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 realize the corporate philosophy, 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

The Company 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. In June 2011, the Company began to utilize outside directors, and two outside directors with high levels of independence were appointed. These directors have abundant experience as corporate managers and wide-ranging knowledge in science, technology, and corporate governance. Under this management system and auditing system, the Company has identified its most important issues as fulfilling its responsibilities to shareholders and all other stakeholders and working to maximize enterprise value. To that end, the Company works to ensure efficiency and speed in management decision-making and to ensure transparency and objectivity in management by enhancing the supervision and auditing conducted by the outside directors and by enhancing the auditing system, centered on the corporate auditors. In these ways, the Company is working to establish a corporate governance system that can earn the trust of society.

Management System

The Board of Directors has eight members, two of whom are outside directors. 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. The Company 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. The Operating Committee, which includes the President and CEO, Senior Managing Executive Officers, Managing Executive Officers,
and executive officers who are appointed by the President and CEO, meets two or more times per month as a general rule. The committee discusses issues of importance to the overall execution of Company business, and important matters are brought up for discussion in the Board of Directors. In this way, the Company works to enhance the speed and effectiveness of decision-making.

**Auditing System**

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. Lawyers, who are legal specialists, 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, accounting, or law are nominated to be standing corporate auditors. In this way, the Company has established an auditing system with high levels of independence and specialized skills.

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 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.

The Board of Corporate Auditors works to maintain close ties with the independent auditor and the internal auditing divisions and to strengthen the 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. 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 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.

To provide support for the corporate auditors in the execution of their duties, including the duties of the outside corporate auditors, 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 Department, which is independent from the executive divisions and audits the internal control systems in operations divisions. The Internal Audit Department has 13 employees.

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

**Nomination of Outside Officers**

To enhance management transparency and objectivity and to strengthen the Board of Directors’ supervisory function, two outside directors have been nominated. Furthermore, two outside corporate auditors have been nominated. From an independent perspective, these outside corporate auditors implement audits regarding the legality and soundness of management.

In nominating outside officers, the Company has not established standards, etc., regarding independence. The outside officers have been nominated in consideration of the reason for nomination and relationships with the Company, as described on the following page. The four people meet the requirements of the Tokyo Stock Exchange and the Osaka Securities Exchange for independent officers, and the Company has reported them as independent officers to both exchanges.

**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, 2012, directors’ compensation (for six directors; excluding outside directors) amounted to ¥263 million and corporate auditors’ compensation (for three corporate auditors*; excluding outside corporate auditors) totaled ¥66 million. Compensation for outside officers (for four officers) was ¥37 million. The Company and consolidated subsidiaries paid ¥75 million and ¥19 million, respectively, to Ernst & Young ShinNihon LLC as compensation for auditing and verification.

* Includes 1 corporate auditor who retired at the 4th Ordinary General Meeting of Shareholders held on June 22, 2011.

**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 (MCHC), both companies have agreed that, in principle, for 10 years from October 1, 2007, the Company will remain listed and Mitsubishi Chemical Holdings will 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 Company believes that it has secured its independence from its parent company.

MCHC is a pure holding company that does not conduct its own operating activities. Accordingly, between MCHC 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 MCHC under which the Company provides payment to MCHC for Group management expenses in an amount equivalent to the benefits received based on the brand value and comprehensive strengths of MCHC. However, the amount of those payments is not significant.

In regard to transactions between the Company and other companies in the MCHC 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.

The Company received administrative actions in April 2010 for the Medway problem and in July 2011 for the quality control problem. The Company has reflected deeply on these problems. To recover the trust of society, the Company is working earnestly to rigorously implement recurrence prevention as well as business improvement measures. To further advance these measures, the Company established the Outside Committee for Recovering Trust Following the Medway and Quality Control Problems. The committee is conducting investigations and providing advice. Matters such as progress with the business improvement plan are reported in this committee as needed. The committee had met 15 times by the end of May 2012. In September 2011, the committee offered a report regarding advice on quality control and quality assurance operations. Subsequently, in accordance with that advice, the Company took steps to facilitate progress in business improvement and to restore trust, such as holding lectures by doctors and pharmacists.

| NAME OF OUTSIDE OFFICER, RELATIONSHIPS BETWEEN OUTSIDE OFFICERS AND THE COMPANY, AND REASON FOR NOMINATION |
|---------------------------------------------------------------|-------------------------------|
| **Shigehiko Hattori**  | Relationships between outside officers and the Company | Reason for nomination |
| Outside director  | Shigehiko Hattori is Representative Director, Chairman of the Board of Shimadzu and an outside director of Sapporo Holdings and Brother Industries. There are no special conflicts of interest between the Company and Shimadzu, Sapporo Holdings, or Brother Industries. | Shigehiko Hattori was nominated as outside director on account of the Company’s judgment that his abundant experience as a corporate manager and his wide-ranging knowledge in science and technology would be useful in the Company’s management. In addition, in the Company’s judgment there is no cause for concern about a conflict of interest between Shigehiko Hattori and public shareholders, and he has been designated as an independent officer. |
| **Seishiro Yoshioka**  | Relationships between outside officers and the Company | Reason for nomination |
| Outside director  | Seishiro Yoshioka is a Corporate Advisor at Osaka Gas. There are no special conflicts of interest between the Company and Osaka Gas. | Seishiro Yoshioka was nominated as outside director on account of the Company’s judgment that his abundant experience as a corporate manager and his wide-ranging knowledge in corporate governance would be useful in the Company’s management. In addition, in the Company’s judgment there is no cause for concern about a conflict of interest between Seishiro Yoshioka and public shareholders, and he has been designated as an independent officer. |
| **Masanao Iechika**  | Relationships between outside officers and the Company | Reason for nomination |
| Outside corporate auditor  | Masanao Iechika is Executive Partner at Daiichi Law Office. There are no special conflicts of interest between the Company and Daiichi Law Office. | Masanao Iechika was nominated as outside corporate auditor in the anticipation that he would conduct appropriate audits based on his abundant experience as an attorney and his high level of knowledge in regard to social responsibility. In addition, in the Company’s judgment there is no cause for concern about a conflict of interest between Masanao Iechika and public shareholders, and he has been designated as an independent officer. |
| **Takashi Nishida**  | Relationships between outside officers and the Company | Reason for nomination |
| Outside corporate auditor  | Takashi Nishida holds a concurrent post as a corporate auditor at MCHC, which is the parent company of the Company. Due to the importance of Group auditing, he is serving concurrently as an outside corporate auditor of the Company. There are no special conflicts of interest between Takashi Nishida and the Company. In addition, Takashi Nishida previously worked at The Bank of Tokyo-Mitsubishi UFJ, with which the Company engaged in banking transactions. However, he has already retired from that bank, and there are no special conflicts of interest between that bank and the Company. | Takashi Nishida was nominated as outside corporate auditor in the anticipation that he would conduct appropriate audits based on his abundant financial institution experience and wide-ranging knowledge in finance. In addition, in the Company’s judgment there is no cause for concern about a conflict of interest between Takashi Nishida and public shareholders, and he has been designated as an independent officer. |
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 Company has established the Risk Management Committee, which is led by the president. The Group regularly identifies, analyses, and evaluates the risks that it faces. In implementing these measures, 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 for each risk 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.

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 code, members of the Board of Directors and Board of 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 Internal Controls & Compliance Department, both of which are led by the Chief Compliance Officer. The provision of gains and any other relationships with groups that act in an antisocial manner are forbidden. Furthermore, we have 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.

Furthermore, we have established an internal notification system managed according to internal 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 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, as well as 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 implement monitoring of such factors as compliance awareness and workplace environments.

Accountability 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

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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.

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<tr>
<th>PRIDE AND SENSE OF MISSION</th>
<th>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.</th>
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<tr>
<td>CHALLENGE AND INNOVATION</td>
<td>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.</td>
</tr>
<tr>
<td>TRUST AND TEAMWORK</td>
<td>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.</td>
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<tr>
<td>HARMONIOUS COEXISTENCE WITH SOCIETY</td>
<td>We will work to achieve harmonious coexistence with society by acting with consideration for local communities and the environment.</td>
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situation, to all of its stakeholders, including shareholders, investors, patients and healthcare 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 ensure that both the content and timing of our information disclosure is fair to all stakeholders. Moreover, as a member of society, we take feedback from all stakeholders seriously, strive to share information with stakeholders, and work to deepen mutual understanding.

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 website. We also report on our CSR initiatives in our CSR Report.

In-House Information Disclosure System
The Company has established an in-house system to implement Companywide disclosure of company information in a timely and appropriate manner—the Mitsubishi Tanabe Pharma In-House Information Disclosure System. The executive responsible for information disclosure will control the in-house system, which was established in accordance with information disclosure regulations; will determine whether or not disclosure of company information is appropriate; and will implement disclosure.
Looking at the Mitsubishi Tanabe Pharma Group from an outside perspective, there is a clear commitment to the proper fulfillment of the Group’s responsibility to provide explanatory information, both inside and outside the Group, and an awareness that the Group is heading in the right direction. Meetings of the Board of Directors are also conducted in a manner that makes it easy for outside directors to state their views. To help ensure that business execution is handled in an appropriate manner, as an outside director I offer necessary opinions from an outside viewpoint.

Pharmaceuticals is an important business that is entrusted with people’s lives and does not permit even the smallest mistake. It is also a business that simultaneously requires solid defense and strong offense. The only companies that will survive are those that take on the challenge of drug discovery, starting at zero and creating results that lead to the development of new drugs.

In defense, I make judgments based on common sense and generally accepted ideas and state my views at meetings of the Board of Directors. In offense, on the other hand, it is necessary to have a specific strategy for overseas markets, especially in the premium market segment. In implementing the Medium-Term Management Plan 11–15, a key strategy will be to develop overseas markets. To that end, the next step will be to focus on our position in global markets as and identify regions and fields where needs are high. One fundamental duty of outside directors is to offer opinions from an outside viewpoint in order to facilitate appropriate business execution. In addition to that duty, I will also strive to provide opinions about the expansion of overseas business, based on my overseas experience at Shimadzu.

In the future, I will continue to do my utmost to fulfill my duties as an outside director and to meet the expectations of the Company’s stakeholders in a manner that fosters the realization of a management system that can support simultaneous progress in both solid defense and strong offense.

As a member of the Board of Directors, the duties of an outside director are to participate in the decision-making of the Board of Directors and to supervise business execution from an independent viewpoint. In making decisions, key points of focus include whether a policy contributes to the sound development of the Company over the long term and whether appropriate risk evaluation and management is being implemented. In addition to these two points, I am continually aware of the responsibility to provide explanatory information to shareholders and other stakeholders.

Previously, I worked in energy business management at Osaka Gas. Pharmaceuticals and energy are certainly different industries, but I believe that the fundamental elements of business decision-making are the same. There is no change to the essential nature of an operating company, which works to achieve sustained growth while fulfilling its social responsibilities by effectively and soundly creating and providing goods and services that are useful in society.

At meetings of the Board of Directors, points of discussion regarding resolutions, including the nature of the risks involved, are presented without omission, and discussions are held from a diverse range of viewpoints. Also, in regard to risk management, I believe that the recognition, evaluation, and handling of risks is being conducted in an appropriate manner, in accordance with the basic policies for internal control. In my judgment, the various organizations that support the Group’s corporate governance are functioning in a sound and appropriate manner.

The Medium-Term Management Plan 11–15, which deals with the Group’s comprehensive strengths and true value, will determine the Group’s future. In these initiatives, I believe it is extremely important to create a free and open-minded corporate culture with a greater sense of unity. Based on that type of awareness, Project NVC was launched in December 2011, and I look forward to its success. Moving forward, I will strive to advance the medium-term management plan from that viewpoint and to provide advice as needed.