

Directors' Compensation Policy

1. Guiding Principles

The Company's compensation system for Directors has the following guiding principles under the corporate governance code to achieve management objectives:

- To attract, retain and motivate managerial talent to realize our Vision
- To increase corporate value through optimizing the Company's mid- and long-term performance, while reinforcing our patient first values
- To be closely linked with company performance, highly transparent and objective
- To support a shared sense of profit with shareholders and improve the managerial mindset focusing on shareholders
- To encourage Directors to challenge and persevere, and to be aligned with the values of Takeda-ism
- To establish transparent and appropriate governance of directors' compensation to establish the credibility and support of our stakeholders

2. Level of Compensation

We aim to be competitive in the global marketplace to attract and retain talent who will continue to transform Takeda into a Global, Values-based, R&D-driven Biopharmaceutical Leader. Directors' compensation should be competitive in the global market consisting of major global companies. Specifically, the global market refers to a "global executive compensation database" developed on the basis of professional survey data with the addition of data on compensation levels at other major global pharmaceutical companies with which we need to be competitive, and data on compensation levels at major companies in the U.S., U.K., and Switzerland.

3. Compensation Mix

3-1. Directors who are not Audit & Supervisory Committee Members (excluding External Directors)

The compensation of Directors who are not Audit & Supervisory Committee Members (excluding External Directors) consists of "Basic Compensation", which is paid at a fixed amount and "Performance-based Compensation", which is paid as a variable amount based on company performance, etc.

"Performance-based Compensation" further consists of a "Bonus (short-term incentive compensation)" to be paid based on the consolidated financial results, etc. for each fiscal year, and a "Long-term Incentive Plan (stock compensation)" linked with long-term company performance results over a 3-year period and with Takeda's share price.

The ratio of Long-term Incentives in FY2019 and going forward increased from prior years (as of fiscal 2018) to better align with the incentives of Takeda's Directors with Takeda's shareholders. Moreover, it matches with the peer group and primary industry level. Both Bonus and Long-term incentives as a ratio of Total Direct Compensation is higher putting the directors pay at risk in alignment with the company's performance. The targets range from 100%-250% of Basic Compensation for "Bonus" and range from 200% to 600% of Basic Compensation for "Long-term Incentive", reflecting the common practice of global companies.

■ Standard Compensation Mix Model for Directors who are not Audit & Supervisory Committee Members (excluding External Directors)

Basic Compensation	Bonus	Long-term Incentive Plan (stock compensation)
Fixed	100%-250% of Basic Compensation*	200% to 600% or more of Basic Compensation*
	Performance-based Compensation	

*Ratio of Bonus and Long-term Incentives to Basic Compensation is determined according to Director's role.

3-2. External Directors who are not Audit & Supervisory Committee Members

The compensation of External Directors who are not Audit & Supervisory Committee Members consists of Basic Compensation, which is paid as a fixed amount, and Long-term Incentive (stock compensation). The stock compensation is linked only to share price and not to company performance results. Newly awarded stock compensation in 2019 and going forward will vest and be paid three years after the award date of base points used for the calculation and Directors will be required to hold 75% of their vested share portion until they leave the Company (however, awarded stock compensation in or before 2018 will vest and be paid after they leave the Company).

Bonus is not available for this category of Director. Committee retainers are paid with Basic Compensation for the chair of board meeting, chairperson of the compensation committee, and chairperson of Nomination Committee.

The current compensation mix is "Basic Compensation" and "Long-term Incentive", which is a maximum of 100% of the Basic Compensation.

■ Standard Compensation Mix Model for External Directors who are not Audit & Supervisory Committee Members

Basic Compensation additionally committee fee paid for chairs	Long-term Incentive Plan (stock compensation) Maximum of 100% of the Basic Compensation
Fixed	

3-3. Directors who are Audit & Supervisory Committee Members

The compensation of Directors who are Audit & Supervisory Committee Members consists of Basic Compensation, which is paid as a fixed amount, and Long-term Incentive (stock compensation). The stock compensation is linked only to share price and not to company performance results. Newly awarded stock compensation in 2019 and going forward will vest and be paid three years after the award date of base points used for the calculation and Directors will be required to hold 75% of their vested share portion until they leave the Company (however, awarded stock compensation in or before 2018 will vest and be paid after they leave the Company).

Bonus is not available for this category of Director. Committee retainer is paid with Basic Compensation for External directors who are Audit & Supervisory Committee Members.

The current compensation mix is "Basic Compensation" and "Long-term Incentive", which is a maximum of 100% of the Basic Compensation.

■ Standard Compensation Mix Model for Directors who are Audit & Supervisory Committee Members

Basic Compensation additionally committee fee paid for members	Long-term Incentive Plan (stock compensation) Maximum of 100% of the Basic Compensation
Fixed	

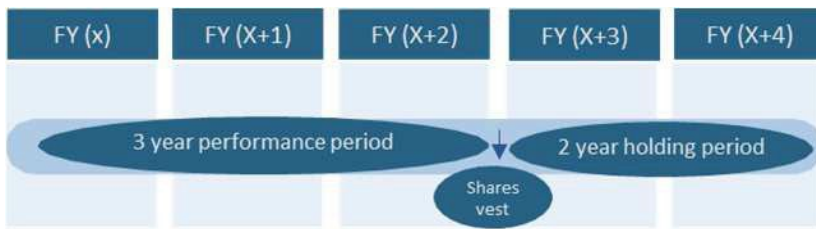
4. Performance-based Compensation

4-1. Directors who are not Audit & Supervisory Committee Members (excluding External Directors)

For Directors who are not Audit & Supervisory Committee Members (excluding External Directors), the Company has introduced a Long-term Incentive Plan that is allocated as 60% for the plan designed based on Performance Share Units (Performance Share Unit awards) and 40% for the plan designed based on Restricted Stock Units (Restricted Stock Unit awards) to strengthen the link between compensation and company performance and share price, and to reinforce the commitment to increasing corporate value in the mid and long term.

Performance Share Unit awards, which fall under Performance-based Compensation, will be linked with the latest mid-to long-term performance objectives over a three-year period such as but not limited to consolidated revenue, operating free cash flow, indicators on profit, R&D targets and integration success factors, etc., as transparent and objective key performance indicators (KPI). The variable range of payout rate for Performance Share Unit awards is from 0% to 200% (100% at target), based on performance achievement. For newly awarded Long-term Incentive awards in 2019 and going forward, a two year holding period will be mandated, and this includes Performance Share Unit awards if and when shares become vested.

■ Annual Performance Share Unit Awards Image



In addition to regular stock compensation, the company may, from time to time, award one-time special Performance Share Unit awards which are directly linked to point-in-time corporate initiatives and which are aligned with shareholder expectations. Performance against established KPIs for one-time special Performance Share Unit awards are determined independently each year over a three-year period, with shares becoming vested after performance has been determined for the applicable period. There is no post-vesting holding period established for special Performance Share Unit awards.

■ Special Performance Share Unit Awards (stock compensation) Image



■ Annual Bonus

Bonuses will be paid based on performance achievement of annual goals. Bonuses will be paid in the range of 0% to 200% (100% at target) in accordance with the achievement of performance indicators such as consolidated Revenue, 14 Global Brands + New Product Incremental Revenue and Core Operating Profit, etc., established for a single fiscal year. For President and CEO, the annual bonus is weighted as 100% to the Corporate KPI.

For other Directors that have divisional responsibilities, 75% of their annual bonus opportunity is linked to the Corporate KPI to drive their commitment to group-wide goals.

4-2. Directors who are Audit & Supervisory Committee Members and External Directors

The Long-term Incentive Plan (stock compensation) for Directors who are Audit & Supervisory Committee Members and External Directors is Restricted Stock Unit awards linked only to share price and not linked to company performance results. Newly awarded stock compensation in 2019 and going forward will vest three years after the award date of base points used for the calculation and Directors will be required to hold 75% of their vested share portion until they leave the Company (however, awarded stock compensation in or before 2018 will vest and be paid after they leave the Company). Bonuses are not available for these categories of Director.

■ Whole Picture of Directors' Compensation

		Directors who are not Audit and Supervisory Committee Members		Directors who are Audit and Supervisory Committee Members	
		Internal Directors	External Directors	Internal Directors	External Directors
Basic Compensation		●	●	●	●
Bonus		● ²			
Long-term Incentive Plan (stock compensation)	Performance based ¹	● ^{3,4}			
	Not linked to performance results	● ⁴	● ⁵	● ⁵	● ⁵

¹ Includes Special Performance Share Unit awards

² Varies from 0% to 200%, depending upon the degree of achievement, etc. of the performance indicators such as consolidated Revenue, 14 Global Brands + New Product Incremental Revenue and Core Operating Profit, etc., established for a single fiscal year

³ Varies from 0% to 200%, depending upon the degree of achievement, etc. in relation to consolidated revenue, free cash flow, indicators on profit, R&D targets, integration success factors, etc. over 3 years

⁴ During term of office

⁵ Vest and paid three years after the base points used for the calculation are granted

5. Compensation Governance

5-1. Compensation Committee

The Compensation Committee has been established with all the Committee members being External Directors, to serve as an advisory organization for the Board of Directors to ensure the appropriateness of Directors' compensation, etc. and the transparency in its decision-making process.

The level of compensation, compensation mix and performance-based compensation (Long-term Incentives and Bonus programs) for Directors are reviewed by the Compensation Committee before resolution by the Board of Directors. The company delegated to the Compensation Committee, by resolution of the Board of Directors, the authority to directly make decisions on Directors who are not Audit & Supervisory Committee Members (excluding External Directors) individual compensations in order to realize the transparency in the process. In order to enhance transparency of the Company's corporate governance, the Company externally disclosed the Compensation Committee Charter as a part of the Company's corporate governance documents on November 1, 2021.

The guiding principles for Director Compensation will be revised to develop compensation programs based on Directors' accountabilities and responsibilities, as well as to develop compensation programs that create shareholder value in alignment with Takeda-ism.

5-2. Recoupment Policy

The Compensation Committee and Board adopted a clawback policy in 2020 which provides that in the event of a significant restatement of financial results or/and significant misconduct, the independent external Directors may require Takeda to recoup incentive compensation. This would include all or a portion of the compensation received by any Internal Director on Takeda's Board of Directors, and any other individual designated by the independent external Directors within the fiscal year, and the three (3) prior fiscal years, where the need for a significant restatement of financial results or significant misconduct was discovered. The policy became effective on April 1, 2020 and applies to Bonuses (short-term incentive compensation) beginning in the Fiscal Year 2020 performance year and long-term incentives granted in Fiscal Year 2020, and continues to apply for all subsequent periods.