



Strengthening Corporate Governance and Internal Controls

The Mitsubishi Tanabe Pharma corporate philosophy is “to contribute to the healthier lives of people around the world through the creation of pharmaceuticals,” and our vision is “to be a global research-driven pharmaceutical company that is trusted by communities.” To continuously realize these corporate objectives, fundamental policies for the maintenance of internal control systems have been established by the Board of Directors. We are implementing a range of initiatives to strengthen our corporate governance and internal controls. Also, once a year reports are made to the Board of Directors on the current status of the fundamental policies, and revisions are made if necessary.

Corporate Governance System

Mitsubishi Tanabe Pharma has adopted the corporate auditor system. In addition to the General Meeting of Shareholders and the Directors, the Company has established the Board of Directors, Corporate Auditors, and the Board of Corporate Auditors and employs an independent auditor. Under this management system and auditing system, the Company has identified its most important issues as working to maximize enterprise value for shareholders and other stakeholders by

ensuring efficiency and speed in management decision-making and working to ensure legality and transparency in management by enhancing the auditing system, centered on the corporate auditors, and clarifying information-provision responsibilities.

Management System

The Board of Directors has six members. To ensure efficient business execution, regular meetings of the Board of Directors are held once a month, and in addition are held flexibly as needed. The Board makes decisions about business execution and supervises operational execution. Mitsubishi Tanabe Pharma has adopted the corporate officer system for the execution of Company business and clarified the distinction between the decision-making / auditing function and the executive function. Composed of the President and CEO, Executive Vice President, Managing Executive Officers, and executive officers who are appointed by the President and CEO and division managers, the Operating Committee meets two or more times per month as a general rule. The Operating Committee discusses issues of importance to the overall execution of Company business, and important matters are brought before the Board of Directors. In this way, the Company ensures the speed and effectiveness of decision-making.

Outside Directors

At this point, the Company has no outside directors.

The roles of outside directors could include providing advice from a societal perspective and serving as a check on conflicts of interest among shareholders and on the actions of managers. Previously, the Company considered it possible to fulfill these functions through outside corporate auditors. However, to enhance management transparency and objectivity and to strengthen the Board of Directors' oversight function, the Company is preparing to extend invitations to independent outside directors, with a goal of starting in the year ending March 31, 2011.

Auditing System

Corporate auditors attend important meetings, such as meetings of the Board of Directors and the Operating Committee. In addition, they conduct interviews on the execution of duties with the Board of Directors, executive officers, and members of each Company division, review documents relating to major decisions, and investigate the operations and assets of principal work sites and subsidiaries (including internal control systems, such as those for compliance and risk management). In these ways, the corporate auditors audit the execution of Company business.

The corporate auditors work to maintain close ties with the independent auditor and the internal auditing divisions and to strengthen the management auditing function. The corporate auditors also receive explanations of audit plans and policies and quarterly reports on audit implementation and results from the independent auditor, as well as regularly exchange opinions with the independent auditor. When necessary, the corporate auditors witness on-site work and review work by the independent auditor. In addition, at the end of each period the corporate auditors receive reports on the execution of audits by the independent auditor. Also, in regard to audit plans, progress, and results, the corporate auditors exchange opinions with the Internal Audit Department on a regular, monthly basis. At the same time, the corporate auditors receive reports on the results of the evaluation of internal control systems for financial reporting.

The Board of Corporate Auditors has four members, two of whom are outside corporate auditors. The Board of Corporate Auditors receives reports on the progress of audits by all corporate auditors and the independent auditor. Also, full-time staff in the Corporate Auditors' Office, which was established under the direct supervision of the Board of Corporate Auditors, provides support for the corporate auditors in the execution of their duties, including the duties of the outside corporate auditors. The Corporate Auditors' Office has three employees.

For internal auditing, we have established the Internal Audit Department, which is independent from the executive divisions and audits the internal control systems in operations divisions. The Internal Audit Department has 12 employees.

The Company has taken steps to facilitate proper audits, appointing Ernst & Young ShinNihon LLC as its independent auditor and providing accurate management information.

Outside Corporate Auditors

The Company works to maintain an auditing system with high levels of independence and specialized skills. Lawyers and people with experience in banks or securities companies are nominated to be outside corporate auditors. At the same time, people with considerable knowledge in finance or accounting are nominated to be standing corporate auditors. Outside management oversight is provided by the outside corporate auditors, who attend Board of Directors' meetings, monitor directors, and express appropriate opinions when required. The outside corporate auditors receive audit progress reports from the standing corporate auditors, audit reports from the independent auditor, and reports on the execution of Company affairs from members of the Board of Directors. Masanao Iechika, an outside corporate auditor, has no personal relationships with members of the Board of Directors or the Board of Corporate Auditors and has no conflict of interest with the Company. Takashi Nishida, an outside corporate auditor, is an outside corporate auditor at parent company Mitsubishi Chemical Holdings Corporation.

Compensation of Directors and Corporate Auditors

The Company has adopted a method of calculating director compensation that reflects the Company's results. The compensation amount is determined by the Board of Directors within a range fixed at the General Meeting of Shareholders and as provided for by the basic formula for the calculation of compensation for the Board of Directors. This is to ensure the transparency of compensation-related decision-making.

In the year ended March 31, 2010, directors' compensation amounted to ¥334 million and corporate auditors' compensation totaled ¥83 million (of which, ¥21 million was for outside corporate auditors).

The Company and consolidated subsidiaries paid ¥80 million and ¥19 million, respectively, to Ernst & Young ShinNihon LLC as compensation for auditing and verification.

Other Special Matters That May Have a Significant Impact on Corporate Governance

In regard to the independence of the Company from its parent company, Mitsubishi Chemical Holdings, both companies have agreed that the Company will remain listed, that Mitsubishi Chemical Holdings, will, in principle, maintain its shareholding ratio in the Company for 10 years from October 1, 2007, and that the Company will be operated based on the principle of independent decisions and judgment as a publicly listed company. The Company believes that it has secured its independence from its parent company.

Mitsubishi Chemical Holdings is a pure holding company that does not conduct its own operating activities. Accordingly, between Mitsubishi Chemical Holdings and the Company, there are no transactions that have the potential to significantly influence the results of the Company, and there are no plans to engage in such transactions in the future. The Company has concluded a contract with Mitsubishi Chemical

Holdings under which the Company provides payment to Mitsubishi Chemical Holdings for Group management expenses in an amount equivalent to the benefits received based on the brand value and comprehensive strengths of Mitsubishi Chemical Holdings. However, the amount of those payments is not significant.

In regard to transactions between the Company and other companies in the Mitsubishi Chemical Holdings Group, in making decisions the highest priority is given to increasing the enterprise value of the Group in order to maximize the benefit to all of the Company's shareholders.

In April 2010, the Minister of Health, Labour and Welfare issued an administrative action to Mitsubishi Tanabe Pharma Corporation and consolidated subsidiary Bipha due to a violation of the Pharmaceutical Affairs Law. The Group has reflected deeply on this incident and has positioned as its highest management priority the steady execution of the business improvement plans that have been formulated. The Group will do its utmost to prevent a recurrence of such an incident and to improve its operations. As our fundamental approach to management, we have decided to give the highest priority to the following management issues.

FUNDAMENTAL APPROACH TO MANAGEMENT

- 1 Always acting in accordance with the group's corporate behavior charter
- 2 Ensuring the safety and quality of pharmaceuticals as an enterprise in a life-related industry
- 3 Bolstering internal control for the group as a whole
- 4 Fostering enhanced awareness of professional ethics and compliance

Risk Management System

Mitsubishi Tanabe Pharma has established risk management regulations with the objective of implementing appropriate management for the risks that accompany the Company's business activities, and the Company has established and operates a system based on those regulations. In accordance with these regulations, the Risk Management Committee, which is led by the president, meets every six months and otherwise as necessary. The Group regularly monitors the risks that it faces. In implementing this monitoring, we ascertain the areas and types of risks that we face in our business activities, including the risks faced by Group companies, and ensure that the necessary countermeasures are implemented by the relevant department. In preparations for times when it appears that risk events that could give rise to serious damage, such as disasters, accidents, or the emergence of new diseases, might occur, we have established a Companywide system for minimizing damage while continuing business activities, such as providing important pharmaceuticals and meeting customer needs. Previously, the Company announced that it will not provide any gains to antisocial elements, such as organized crime groups and *sokaiya* corporate extortionists. In response to risks that are shared throughout the Company, in March 2009 we formulated guidelines for checking suppliers for any possible affiliations with such antisocial elements. In this way, we have established a system for eliminating transactions with antisocial elements.

Compliance System

To ensure sound business activities, Mitsubishi Tanabe Pharma has formulated the Corporate Behavior Charter, which identifies the top priorities for directors and employees in the implementation of business activities, and the Mitsubishi Tanabe Pharma Group Code of Conduct, which provides specific behavioral guidelines. In accordance with the declaration, members of the Board of Directors and Corporate Auditors take the lead in strictly adhering to laws, regulations, and the Company's Articles of Incorporation. Also, the Company is taking steps to create a Companywide compliance system, including the establishment of the Compliance Promotion Committee and the Compliance Office, both of which are led by the Chief Compliance Officer. All relationships with groups that act in an antisocial manner are terminated.

Furthermore, we have established an internal notification system managed according to separately defined regulations, which operates as an internal system for reporting on legal violations and other compliance issues. We have established internal and external hotlines for reports and consultations, and we are working to respond to a wide variety of needs for consultation, including for the employees of Group subsidiaries.

To ensure a solid compliance foundation, the Company is conducting a range of training. These include top seminars for directors and officers, Companywide training for all employees, and human rights training. In addition, in fiscal 2009 we introduced department-level training that deals with issues specific to the operations of each department. For Group subsidiaries, we are taking steps to build a system to ensure appropriate operational activities are implemented in a seamless manner with the Company, such as building a system for the application of the Company's Compliance Program.

Furthermore, we conduct compliance progress checks once a year, and we implement monitoring of such factors as compliance awareness and workplace environments.

Accountability to Stakeholders

Mitsubishi Tanabe Pharma strives to provide fair, timely, and appropriate information on all its activities, such as its management policies, management objectives, and financial situation, to all of its stakeholders,

including shareholders, investors, customers, consumers, and local communities. We adhere to the Financial Instruments and Exchange Law and other Japanese laws and regulations relating to information disclosure. Also, based on our information disclosure regulations, and in accordance with the relevant internal systems, we ensure that both the content and timing of our information disclosure is fair to all stakeholders.

We give a range of presentations to explain the Company's financial situation, describe the development of new products, and explain important management policies and business developments. These presentations include results briefings for institutional investors, R&D presentations, and business presentations. To enable individual and overseas investors to access presentations, the audio and video for presentations, as well as for the Q&A sessions, can be viewed on the Company's web site. We also report on our corporate social responsibility (CSR) initiatives in our CSR Report.

CORPORATE BEHAVIOR CHARTER

We will maintain high ethical standards, place priority on fairness and integrity in all activities, and act in accordance with the following guidelines.

PRIDE AND SENSE OF MISSION

As people involved in the creation of pharmaceuticals, we will work with pride and a sense of mission as we endeavor to research and develop pharmaceuticals that are needed by society and to ensure product safety and quality.

CHALLENGE AND INNOVATION

With acute sensitivity and a broad perspective, we will focus on our future direction, decisively take on the challenge of meeting higher goals, and strive to create innovative value.

TRUST AND TEAMWORK

Through free and open communication, we will promote mutual understanding and respect, and we will emphasize teamwork as we strive to maximize our results based on strong relationships of trust.

HARMONIOUS COEXISTENCE WITH SOCIETY

We will work to achieve harmonious coexistence with society by acting with consideration for local communities and the environment.