Fundamental Approach

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 society.” To realize this philosophy and vision, the Mitsubishi Tanabe Pharma Group places the highest priority on fulfilling its responsibilities to all of its stakeholders, including shareholders, and working to achieve the sustainable growth of the Group and increases in its corporate value over the medium- to long-term. To that end, the Group works to ensure the transparency and objectivity of management by ensuring efficiency and promptness in management decision-making, enhancing monitoring and supervision through the outside directors, and enhancing the auditing system through the corporate auditors.

In accordance with this approach, the Group has formulated the Corporate Governance Policy of Mitsubishi Tanabe Pharma, and based on this policy the Group will continue working to realize an optimal corporate governance system.

In addition, although the Company is a consolidated subsidiary of Mitsubishi Chemical Holdings, the Company will continue its listing status and maintain independence in its management.

The following URL provides further information about the corporate governance policy.
https://www.mt-pharma.co.jp/e/company/pdf/cg_policy_e.pdf
Corporate Governance and Internal Control

■ Corporate Governance System
The Company has adopted the Company with Corporate Auditors 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. In addition, as advisory bodies to the Board of Directors, the Company has established voluntary committees related to officer nomination and compensation.

<table>
<thead>
<tr>
<th>Organizational form</th>
<th>Company with Corporate Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum number of directors stipulated in Articles of Incorporation</td>
<td>10</td>
</tr>
<tr>
<td>Term of office stipulated in Articles of Incorporation</td>
<td>1 year</td>
</tr>
<tr>
<td>Chairperson of the Board</td>
<td>President</td>
</tr>
<tr>
<td>Number of directors</td>
<td>10</td>
</tr>
<tr>
<td>Appointment of outside directors</td>
<td>3</td>
</tr>
</tbody>
</table>

■ Overview
To secure transparency and objectivity in management decision-making and supervision, the Board of Directors has 10 members (10 men, 0 women), including three outside directors. Regular meetings of the Board of Directors are held once a month, and additional meetings are held as needed. Decisions on important matters related to business execution are made in a flexible manner. In addition, the Company has adopted the executive officer system, thereby clarifying the division of roles between the decision-making/supervision function and the business execution function. In this way, management is conducted in a prompt and efficient manner. In regard to the business execution function, the Executive Committee, which includes the President and CEO and other managing executive officers, meets two or more times per month as a general rule. The committee discusses in advance the agenda of the meetings of the Board of Directors and deliberates on matters in order to assist in the decision-making of the President and CEO.

The Company implements an analysis and evaluation of the effectiveness of the Board of Directors once per year. In accordance with the results, in fiscal 2017, with consideration for the functions and roles of the Board of Directors and the Executive Committee, we revised decision-making and reporting standards. In this way, we worked to speed up management by delegating authority to the Executive Committee to the greatest extent possible. In addition, we took steps to increase the effectiveness of the Board of Directors, such as holding director seminars regarding the duties of directors in Group management, implementing information exchange between the President and Outside Directors, and, as needed, holding meetings of the Outside Directors Council to deepen shared understanding.

The Board of Corporate Auditors has four members (4 men, 0 women; of whom, 2 are outside corporate auditors). The Board of Corporate Auditors, as an entity independent from the Board of Directors, makes appropriate decisions from an objective standpoint in fulfilling its roles and responsibilities, which include the auditing of business execution of directors, accounting audits, and exercising its authority with respect to the selection and dismissal of independent auditors and audit compensation.

Furthermore, in an effort to strengthen the independence, objectivity, and accountability of the functions of the Board of Directors with respect to the nomination and compensation of its executives, the Company has established and operates voluntary committees that are chaired by an independent outside director and have independent outside officers (directors and corporate auditors) as a majority of the members. In line with inquiries from the Board of Directors, the Nomination Committee and the Compensation Committee hold transparent, objective discussions. The Nomination Committee holds these discussions regarding the selection/nomination standards for candidates for director, corporate auditor, and executive officer as well as the selection/nomination of each candidate. The Compensation Committee holds these discussions regarding revision of the compensation system for directors and executive officers as well as decisions on plans for individual amounts of compensation. Reports are then made to the Board of Directors.

Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company has entered into liability limitation contracts with outside directors and outside corporate auditors that limit their liability for damages under Article 423, Paragraph 1 of the Companies Act, within the limits stipulated by laws and regulations.

■ Reasons for Adoption of the Current Corporate Governance System
The Company is a pharmaceutical company in an industry that is regulated based on the health care system. As such, management decision-making requires deep knowledge and experience related to pharmaceutical regulatory and business affairs. In this setting, the Board of Directors includes not only directors with abundant operational experience and knowledge in the pharmaceutical industry but also independent outside directors with abundant experience and wide-ranging knowledge as managers. In this way, the Company has established a system that secures transparency and objectivity in management decision-making and supervision. In addition, the Board of Corporate Auditors includes not only corporate auditors with abundant operational experience and knowledge in the pharmaceutical industry but also independent outside corporate auditors with experience and expertise in such fields as finance, accounting, and law. In this way, the Company has established a system that facilitates appropriate auditing from an objective viewpoint by the Board of Corporate Auditors, as an institution independent from the Board of Directors.

Accordingly, Mitsubishi Tanabe Pharma believes that the Company with Corporate Auditors system is the most effective form of corporate governance for the Company at present.

■ Auditing System
Corporate Auditors attend important meetings, such as meetings of the Board of Directors and the Executive Committee. In addition, they conduct interviews on the execution of duties with Directors, Executive Officers, and members of each Company division, review
documents relating to major decisions, and investigate the opera-
tions and assets of principal worksites and subsidiaries (including
internal control systems, such as those for compliance and risk man-
agement). In these ways, the Corporate Auditors audit the execution
of Company business. Furthermore, we hold meetings of a
Corporate Auditors liaison committee for subsidiaries in Japan and
are working to strengthen information sharing and collaboration.

In regard to the relationship with the independent auditor, while
monitoring the independence and appropriateness of audits, the
Corporate Auditors receive explanations from the independent
auditor of audit plans and policies as well as quarterly reports on
audit implementation and results. The Corporate Auditors also
regularly exchange opinions with the independent auditor. When
necessary, the Corporate Auditors witness on-site work and review
work by the independent auditor. At the end of each period, the
Corporate Auditors receive explanations concerning measures to
ensure the proper execution of the independent auditor’s duties. Also,
in regard to the audit plans of the internal auditing divisions and the
progress and results of those plans, the Corporate Auditors exchange
opinions with internal auditing divisions 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.

In addition, the Company is working to build an auditing
system that is highly independent and specialized, and a lawyer,
who is a legal specialist, and a certified public accountant, who is
an expert in finance and accounting, have been nominated to be
Outside Corporate Auditors.

Furthermore, to provide support for the Corporate Auditors in
the execution of their duties, the Company has established the
Corporate Auditors’ Office, which is independent from business
execution. The Corporate Auditors’ Office has three full-time staff.

For internal auditing, the Company has established the Internal
Audit Office, which is independent from the executive divisions and
audits the internal control systems in operations divisions. The
Internal Audit Office has 12 employees as of June 2018.

The Company has appointed Ernst & Young ShinNihon LLC as
its independent auditor. There are three certified public accountants
who are in charge of the account auditing activities. Assisting in the
account auditing activities are 18 certified public accountants and
16 other people.

■ Nomination of Outside Officers

In selecting directors and corporate auditors, the fundamental
requirements are superior character, knowledge, and ability; abun-
dant experience; and high ethical standards as well as the ability to
work proactively to help the Group achieve sustained growth and
increases in corporate value over the medium to long term.

In regard to outside directors, in addition to the above require-
ments, to secure greater transparency and objectivity in management
and to strengthen the Board of Directors’ oversight function, the
Company has three outside directors who are well versed in corpo-
rate management. In selecting these outside directors, the Company
selects people who meet the Company’s Criteria for Independence
of Outside Board Directors and Outside Corporate Auditors who and
who can secure the time needed to fulfill the functions and roles expected
of outside directors. The specific reasons for the selection of each
outside director are shown on pages 60 and 61.

In regard to outside corporate auditors, the Company selects two
people who meet the Company’s Criteria for Independence of Outside
Board Directors and Outside Corporate Auditors and who have knowl-
edge in such fields as finance, accounting, and law for the purpose
of conducting audits of the legality and appropriateness of manage-
ment from an independent viewpoint. The table below shows the
specific reasons for the selection of each outside corporate auditor.

Moreover, in addition to the Company’s Criteria for
Independence of Outside Board Directors and Outside Corporate
Auditors, these five outside officers also meet the requirements
of the Tokyo Stock Exchange (TSE) for independent Directors /
Corporate Auditors, and the Company has reported these five
officers as independent Directors / Corporate Auditors to the TSE.

In regard to the Company’s Criteria for Independence of Outside
Board Directors and Outside Corporate Auditors, please refer to the Mitsubishi
Tanabe Pharma Corporate Governance Report.

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### Names of Outside Corporate Auditors, Relationships between Outside Officers and the Company, and Reason for Nomination

<table>
<thead>
<tr>
<th>Relationships between Outside Corporate Auditors and the Company</th>
<th>Reason for nomination</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tadashi Fukuda</strong>&lt;br&gt;Outside Corporate Auditor</td>
<td>Tadashi Fukuda has abundant experience and highly sophisticated knowledge as an attorney. The Company believes that he will utilize this experience and knowledge in appropriately executing his duties as an Outside Corporate Auditor and be able to contribute to the sustainable growth of the Group and to the establishment of a corporate governance system, and thus has nominated him as an Outside Corporate Auditor.</td>
</tr>
<tr>
<td><strong>Hiroshi Enoki</strong>&lt;br&gt;Outside Corporate Auditor</td>
<td>Hiroshi Enoki, as a certified public accountant, has abundant experience in accounting audit and professional service to companies that are going to be listed on a stock exchange. As a consultant in areas related to enhancing corporate governance to increase corporate value, he also has professional expertise and experience, including ESG. The Company believes that he will, as an Outside Corporate Auditor, be able to contribute to the sustainable growth of the Group and to the establishment of a corporate governance system, based on his experience and knowledge, and thus has nominated him as an Outside Corporate Auditor.</td>
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</tbody>
</table>

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Mitsubishi Tanabe Pharma Corporate Report 2018
Corporate Governance and Internal Control

**Compensation of Directors and Corporate Auditors**
The Company’s basic policy is to have an appropriate and balanced compensation plan for the Board Directors that can be tied to medium- and long-term performance and also improve corporate value. The Company reviews the level of compensation by taking into consideration objective data, such as compensation surveys conducted by outside professionals, and the balance with the level of salaries of the Company’s employees. The compensation plan for the Board Directors (excluding part-time directors) is comprised of “base compensation,” “bonuses” that are tied to short-term performance, and “stock compensation” that is tied to medium- to long-term performance. This is a compensation plan with a high degree of linkage with the Company’s performance and stock value. “Bonuses” will be paid in the range of 0% to 200% depending on position and on the evaluation of company performance and individual performance in the relevant fiscal year. “Stock compensation” will be paid in the range of 0% to 200% depending on the degree of achievement of revenue and net profit as performance indicators.

Policy concerning the compensation of Board Directors and the content of the compensation of individual Board Directors are determined by the Board of Directors through deliberation of the Compensation Committee, which is chaired by an Independent Outside Board Director and for which a majority of members are Independent Outside Board Directors.

In fiscal 2017, basic compensation for directors and corporate auditors was as shown in the table below. The Company and consolidated subsidiaries paid ¥91 million and ¥8 million, respectively, to Ernst & Young ShinNihon LLC as compensation for auditing and verification.

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Number of people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (excluding outside directors)</td>
<td>¥309 million</td>
<td>7</td>
</tr>
<tr>
<td>Corporate auditors (excluding outside corporate auditors)</td>
<td>¥74 million</td>
<td>3</td>
</tr>
<tr>
<td>Outside officers</td>
<td>¥55 million</td>
<td>5</td>
</tr>
</tbody>
</table>

**Guidelines Related to Measures to Protect Minority Shareholders in the Event of Transactions, etc., with Controlling Shareholder**

Mitsubishi Chemical Holdings (MCHC), which is Mitsubishi Tanabe Pharma’s parent company, is a holding company. To leverage the human and tangible resources held by the MCHC Group, MCHC and the Company share know-how; jointly use assets and facilities, including IT systems, and Group networks; and exchange human resources, and the Company deposits funds with MCHC. However, 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. In regard to transactions between the Company and MCHC or other companies in the MCHC Group, in making decisions the highest priority is given to increasing the enterprise value of the Mitsubishi Tanabe Pharma Group in order to maximize the benefit to all of the Company’s shareholders.

In regard to transactions between the Company and MCHC or other companies in the MCHC Group, the Company verifies the appropriateness and economic rationality of the transactions, such as whether the terms and conditions are equivalent to those of general transactions. Significant transactions are subject to sufficient deliberations and approval by the Board of Directors, which includes two or more independent outside directors, from the perspective of ensuring the common interests of the Mitsubishi Tanabe Pharma Group and shareholders.

**Other Special Matters that May Have a Significant Impact on Corporate Governance**

In regard to the independence of the Company from its parent company, MCHC, both companies have agreed that the Company will remain listed and that, in principle, for 10 years from October 1, 2007, MCHC would maintain its shareholding ratio in the Company. Both companies have also agreed that the Company will be operated based on the principle of independent decisions and judgment as a publicly listed company. The abovementioned time limit was reached at the end of September 2017, but at this point in time MCHC has no plans to increase or decrease the shareholding ratio. The Company believes that it has secured its independence from its parent company.

**Disclosure of Information to Stakeholders**

In order to promote understanding of the Company and to obtain fair evaluations of the Company, Mitsubishi Tanabe Pharma strives to disclose in a fair, timely, and appropriate manner important Company information related to its activities, such as its management policies, management objectives, and financial situation, to all of its stakeholders, including shareholders, investors, patients and health care workers, and local communities. We adhere to the Financial Instruments and Exchange Law and other Japanese laws and regulations relating to information disclosure and stock exchange regulations for listed securities. Also, based on our information disclosure regulations, and in accordance with the relevant internal systems, we are working to ensure that both the content and timing of our information disclosure are 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 and business presentations. To enable individual and overseas investors to access presentations, the audio and video for presentations are distributed via the Company’s website, and the content of Q&A sessions is also released. In addition, in fiscal 2017 we held seven presentations for individual investors. Furthermore, as an initiative related to corporate social responsibility, the Company has established a CSR website on the corporate website, where the Company’s CSR activities are published and updated in a timely manner, and the CSR Activities Report for fiscal 2017 (PDF version) is also published.
It has been a year since you became an Outside Director of the Company. Over that period, we were able to achieve our longstanding goal of taking the first step in accelerating U.S. business development with the launch of Radicava in the U.S. In addition, the Board of Directors has engaged in multiple discussions of important matters, such as the investment of ¥124.0 billion for the acquisition of NeuroDerm, of Israel, in October 2017. The Company is highly appreciative of the valuable opinions that we received from you and the other Outside Directors.

As a company executive, I have had to make decisions on important matters, and at those times I understood the value and significance of opinions from outside directors and outside corporate auditors, who can speak from different viewpoints. Based on this experience, as an outside director I am striving to directly communicate my opinion on important matters.

For example, in regard to M&A and other large investments, I am working to confirm the extent to which the Company is anticipating legal risks and if the investment offers value that is commensurate with the amount of the investment.

However, I think that the most important point is to focus on whether or not the project is aligned with the vision of Mitsubishi Tanabe Pharma.
Kobayashi That is an excellent point. For matters like the recent NeuroDerm investment, the Board of Directors conducts repeated discussions and offers answers to the various questions asked by the outside directors. Through this process, our vision is further clarified as we ask ourselves what kind of value we want to provide to society, in what markets and what fields.

Kamijo In particular, the business environment has been changing at a rapid pace in recent years, and there have been many cases in which companies have taken too long to make decisions on M&As and related projects and as a result opportunities were lost. Accordingly, it is important that the Company clarify its vision. If we do so, then as we determine the pros and cons of a particular project, we will naturally identify the highest priority items that need to be confirmed, and we should be able to make decisions in a rapid yet reasonable manner.

To that end, it is important to always hold discussions, exchange information, and ensure that we are all in agreement on the Company’s objectives. In that sense, I think that the Company’s Board meetings are dynamic and that the level of communication is excellent.

Kobayashi Thank you. We are working to foster good communications on a Companywide basis. Next, I would like to ask your opinion about current issues in regard to the Company’s corporate governance.

Kamijo As the Company expands its focus from domestic business to overseas business, I think that one issue will be the establishment of a global governance system, including overseas subsidiaries. This is an issue that I have also encountered in my career. Looking at compliance, there are certain matters that do not involve any legal issues in Japan but do present legal conflicts overseas, and of course there are also matters that are the reverse. In addition, there are major differences among countries and regions in regard to what is considered to be conventional wisdom.

However, even if they are located in a different country or region, they are still members of the Mitsubishi Tanabe Pharma Group. It is essential that overseas Group employees also share a common understanding of what must be done to maintain good relationships with the Group’s stakeholders. I believe it will be necessary to focus on building systems and frameworks to support that understanding.

Kobayashi Until a few years ago, the Company’s ability to implement clinical trials in the U.S. was limited to following instructions from Japan. Now, however, our U.S. operations can take the lead in advancing clinical trials. Moreover, with the launch of Radicava we also have our own in-house sales capability in the U.S. In this setting, I fully realize the importance and necessity of the types of initiatives that you mentioned.

In 2017, in order to help Group employees around the world to realize the corporate philosophy and vision, we formulated the Code of Conduct as a guide to behavior based on the Corporate Behavior Charter and the Declaration of Compliance. In addition, as needed, we have begun to establish global policies aligned with business activities. If the actions of employees, including employees of overseas subsidiaries, depart from those policies, then we request that those actions be corrected. This process is repeated, and through this cycle we are working to promote the adoption of these policies.
Kamijo  Some time will be necessary for the adoption of those policies. Based on my own experience, the most effective approach for obtaining the understanding of employees is to explain the risks associated with damage to the Mitsubishi Tanabe Pharma brand, as well as what types of actions could end up damaging the brand. I would definitely like to see this implemented.

Kobayashi  The scope of employee actions that enhance the corporate brand should not be changed, even if there are differences among countries. Finally, I would like to hear your thoughts about further reinforcing corporate governance.

Kamijo  Since the introduction of the Corporate Governance Code in 2015, Japanese companies have strengthened their corporate governance systems. I believe that Mitsubishi Tanabe Pharma has also made steady progress, such as implementing evaluations of the effectiveness of the Board of Directors, establishing the Compensation Committee and the Nomination Committee as voluntary committees, introducing a performance-linked stock compensation plan, and increasing the number of outside directors.

However, strengthening corporate governance will always be an ongoing task. The reason is that corporate governance entails earning the trust of stakeholders. It is only natural that the things that stakeholders want from the Company will change. In response, I believe it is important to continue to have an approach of enhancing and advancing corporate governance.

Kobayashi  I agree. Measures to address the Corporate Governance Code were principally static in the sense that they focused on adjusting the form. However, to earn the trust of stakeholders it is necessary to focus on dynamic initiatives appealing to stakeholders, including communications. In particular, in advancing its business activities the Company places the highest priority on earning the trust of patients, who are important stakeholders.

Kamijo  That is a good point. Corporate management is not something that always proceeds according to plan. In particular, pharmaceuticals are a business that requires long-term initiatives over periods of 5 years or 10 years, and accordingly there are delays in plans that exceed expectations. However, I believe that if Mitsubishi Tanabe Pharma clearly shares its direction with stakeholders through communications, then that trust will be maintained.

Moving forward, I think we should continue working to foster an understanding of the Company’s direction and the concepts incorporated into it, while holding repeated discussions with Directors. In addition, we should ask whether we are making the decision that is truly best for patients and other stakeholders.

Kobayashi  Beginning with the acceleration of our U.S. business development, we are moving forward into a world in which we have no experience. In consideration of your own experience in starting up a business in the U.S., I would like to request that you continue to provide your frank opinion as we go forward. Thank you for participating in today’s discussion.