

# Corporate Governance

## 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.

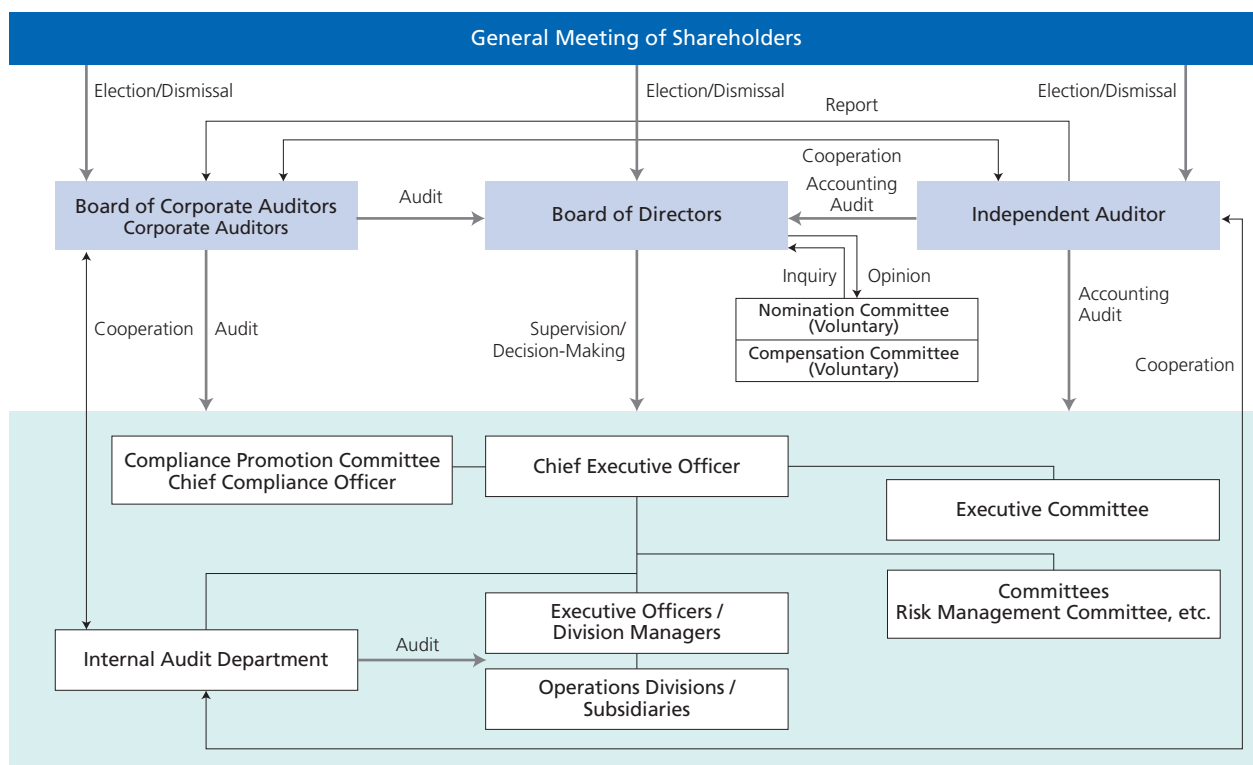
**WEB**

The following URL provides further information about the corporate governance policy.

[https://www.mt-pharma.co.jp/e/company/pdf/cg\\_policy\\_e.pdf](https://www.mt-pharma.co.jp/e/company/pdf/cg_policy_e.pdf)



## Corporate Governance System (As of June 24, 2019)



## Corporate governance system

The Company is a company with a Board of Corporate Auditors. 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.

|  |  |
|--|--|
| <b>Organizational form</b>   | Company with a Board of Corporate Auditors |
| <b>Maximum number of directors stipulated in Articles of Incorporation</b> | 10   |
| <b>Term of office stipulated in Articles of Incorporation</b>              | 1 year                                     |
| <b>Chairperson of the Board</b>  | President                                  |
| <b>Number of directors</b>   | 9  |
| <b>Appointment of outside directors</b>                                    | 3  |

## Corporate Governance

### ■ Overview

To secure transparency and objectivity in management decision-making and supervision, the Board of Directors has nine members (9 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.

The Board of Directors conducts an analysis and evaluation of the effectiveness of the Board of Directors once a year, and also conducts discussions aimed at enhancing the effectiveness of the Board of Directors and other aspects of corporate governance through meetings between Outside Members of the Board and Corporate Auditors and on other occasions, and provides advice on execution as appropriate. In fiscal 2018, the Company used these opportunities to exchange views and provide training for officers in relation to the strengthening of compliance and risk management, including at MTPC Group companies overseas, reviewing medium-term management plans, the content of reports at meetings of the Board of Directors, decision-making processes for alliances and M&A, and other matters.

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 Board of Corporate Auditors has five members (4 men, 1 women; of whom, 3 are outside corporate auditors). The Company has selected an attorney at law, a certified public accountant and a university professor. 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 election 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 the Nomination Committee and the Compensation Committee as voluntary

committees that are chaired by an independent outside director and have independent outside directors as a majority of the members.

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 healthcare system. As such, management decision-making requires deep knowledge and experience in regulatory and industry for pharmaceutical 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 operational experience and knowledge in the pharmaceutical industry as board members but also independent outside corporate auditors with experience and expertise in such fields as finance, accounting, law, and medicine. 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 operations and assets of principal worksites 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. 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 14 employees as of June 2019.

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 18 other people.

## Nomination of outside officers

In selecting outside directors and corporate auditors, the fundamental requirements are superior character, knowledge, and ability; abundant 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 independent outside directors, the

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

|   | Relationships between Outside Corporate Auditors and the Company   | Reason for nomination   |
|---|--|---|
| Tadashi Fukuda<br>Outside Corporate Auditor | Tadashi Fukuda works as Executive Partner of Daiichi Law Office and as Outside Corporate Auditor of EXEDY. There are no special conflicts of interest between the Company and Tadashi Fukuda or these companies. | 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.   |
| Hiroshi Enoki<br>Outside Corporate Auditor  | Hiroshi Enoki serves as the president of Hiroshi Enoki Accounting Office, but there are no special interests between him and the Company or between the accounting office and the Company.                       | Hiroshi Enoki has extensive experience and specialized knowledge, etc. as a certified public accountant, and 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 this experience and knowledge, and thus has nominated him as an Outside Corporate Auditor.  |
| Mitsue Maru<br>Outside Corporate Auditor    | Mitsue Maru serves as a professor at Konan Women's University, but there are no special interests between her and the Company or the university and the Company.   | Mitsue Maru has abundant experience and professional expertise regarding medical matters. She was selected and appointed as an Outside Corporate Auditor on account of the Company's judgment that she is capable of adequately executing her duties as an Outside Corporate Auditor by utilizing her experience and knowledge as a university professor and her perspective as a healthcare provider, and contributing to the MTPC Group's sustainable growth and the consolidation of the governance structure. |

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Company selects three people capable of fulfilling the roles and duties expected of outside directors. The specific reasons for the selection of each outside director are shown on page 51.

In regard to outside corporate auditors, the Company selects three people. The table on the previous page shows the specific reasons for the selection of each outside corporate auditor.

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

### ■ Compensation of directors and corporate auditors

The Company's basic policy is to have an appropriate and balanced compensation plan for Members of the Board that can be tied to medium- and long-term performance and also raise motivation to improve corporate value. The Company decides 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 Executive Board Directors comprises "base compensation," "bonuses" which are tied to short-term performance, and "stock compensation" which is tied to medium- to long-term performance, with the ratio set at 7:2:1. The compensation plan for part-time directors and corporate auditors, who are independent of business execution, consists of base compensation only.

Bonuses are performance-linked compensation and consist of cash payments made in accordance with the degree of achievement of performance targets in the Medium-Term Management Plan. The indicator used for bonuses is consolidated core operating profit.

Stock compensation is performance-linked compensation and consists of allocations of the Company's stock in accordance with the degree of achievement of performance targets in the Medium-Term Management Plan. The indicators used for stock compensation are consolidated revenue and profit attributable to owners of the Company.

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 in which the majority of members are Independent Outside

Board Directors. In fiscal 2018, basic compensation for directors and corporate auditors was as shown in the table below. The Company and consolidated subsidiaries paid ¥92 million and ¥8 million to Ernst & Young ShinNihon LLC as compensation for, respectively, auditing and verification.

|   | Basic compensation | Number of people |
|---|--------------------|------------------|
| Directors (excluding outside directors)                   | ¥269 million       | 7                |
| Corporate auditors (excluding outside corporate auditors) | ¥72 million        | 2                |
| Outside officers  | ¥55 million        | 6                |

### ■ Guidelines related to measures to protect minority shareholders in the event of transactions, etc., with the corporate group of the parent company, etc.

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.

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.