)<br>(Co-trustee: The Master Trust Bank of Japan, Ltd.)(planned)   |
| v.    | Beneficiary                     | Directors & Officers who have retired from office and who fulfill beneficiary requirements  |
| vi.   | Trust caretaker                 | A third party having no vested interest with the Company ( certified public accountant)   |
| vii.  | Trust contract date             | August 3, 2017 (planned)  |
| viii. | Trust period                    | August 3, 2017 (planned) to the end of August, 2021 (planned)   |
| ix.   | Starting date of plan           | August 3, 2017 (planned)<br>(Granting of points to start from June 2018 (planned))  |
| x.    | Exercise of voting rights       | Not to be exercised   |
| xi.   | Class of shares to be acquired  | Common shares of the Company  |
| xii.  | Upper limit of trust money      | ¥720 million (planned) (including trust fees and expenses)  |
| xiii. | Period of acquiring shares      | August 8, 2017(planned) to September 22, 2017 (planned)   |
| xiv.  | Method of acquisition of shares | To be acquired from the stock market  |
| xv.   | Rights holder                   | The Company   |
| xvi.  | Residual assets                 | Residual assets that may belong to the Company as the rights holder will be within the scope of reserve for trust expenses, after deduction of funds for purchasing shares from the trust fund. |

**【Details of administrative tasks related to trust and shares】**

- |     |  |  |
|-----|--|--|
| i.  | Administrative tasks related to trust  | Mitsubishi UFJ Trust and Banking Corporation is to become a trustee of the Trust and to handle administrative tasks related to the Trust.  |
| ii. | Administrative tasks related to shares | Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. is to handle administrative tasks for the delivery of shares of the Company to beneficiaries, in accordance with a service agreement. |

End