

# Corporate Governance Report

Jul 3, 2017

Takeda Pharmaceutical Company Limited

<http://www.takeda.com>

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

Takeda's mission is to "strive towards Better Health and Brighter Future for people worldwide through leading innovation in medicine." In line with this mission, Takeda is establishing a management framework appropriate for a world-class pharmaceutical company that operates on a global scale. We are strengthening internal controls, including rigorous compliance and risk management, and establishing a structure that will allow rapid decision-making that is also sound and transparent. Through these efforts, we will further improve our corporate governance, thereby maximizing corporate value.

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The company is in compliance with all of the principles of the Corporate Governance Code.

#### [Disclosure Based on the Principles of the Corporate Governance Code] **Update**

This report covers each and every principle requiring disclosure under the Corporate Governance Code.

#### (1) Company objectives, business strategies and business plans...Principle 3.1 (i)

##### a. Company objectives and business strategies (mid-term key priorities):

We set up "Vision 2025," our aspirational target, as follows;

Vision 2025:

"We serve the needs of our patients, wherever they are. We earn the trust of society and customers through Takeda-ism. We are recognized as best in class because of agility and innovation, qualities that help us build a steady pipeline and deliver growth, year on year."

Our Mission: "We strive towards Better Health and a Brighter Future for people worldwide through leading innovation in medicine," leads us to our Vision 2025. Our "Values" encompasses "Takeda-ism" (Integrity: Fairness, Honesty and Perseverance), which have been maintained over our more than 230 years history, and our four key priorities (Patient, Trust, Reputation, Business). Takeda-ism will guide us to reach our Vision, and we will take action and make decisions by focusing on our four priorities. We will focus on Values, People, R&D, and Business Performance based on our "Strategic Roadmap," the steps to achieving our Vision. Takeda believes this "Strategic Roadmap" will deliver our long-term aspiration to be No.1 in Gastroenterology (GI), top 10 in Oncology, and with strong presence in Central Nervous System (CNS) and in Emerging Markets.

Takeda is a global and agile organization, committed to innovation, with world-class governance and diverse leadership.

Takeda is focused on three core therapeutic areas – Oncology, GI and CNS, plus Vaccines, and is executing an R&D transformation to build a world-class R&D organization with enhanced capabilities.

Takeda is also driving profitable growth through focusing on its Growth Drivers (GI, Oncology, CNS, and Emerging Markets), as well as cost discipline. Our mid-term key priorities are to Grow the Portfolio, Rebuild the Pipeline and Boost Profitability:

[Grow Portfolio]

- Focus on key products of Growth Drivers
- Reinforce specialty capabilities
- Pursue opportunities to divest or acquire assets

[Rebuild Pipeline]

- Leverage therapeutic area expertise to progress innovative assets
- Enhance capabilities internally and through external collaborations
- Energize R&D organization

[Boost Profitability]

- Increase Underlying Core Earnings margin 100-200bps per year
- Execute Global Opex Initiative
- Unlock cash and invest for profitable growth

Please refer to the "Corporate Philosophy" in the company website, "Presentation materials presented at the FY2016 Financial

Results Announcement held on May 10, 2017 (Driving Profitable Growth)" and "Presentation materials from Chief Medical & Scientific Officer on Jul 29, 2016 (Takeda R&D Transformation)" for details on the company's objectives and mid-term key strategies:

Corporate Philosophy:

<https://www.takeda.com/who-we-are/corporate-philosophy/>

Driving Profitable Growth:

[https://www.takeda.com/siteassets/system/investors/report/quarterlyannouncements/fy2016/fy-2016-q4-announcements-release-d-on-may-10-2017/qr2016\\_q4\\_p01\\_en.pdf](https://www.takeda.com/siteassets/system/investors/report/quarterlyannouncements/fy2016/fy-2016-q4-announcements-release-d-on-may-10-2017/qr2016_q4_p01_en.pdf)

Takeda R&D Transformation:

<https://www.takeda.com/siteassets/system/investors/report/quarterlyannouncements/fy2016/fy-2016-q1-announcements-release-d-on-july-29-2016/1.-takeda-rd-transformation.pdf>

**b. Business plans:**

The company's management indicators (management guidance; "Underlying growth" (%)) that are being targeted for FY2017 are as follows:

- Underlying Revenue: Low single digit
- Underlying Core Earnings: Mid-to-high teen
- Underlying Core EPS: Low-to-mid teen

For details on these management indicators, please refer to the "Presentation material at the FY2016 Financial Results Announcement held on May 10, 2017 (pages 8, 30, 41 and 62)" and the "Summary of financial statements [IFRS] (Consolidated) for the fiscal year ended March 31, 2017 (page 7 and 10)"

[https://www.takeda.com/siteassets/system/investors/report/quarterlyannouncements/fy2016/fy-2016-q4-announcements-release-d-on-may-10-2017/qr2016\\_q4\\_p01\\_en.pdf](https://www.takeda.com/siteassets/system/investors/report/quarterlyannouncements/fy2016/fy-2016-q4-announcements-release-d-on-may-10-2017/qr2016_q4_p01_en.pdf)

[https://www.takeda.com/siteassets/system/investors/report/quarterlyannouncements/fy2016/fy-2016-q4-announcements-release-d-on-may-10-2017/qr2016\\_q4\\_f1\\_en.pdf](https://www.takeda.com/siteassets/system/investors/report/quarterlyannouncements/fy2016/fy-2016-q4-announcements-release-d-on-may-10-2017/qr2016_q4_f1_en.pdf)

**c. Basic views and guidelines on corporate governance... Principle 3.1 (ii)**

Please refer to "Basic Views" in Part I section 1 of this report.

**(2) Securing the Rights and Equal Treatment of Shareholders**

**d. General shareholder meeting**

- The company sends a notice of convocation of Ordinary General Meeting of Shareholders three weeks prior to the day of the meeting and discloses the agenda as soon as possible on its website so that shareholders have sufficient time to review it.
- The company translates the notice of the meeting into English. The company utilizes an electronic platform for voting so that institutional and foreign investors can execute their voting rights easily.

**e. Cross-Shareholdings...Principle 1.4**

- The company holds shares of other companies with which it has business relationships as cross-shareholdings. The board reviews major cross-shareholdings in terms of the mid-to-long term business strategy and verifies the significance and effects of ownership on a yearly basis. The company considers divesting shares from applicable shareholdings that the board has deemed to be of little significance after taking the financial strategy and market environment into consideration.
- The company makes a decision on the exercise of voting rights regarding cross-shareholding after comprehensively reviewing whether the proposal makes a positive contribution to shareholder value. The company will object to any proposals that are deemed detrimental to shareholder value or corporate governance.

**f. Related Party Transactions...Principle 1.7**

- The company surveys Directors and seeks direct confirmation from Directors about the existence of related party transactions such as transactions involving Directors and their close relatives.
- The company has procedures that comply with the provisions of the Companies Act on competitive and conflict-of-interest transactions.
- Investments in, and loans and guaranties provided to affiliated companies require the approval of Business Review Committee or other decision-making bodies depending on the amount of the investment, loan, or guarantee.
- In addition to the above, the company will investigate any unusual transactions between the company and affiliated companies and consider the accounting and disclosure of such transactions, and, where the amounts are significant monitor such transactions on a quarterly basis.
- The company will apply the above procedures to any "major shareholder" (a shareholder who holds more than 10% of total shares as defined in the Financial Instruments and Exchange Act) although the company has no "major shareholders" at present.

### **(3) Appropriate Cooperation with Stakeholders Other Than Shareholders**

- The company takes into account the interests of various stakeholders including patients, customers, employees, clients, creditors, local communities, and shareholders in order to improve long-term corporate value.

### **(4) Ensuring Appropriate Information Disclosure and Transparency**

- The company makes timely and appropriate disclosures in a fair, detailed, and understandable manner to keep all shareholders informed in accordance with applicable laws including the Companies Act, the Financial Instruments and Exchange Act, and the Financial Instruments Exchange rules.
- The company promptly discloses financial and non-financial information beneficial to stakeholders such as shareholders in addition to the information required by laws and regulations.

### **(5) Responsibilities of the Board**

#### **g. Roles and Responsibilities of the Board... Supplementary Principle 4.1.1**

- The board focuses on discussing and resolving of strategic or particularly important matters such as the establishment of and amendments to Takeda's corporate philosophy as well as important management policies and plans such as mid- to long-term strategies and corporate plans. In addition, the board delegates responsibilities for decision-making regarding some of the important business decisions to the management under the company's Articles of Incorporation. The Board of Directors Bylaws specify the matters for resolution by the board. In addition to deliberation and resolution of the matters, the board is responsible for the supervision of business executed by directors.
- As to the aforementioned matters delegated to the management, specifically, they are delegated to the Business Review Committee (which is responsible for general management matters), the Portfolio Review Committee (which is responsible for R&D and product-related matters), and Audit, Risk and Compliance Committee (which is responsible for internal audit, risk, management and compliance matters) respectively. The board supervises the management's execution of these matters through the reports of the aforementioned committees.
- Matters not requiring the attention of the aforementioned committees are delegated to the Takeda Executive Team which consists of the President & CEO and members who report directly to the President & CEO. Takeda aims for agile and efficient decision-making across the group.

#### **h. Composition of the board... Principle 4.8, Supplementary Principle 4.11.1**

- The company has 13 Directors (including four Directors who are Audit and Supervisory Committee Members), of which eight are Independent External Directors (including three independent External Directors who are Audit and Supervisory Committee Members) at the time of writing. The board is chaired by an Independent External Director.
- The company makes appropriate Director appointments, and constitutes the board based on the following principles:
  - Appoint Internal or External Directors irrespective of nationality or gender who can contribute to the balance of knowledge, experience, and capacity needed for governance of the company's global operations.
  - The board shall be a size that allows effective and agile decision-making and appropriate supervision of management (the company's Articles of Incorporation limit the maximum number of Directors who are not Audit and Supervisory Committee Members to 12 and Directors who are Audit and Supervisory Committee Members to four).

#### **i. Policies and procedures in the nomination of directors... Principle 3.1 (iv), (v)**

- The company nominates candidates for Directors who are not Audit and Supervisory Committee Members (excluding candidates for External Directors) considering whether they possess ample experience adequate for overseeing the management of Takeda Global as a whole, great insight and dignity required of a directorship position, demonstrated competencies or high-level performance required of business managers and embodied "Takeda-ism" at a high level.
- The company nominates candidates for Directors who are Audit and Supervisory Committee Members (excluding candidates for External Directors) among those who have outstanding integrity and assume a firm attitude in carrying out duties in all circumstances and have a wide range of expertise and/or knowledge that guarantees sound audit for Takeda's global operations.
- Candidates for members of the Board of Directors are nominated by the Board of Directors. For Director candidates, the Nomination Committee has been established with an External Director as its Chairperson and with the majority of members being External Members, to ensure the appropriateness of the candidate. Candidates for External Directors are elected based on the "Internal criteria for independence of External Directors". Candidates for Directors who are Audit and Supervisory Committee Members are nominated by the Board of Directors, after obtaining agreement of Audit and Supervisory Committee.

The profiles and reasoning of individual appointments of nominated Director candidates are disclosed in the "Notice of Convocation of Ordinary General Meeting of Shareholders" and the Securities Report.

#### **j. Remuneration of the directors, etc.... Principle 3.1 (iii)**

- Please refer to the "Policies determining the amount of remuneration or the method for calculating remuneration" in Part II

section 1 of this report.

**k. Independent Directors... Principle 4.9, Supplementary Principle 4.11.2**

- The company has established its own standards for determining the independence of External Directors to ensure such Directors are of a character that will help the company achieve a genuine sharing of interests with its shareholders.
- Please refer to the "Internal Criteria for Independence of External Directors of the Company" under the title of "Independent Directors" in Part II section 1 of this report.
- Where positions of External Directors are held concurrently this is stated in the "Notice of Convocation of Ordinary General Meeting of Shareholders" and the Securities Report. In addition, the company believes the concurrent holding of these positions does not prevent External Directors from allocating sufficient time and attention to perform the roles and duties of their offices.

**l. Director Training... Supplementary Principle 4.14.2**

- The company provides necessary information about the company (Takeda-ism, governance, business strategies etc.), industry trends and legal responsibilities (duty of care, duty of loyalty etc.) to Directors when they take office.
- The company continues to provide useful information and learning opportunities etc. even after Directors take office.
- In addition, the company provides specific information about Takeda and the pharmaceutical industry, and it provides study sessions and site visits as appropriate.
- The company bears the expenses for all training.

**m. Board Effectiveness... Supplementary Principle 4.11.3**

- Each Director contributes to an evaluation of the board's effectiveness at least once a year. The board analyzes and evaluates the effectiveness of the board and acts on any opportunities for improvement.
- As in FY2015, a review of the performance and effectiveness of the Board of Directors was performed in FY2016 by a third party organization by administering a questionnaire and interviewing each Director individually such that the individual opinions of the Directors were easily obtained. Based on the review, the Board of Directors of the Company was deemed to be effective and, in comparison with the previous fiscal year, comments from the members of the Board of Directors indicating that the functions of the Board of Directors improved were obtained. The results from this review were discussed at the Board of Directors meeting held after the External Directors Meeting after incorporating the analysis and recommendations made by the third party organization. As a consequence, the Company was able to gain a deeper understanding of the strengths of the Board of Directors and was able to share priorities on management strategies to further enhance corporate value.

**(6) Dialogue with Shareholders... Principle 5.1**

- Takeda has a structure in place to continue "purposeful dialogue" with shareholders on topics including corporate governance, corporate strategy, capital policy, business performance, and business risk. Engaging in dialogue from a long-term perspective, and with transparency and fairness, enables the company to build strong relationships of trust with its shareholders, who share the common interest of realizing "sustainable growth of corporate value".
  - The Chief Financial Officer (CFO) is responsible for overall engagement with shareholders, and the Head of Investor Relations (IR) in the Global Finance department is accountable for operational IR activities. When planning and conducting meetings with shareholders, the Head of IR determines the meeting style and Takeda participants (which may include the President & CEO, the CFO, or other senior management), taking into consideration the objectives and impact of the meeting, and the characteristics of each shareholder.
  - The IR team promotes dialogue with shareholders by collecting necessary information from various internal divisions such as finance, R&D, and commercial, and devising ways of effective communication to shareholders through close collaboration with these divisions.
  - Takeda continues to enhance activities aiming to deepen the understanding of shareholders about topics including the company's management policy, corporate governance, strategies, and current business status. With respect to engagement with institutional investors, in addition to daily one-on-one meetings, Takeda holds quarterly earnings conferences and hosts IR Day events that focus on topics of high shareholder interest. Information about these events is disclosed to individual investors through posting on the corporate website, and Takeda also holds company presentation meetings specifically for individual investors.
  - Shareholders' interests and concerns which are raised during dialogue with the company are shared with the senior management and are utilized for business analysis and for considering the optimal way of disclosing information.
  - When engaging in communication with shareholders, Takeda appropriately manages insider information in compliance with internal rules, and fairly and timely discloses that information. In advance of earnings announcements, Takeda implements a "silent period", during which no communication with shareholders regarding earnings information is permitted.

## 2. Capital Structure

Foreign Shareholding Ratio: From 20% to less than 30%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Nippon Life Insurance Company	50,760,385	6.42
The Master Trust Bank of Japan, Ltd. (Trust account)	42,077,300	5.32
Japan Trustee Services Bank, Ltd. (Trust account)	36,527,500	4.62
JP Morgan Chase Bank 380055	34,038,519	4.31
Takeda Science Foundation	17,911,856	2.27
Barclays Securities Japan Limited	15,000,000	1.90
Japan Trustee Services Bank, Ltd. (Trust account 5)	14,426,500	1.82
State Street Bank West Client-Treaty 505234	11,671,940	1.48
Japan Trustee Services Bank, Ltd. (Trust account 1)	10,728,000	1.36
Japan Trustee Services Bank, Ltd. (Trust account 7)	10,719,000	1.36

Controlling Shareholder (except for Parent Company): --

Parent Company: N/A

Supplementary Explanation: --

## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo 1st Section, Nagoya 1st Section, Sapporo Existing Market, Fukuoka Existing Market
Fiscal Year-End	End of March
Type of Business	Pharmaceuticals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000 persons
Sales (consolidated) as of the End of the Previous Fiscal Year	More than 1 trillion Yen
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	100 companies or more and less than 300 companies

## 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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## 5. Other Special Circumstances which may have Material Impact on Corporate Governance

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form: Company with Audit and Supervisory Committee

[Directors]

**Update**

Maximum Number of Directors Stipulated in Articles of Incorporation	16 persons
Term of Office Stipulated in Articles of Incorporation (Directors who are members of the Audit and Supervisory Committee)	2 years
Term of Office Stipulated in Articles of Incorporation (Directors who are NOT members of the Audit and Supervisory Committee)	1 year
Chair of the Board Meeting	Independent External Director
Number of Directors	13 persons
Election of External Directors	Elected
Number of External Directors	8 persons
Number of Independent Directors	8 persons

External Directors' Relationship with the Company (1)

**Update**

Name	Attribute	Relationship with the Company (*1)										
		a	b	c	D	e	f	g	h	i	j	k
Masahiro Sakane	Coming from another company											



Michel Orsinger	Coming from another company											
Toshiyuki Shiga	Coming from another company											
Emiko Higashi	Coming from another company											
Yoshiaki Fujimori	Coming from another company											
Shiro Kuniya	Attorney-at-law								✕			
Koji Hatsukawa	Certified public accountant											
Jean-Luc Butel	Coming from another company											

\*1 Categories for "Relationship with the Company

- a. Executive of the Company or its subsidiaries
- b. Non-executive Director or executive of a parent company of the Company
- c. Executive of a fellow subsidiary company of the Company
- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the listed company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director/auditor
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the Director himself/herself only)
- i. Executive of a company, between which and the Company External Directors/Corporate Auditors are mutually appointed (the Director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the Director himself/herself only)
- k. Others

External Directors' Relationship with the Company (2)

Update

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Masahiro Sakane	✓	N/A	Mr. Masahiro Sakane has long managed globally operating company and has advanced insights based on his rich experiences in corporate management. His terms of office are 3 years as of June 2017. As an External Director, he has been showing strong presence in the Company's Board of Directors by proactively expressing his opinions, contributing to secure sound management of the Company. He has also proactively expressed his opinions in the Nomination Committee, an advisory committee of the Board of Directors, as a member of the Committee, appointed as the chairperson of the Committee as of June 2017. The Company has evaluated Mr. Masahiro Sakane and determined that he is qualified to be an External Director of the Company because the Company believes these qualities are vital to the Board of Directors of the Company which operates global business. The Company deemed that he is highly independent and designated him as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as he executes his duties as an External Director.
Michel Orsinger	✓	N/A	Mr. Michel Orsinger has had various important roles in world leading mega pharma such as Johnson & Johnson, Novartis. He has advanced insights based on his rich management experiences in global healthcare industries. His terms of office are 1 year as of June 2017. The Company has evaluated Mr. Michel Orsinger and determined that he is qualified to be an External Director of the Company because the Company believes these qualities are vital to the Board of Directors of the Company which operates global pharmaceutical business. The Company deemed that he is highly

			independent and designated him as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as he executes his duties as an External Director.
Toshiyuki Shiga	✓	N/A	Mr. Toshiyuki Shiga has not only long managed globally operating company but has been leading a public-private fund recently. He has advanced insights based on his rich experiences in corporate management and handling pivotal matters in the Japanese industries. His terms of office are 1 year as of June 2017. He has also proactively expressed his opinions in the Compensation Committee, an advisory committee of the Board of Directors, as the chairperson of the Committee. The Company has evaluated Mr. Toshiyuki Shiga and determined that he is qualified to be an External Director of the Company because the Company believes these qualities are vital to the Board of Directors of the Company which operates global business. The Company deemed that he is highly independent and designated him as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as he executes his duties as an External Director.
Emiko Higashi	✓	N/A	Ms. Emiko Higashi is Managing Director of Tomon Partners, LLC which specializes in M&A and strategic advisory for technology and healthcare companies etc. Previously, Ms. Higashi was Managing Director, Investment Banking of Merrill Lynch & Co. She has a globally high level knowledge and rich experiences in the area of technology, finance & healthcare industries. Her terms of office are 1 year as of June 2017. The Company has evaluated Ms. Emiko Higashi and determined that she is qualified to be an External Director of the Company because the Company believes her knowledge and experiences are vital to the Board of Directors of the Company which operates global pharmaceutical business. The Company deemed that she is highly independent and designated her as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as she executes her duties as an External Director.
Yoshiaki Fujimori	✓	N/A	Mr. Yoshiaki Fujimori has advanced insights based on his rich experiences in a globally operating company as well as having had various important roles in one of the world leading U.S. global corporations. His terms of office are 1 year as of June 2017. He has also proactively expressed his opinions in the Compensation Committee, an advisory committee of the Board of Directors, as a member of the Committee. The Company has evaluated Mr. Yoshiaki Fujimori and determined that he is qualified to be an External Director of the Company because the Company believes these qualities are vital to the Board of Directors of the Company which operates global business. The Company deemed that he is highly independent and designated him as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as he executes his duties as an External Director.
Shiro Kuniya	✓	The Company receives advice, etc., on legal matters as needed basis from other lawyers working at Oh-Ebashi LPC & Partners, the law firm where Shiro Kuniya works concurrently, but	Mr. Shiro Kuniya has been active as an attorney-at-law for many years. He has a wide-ranging experience and a high level of knowledge in the area of corporate and international legal affairs. Since June 2013, Mr. Kuniya had been involved in the Company's management as an External Corporate Auditor of the Company. The Company has evaluated Mr. Shiro Kuniya and determined that he is qualified to be an External Director of the Company because the Company believes his presence as a Director (Audit and Supervisory Committee Member) of the Company will further

		the proportion of the annual value of those transactions to the sales of the Company and of Oh-Ebashi LPC & Partners is less than 1% in both cases. In addition, there is no advisory contract between the Company and Oh-Ebashi LPC & Partners.	facilitate impartial and fair judgment and ensure sound management of the Company. He has also proactively expressed his opinions in the Nomination Committee, an advisory committee of the Board of Directors, as a member of the Committee. The Company deemed that he is highly independent and designated him as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as he executes his duties as an External Director.
Koji Hatsukawa	✓	N/A	Mr. Koji Hatsukawa has been active in the audit on corporate accounting as a certified public accountant for many years. He has a wide-ranging experience and a high level of knowledge in the area of finance and corporate accounting. His terms of office are 1 year as of June 2017. The Company has evaluated Mr. Koji Hatsukawa and determined that he is qualified to be an External Director of the Company because the Company believes Mr. Hatsukawa's presence in the Company as a Director (Audit and Supervisory Committee Member) will further facilitate impartial and fair judgment and secure sound management of the Company. The Company deemed that he is highly independent and designated him as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as he executes his duties as an External Director.
Jean-Luc Butel	✓	N/A	Mr. Jean-Luc Butel has managed a private healthcare consulting firm. Previously, he has had various important roles in world leading mega pharma such as Baxter International, Medtronic. He has advanced insights based on his rich management experiences in global healthcare industries. His terms of office are 1 year as of June 2017. The Company has evaluated Mr. Jean-Luc Butel and determined that he is qualified to be an External Director of the Company because the Company believes Mr. Jean-Luc Butel's presence in the Company as a Director (Audit and Supervisory Committee Member) will further facilitate impartial and fair judgment and secure sound management of the Company. The Company deemed that he is highly independent and designated him as an Independent Director of the Company because there is no risk of conflict with the interests of the Company's general shareholders as he executes his duties as an External Director.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee: Established

Committee's Name, Composition, and Attributes of Chairperson

Nomination Committee

Name	Nomination Committee
Number	4 persons
Chairman	External Director
Member	2 External Director and 1 Internal Director

Compensation Committee

Name	Compensation Committee
Number	3 persons
Chairman	External Director
Member	1 External Director and 1 Internal Director

Supplementary Explanation

Nomination Committee and Compensation Committee were established as advisory bodies to the Board of Directors. The



committees serve to ensure transparency and objectivity in decision-making processes and results relating to personnel matters for Directors (appropriate standards and procedures for appointment and reappointment, and having and administering appropriate succession plans) and results relating to the compensation system (appropriate levels of compensation for the Directors, appropriate performance targets within the Director bonus system, and appropriate bonuses based on business results).

Majority of each committee members must be External Members (External Directors or external experts). Furthermore, at least one Director who is an Audit & Supervisory Committee member must be assigned to each committee and each Committee is chaired by an External Director.

#### **[Supervisory Committee]**

##### Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Internal Directors	External Directors	Chairperson
Supervisory Committee	4	1	1	3	External Director

Appointment of Directors and/or Staff to Support the Supervisory Committee	Appointed
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##### Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

In order to support the operations of the Audit and Supervisory Committee and in order to function as the secretariat for the Audit and Supervisory Committee, the Audit and Supervisory Committee Office shall be established and it shall secure the proper number of staff who will be devoted exclusively thereto. Personnel matters with respect to the members of the Audit and Supervisory Committee Office shall be handled by agreement between Directors and the Audit and Supervisory Committee.

##### Cooperation among Supervisory Committee, Accounting Auditors and Internal Audit Departments

(Cooperation between Supervisory Committee and Accounting Auditors)

The Audit and Supervisory Committee receives reports on audit plans, the audit structure/system and audit results for each business year from Accounting Auditors, and the Audit and Supervisory Committee and Accounting Auditors closely cooperate with each other by exchanging information and opinion as necessary.

(Cooperation between Supervisory Committee and Internal Audit Division)

Based on the status of development and operation of the internal control system, the Audit and Supervisory Committee shall have close cooperation with internal audit division, internal control promoting division and Accounting Auditor to which the Audit and Supervisory Committee shall have the authority to give instructions, and conduct a systematic audit utilizing the information derived therefrom.

(Relationship between Supervisory Committee and Internal Control Promoting Department)

The Audit and Supervisory Committee closely cooperates with divisions responsible for the internal control function such as compliance, risk management and accounting/finance, etc. and utilize information from the Division to enable effective audits and supervision by the Audit and Supervisory Committee.

#### **[Independent Directors]**

Number of Independent Directors <b>Update</b>	8 persons
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##### Independent Directors

The Company has set the "Internal criteria for independence of External Directors" as follows, and elected all External Directors who meet these criteria as Independent Directors.

##### **<Internal Criteria for Independence of External Directors of the Company>**

The Company will judge whether an External Director has sufficient independence against the Company with the emphasis on his/her meeting the following quality requirement, on the premise that he/she meets the criteria for independence established by the financial instruments exchanges.

The Company believes that such persons will truly meet the shareholders' expectations as the External Directors of the Company, i.e., the persons who can exert strong presence in a diversified members of the Directors and of the Company by proactively continuing to inquire the nature of, to encourage improvement in and to make suggestions regarding the important matters of the Company doing pharmaceutical business globally, for the purpose of facilitating impartial and fair judgment on the Company's business and securing sound management of the Company.

The Company requires the persons to be the External Directors to meet two or more items out of the following four items of quality

requirements:

- (1) He/She has advanced insights based on the experience of corporate management;
- (2) He/She has a high level of knowledge in the area requiring high expertise such as accounting and law;
- (3) He/She is well versed in the pharmaceutical and/or global business; and
- (4) He/She has advanced linguistic skill and/or broad experience which enable him/her to understand diverse values and to actively participate in discussion with others.

#### [Incentives]

Incentive Policies for Directors	Adoption of performance-based remuneration system
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Please refer to the "Directors' Compensation Policy for fiscal year 2017" attached at the end of this report.

#### [Director Remuneration]

Disclosure of Individual Directors' Remuneration	Partially disclosed individually
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods: Annual Securities Report [Update](#)

The total amounts of remuneration, etc., for Directors and Corporate Auditors for fiscal year 2016 are as follows.

Directors who are not Audit and Supervisory Committee Members 12: 1,293 million JPY  
(7 External Directors among the above Directors: 106 million JPY)  
Directors who are Audit and Supervisory Committee Members 4: 100 million JPY  
(3 External Directors among the above Directors: 59 million JPY)  
Corporate Auditors 4: 28 million JPY  
(2 External Corporate Auditors among the above Corporate Auditors: 6 million JPY)

(Notes)

1. The Company was converted into a "Company with Audit and Supervisory Committee" from a "Company with Board of Corporate Auditors" at the close of the 140th Ordinary General Meeting of Shareholders held on June 29, 2016.
  2. The above-mentioned Directors who are not Audit and Supervisory Committee (ASC) Members include those who were Directors before the Company became a "Company with Audit and Supervisory Committee" (among them, 1 External Director retired at the close of the above-mentioned General Meeting of Shareholders).
  3. The compensation, etc. for Corporate Auditors was paid for the term before the Company became a "Company with Audit and Supervisory Committee" and the compensation, etc. for Directors who are ASC Members was paid for the term after the Company became a "Company with Audit and Supervisory Committee."
  4. The total amounts of compensation, etc. for Directors who are not ASC Members above include the following basic compensation and cost postings relating to the stock compensation and stock options which were granted until fiscal year 2013. These amounts do not include the salaries that Directors, who also work as employees, receive as employee portions of their compensation, and the bonuses.
    - [1] The basic compensation before the Company became a "Company with Audit and Supervisory Committee" was a fixed amount depending on each position, and its total amount per month was no more than 90 million JPY (within this amount, no more than 10 million JPY per month was for External Directors) (based on a resolution of the 138th Ordinary General Meeting of Shareholders held on June 27, 2014). The basic compensation after the Company became a "Company with Audit and Supervisory Committee" is a fixed amount depending on each position, and its total amount per month is no more than 150 million JPY (within this amount, no more than 30 million JPY per month is for External Directors) (based on a resolution of the 140th Ordinary General Meeting of Shareholders held on June 29, 2016).
    - [2] The cost posting relating to stock options is the value posted during this fiscal year in compensation, etc., for Stock Acquisition Rights allotted as stock options in fiscal year 2013 based on the resolution of the 132nd Ordinary General Meeting of Shareholders (14 million JPY). The upper limit of such compensation, etc. is 350 million JPY per year (the allotted maximum number is calculated by dividing the amount of the above-mentioned upper limit by the fair value of each stock option on the allotment date).
    - [3] The cost posting relating to stock compensation is the value posted during this fiscal year (766 million JPY, which includes the 30 million JPY for External Directors).
- (i) The stock compensation granted in fiscal years 2014 and 2015 are based on the resolution of the 138th Ordinary General Meeting of Shareholders held on June 27, 2014, for which no more than 2 billion JPY was contributed per year for three consecutive fiscal years. The upper limit of the number of the stocks granted is calculated by dividing the amount of the above-mentioned upper

limit by the closing price of the stocks of the Company at the Tokyo Stock Exchange on the predetermined day of each fiscal year. Directors residing overseas and External Directors are excluded from Directors who are granted this stock compensation.

(ii) The stock compensation granted in fiscal year 2016 is based on the resolution of the 140th Ordinary General Meeting of Shareholders held on June 29, 2016. The upper limit of the amount contributed for that stock compensation and the number of the stocks to be granted are as follows:

(a) Stock compensation granted to Directors who are neither External Directors nor ASC Members (excluding Directors residing overseas)

Upper limit of 2.7 billion JPY per year for three consecutive fiscal years (the upper limit of the number of the stocks to be granted is calculated by dividing the amount of the above-mentioned upper limit by the closing price of the stocks of the Company at the Tokyo Stock Exchange on a predetermined day of each fiscal year)

(b) Stock compensation granted to External Directors who are not ASC Members

Upper limit of 0.3 billion JPY (the upper limit of the number of the stocks to be granted is calculated by dividing the amount of the above-mentioned upper limit by the closing price of the stocks of the Company at the Tokyo Stock Exchange on a predetermined day of each fiscal year)

5. The proposal for the "Payment of Bonuses to Directors who are not Audit and Supervisory Committee Members" was proposed at this General Meeting of Shareholders held on June 28, 2017 and was approved as proposed. The Directors' bonuses, included among the compensation, etc., for Directors who are not ASC Members for this fiscal year, will be paid within the amount set forth in the said proposal. Directors' bonuses are calculated depending on each position based on the Company's financial results (achievement of key performance indicators such as the consolidated revenue, Core Earnings and EPS). Based on the report of the Compensation Committee, the actual payment amount of bonuses was resolved at the meeting of the Board of Directors to be held after this General Meeting of Shareholders.

6. The total amounts of compensation, etc. for Directors who are ASC Members include the following basic compensation and cost postings relating to the stock compensation.

[1] The basic compensation is a fixed amount depending on each position, and its total amount per month is no more than 15 million JPY (based on a resolution of the 140th Ordinary General Meeting of Shareholders held on June 29, 2016).

[2] The cost posting relating to stock compensation is the value posted during this fiscal year (25 million JPY). This stock compensation is based on a resolution of the 140th Ordinary General Meeting of Shareholders held on June 29, 2016, for which no more than 200 million JPY will be contributed in this fiscal year for two consecutive fiscal years. The upper limit of the number of the stocks to be granted is calculated by dividing the amount of the above-mentioned upper limit by the closing price of the stocks of the Company at the Tokyo Stock Exchange on a predetermined day of each fiscal year.

7. The compensation, etc. of Corporate Auditors is limited to basic compensation, the value of which is no more than 15 million JPY per month (based on a resolution of the 132nd Ordinary General Meeting of Shareholders held on June 26, 2008).

Name (position): Yasuchika Hasegawa (Director)

Total amount of consolidated remuneration, etc. (in million yen): 409

Company category: Filing company

Amount of consolidated remuneration, etc. by type (in million yen):

- Basic compensation: 117

- Bonus: 147

- Long term incentive: 145 (Note 1)

- Other: 0

Name (position): Christophe Weber (Director)

Total amount of consolidated remuneration, etc. (in million yen): 1,048

Company category: Filing company

Amount of consolidated remuneration, etc. by type (in million yen):

- Basic compensation: 242 (Note 2)

- Bonus: 160

- Long term incentive: 501 (Note 3)

- Other: 145 (Note 4)

Name (position): Shinji Honda (Director)

Total amount of consolidated remuneration, etc. (in million yen): 157

Company category: Filing company

Amount of consolidated remuneration, etc. by type (in million yen):

- Basic compensation: 35

- Bonus: 62

- Long term incentive: 59 (Note 1)

- Other: 0

Name (position): Andy Plump(Director)

Total amount of consolidated remuneration, etc. (in million yen): 425

Company category: Filing company/ Takeda Pharmaceuticals International, Inc. (Note 5)

Amount of consolidated remuneration, etc. by type (in million yen):

- Basic compensation: 12/104

- Bonus: 0/128

- Long term incentive: 0/143 (Note 6)

- Other 0/38(Note 7)

(Note 1) The total amount of Long-Term Incentive consists of Stock Option granted until fiscal year 2013 and Stock Compensation (The Board Incentive Plan Trust ("BIP Trust") ) introduced in fiscal year 2014. Long-Term Incentive is the compensation system of which expenses are accrued over multiple fiscal years based on the vesting timeframe of each plan. The described amount is the value accrued during fiscal year 2016 within remuneration concerning Stock Option and Stock Compensation granted in fiscal year 2014, 2015 and 2016.

(Note 2) Basic Compensation includes the amount equivalent to housing allowance, pension allowance, etc. and income taxes. (112 million yen)

(Note 3) The total amount of Long-Term Incentive consists of Stock Compensation (The Board Incentive Plan Trust ("BIP Trust") ) . Long-Term Incentive is the compensation system of which expenses are accrued over multiple fiscal years based on the vesting timeframe of each plan. The described amount is the value accrued during fiscal year 2016 within remuneration concerning Stock Option and Stock Compensation granted in fiscal year 2014, 2015 and 2016.

(Note 4) The described amount is compensation for the loss of unvested equity compensation, which would have been paid to Christophe Weber, Director by the previous company. This payment is included in the total amount to be approved in the Proposal of Payment of Directors' Bonuses at the 141st Ordinary General Meeting of Shareholders.

(Note 5) These amounts are salaries etc. which Dr. Andrew Plump received as Chief Medical & Scientific Officer.

(Note 6)The total amount of Long-Term Incentive consists of Stock Compensation (The Board Incentive Plan Trust ("BIP Trust") ). Long-Term Incentive is the compensation system of which expenses are accrued over multiple fiscal years based on the vesting timeframe of each plan. The described amount is the value accrued during fiscal year 2016 within remuneration concerning Stock Option and Stock Compensation granted in fiscal year 2015 and 2016.

(Note 6) These are the recorded expenses for the amount equivalent to compensation for the loss of compensation which would have been paid to Andrew Plump, Director, by the previous company (11 million yen), pension contribution, fringe benefits and taxes, etc. thereto was incurred by Takeda Pharmaceuticals International Inc..

Policies determining the amount of remuneration or the method for calculating remuneration	Exist
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#### Policies determining the amount of remuneration or the method for calculating remuneration

The company has formulated the "Directors Compensation Policy (attached at the last of the report) ", and based on this policy and the decision-making process, the Directors' Compensation Level and Mix are determined.

#### **[Supporting System for External Directors]**

We provide, in a timely manner, and in cooperation with other departments, information about important management-related matters to External Directors to help them make informed decisions. Explanations of the summary of topics to be discussed at board meetings are also provided in advance. The CEO Office is responsible for coordination with External Directors. For External Directors who are Audit and Supervisory Committee Members, a reporting system is established for their activities such as auditing, etc., in order to support the operation of the Audit and Supervisory Committee and to be a secretariat of the Audit and Supervisory Committee, the Audit and Supervisory Committee Office is placed as a dedicated staff.

## **2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Update**

At Takeda, the Board of Directors determines the fundamental policies for the Group, and management and business operations are then conducted in accordance with their decisions. Transparency of the Board of Directors is achieved through audits conducted by Audit and Supervisory Committee. Moreover, as management tasks continue to diversify, the company shall establish Takeda Executive Team that consists of President & CEO and members who manage and supervise each function of Takeda Group, and also establish Business Review Committee (which is responsible for general management matters), Portfolio Review Committee (which is responsible for R&D and products related matters), and Audit, Risk and Compliance Committee (which is responsible for internal audit, risk management and compliance matters) that review important matters to ensure systems whereby faster and more flexible work execution and deeper cooperation among the various functions take place.

#### Board of Directors

Takeda has given its Board of Directors the primary functions of observing and overseeing business execution as well as decision-making for strategic or particularly important matters regarding company management. The Board of Directors consists of 13 Directors (including 1 female), 8 Japanese and 5 non-Japanese, including 8 External Directors, and meets in principle 8 times per year to make resolutions and receive reports on important matters regarding management. The board is chaired by an Independent External Director in order to increase independency of the board. In order to ensure the validity and transparency of the decision-making process for the election and compensation of Internal Directors, Takeda has a Nomination Committee and a Compensation Committee, in which majority of the members are External Directors and one of the External Directors is the chairman of each committee, as advisory committees of the board.

#### Supervisory Committee's Audit

The Audit and Supervisory Committee establishes the system which secures the independency and effectiveness of the Committee, based on "Rules of Audit and Supervisory Committee's Audit, etc." The Committee conducts organizational audits in collaboration with Group Internal Audit, etc.

#### Takeda Executive Team

The Takeda Executive Team consists of the President & CEO and members who report directly to the President & CEO. Each members manages each of the following Takeda Group's functions; finance and accounting, human resources, legal, corporate communication, R&D, manufacturing, quality control, each regional business unit of Japan, US, Europe & Canada and emerging market and each specialty business unit of oncology and vaccine.

#### Business Review Committee

The Business Review Committee consists of Takeda Executive Team members. In principle, it holds a meeting twice a month to discuss and make decisions on important matters for corporate management and business execution.

#### Portfolio Review Committee

The Portfolio Review Committee (PRC) consists of Takeda Executive Team members and the heads of the following functions; R&D, manufacturing, each business unit of Japan, US, Europe & Canada, emerging market, oncology and vaccine, etc. The PRC is responsible for ensuring that Takeda's portfolio is optimized to achieve the organization's strategic objectives, and determines the composition of the portfolio by reviewing and approving R&D investments in portfolio assets. In addition to determining which assets and projects will be funded, the PRC defines how investments will be resourced. In principle, it holds a meeting twice or three times a month.

#### Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee consists of Takeda Executive Team members and the heads of the following functions; legal, internal control, finance & accounting and compliance, etc. In principle, it holds a meeting once a quarter to discuss and make decisions on important matters for internal controls, risk managements and compliance.

#### Accounting Audit

The accounting auditor of the Company, KPMG AZSA LLC, was appointed at a general shareholders' meeting. The Company's accounting was audited by the following two certified public accountants from KPMG AZSA LLC: Mr. Koichi Kohori (consecutive auditing period: 3 years,) and Mr. Naohiro Nishida (consecutive auditing period: 2 years). These 2 certified public accountants were supported by 12 other certified public accountants and 36 other individuals.

The Audit and Supervisory Committee makes decisions, such as the reappointment or non-reappointment of the account auditor, after taking the audit quality, quality control and independence of the accounting auditor into account.

#### Liability Limitation Agreement

The Company has executed agreements with External Directors stating that the maximum amount of their liabilities for damages as set forth in Article 423, Paragraph 1 of the Companies Act shall be the amount provided by law.

### 3. Reasons for Adoption of Current Corporate Governance System

The Company became a Company with Audit and Supervisory Committee based on the resolution at the Ordinary General Meeting of Shareholders held on June 29, 2016. We aim for increased transparency and independency of the board, and further enhancement of the corporate governance, through establishing the systems of audit and supervision conducted by ASC and increasing the proportion in the number of External Directors and the diversity of the board. The governance structure also enables us to enhance the separation of business execution and supervision by delegating decision-making authority to Directors, which realizes further agility in decision-making and helps the board of Directors focus more on discussions of business strategies and particularly important business matters.



### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

Early Notification of General Shareholder Meeting	The notice is dispatched three weeks prior to the day of the meeting. In addition, Takeda strives to disclose the notice earlier than the dispatch of it on its website and other websites, including that of the administrator of the shareholder's register, Mitsubishi UFJ Trust and Banking Corporation.
Scheduling AGMs Avoiding the Peak Day	Takeda is aiming to convene its General Meeting of Shareholders on a date other than that set by many Japanese companies. However, meeting date is decided based on availability of venue as well as administrative schedule.
Allowing Electronic Exercise of Voting Rights	Takeda shareholders have been able to exercise voting rights by electronic means since the General Meeting of Shareholders held in June 2007.
Participation in Electronic Voting Platform	Takeda has been utilizing the electronic voting platform operated by Investors Communications Japan, Inc. (ICJ) since the General Meeting of Shareholders held in June 2007.
Providing Convocation Notice in English	To encourage shareholders to vote, Takeda publishes the Japanese and English versions of the notice of convocation on its website and other websites, including that of the administrator of the shareholder's register, Mitsubishi UFJ Trust and Banking Corporation.
Other	Takeda organizes the General Meeting of Shareholders to try to present material to shareholders in a format that is easy to understand, including the use of slide and video presentations by the President & CEO to explain performance and business policies.

#### 2. IR Activities

	Supplementary Explanations	Presentation made by senior management
Preparation and Publication of Disclosure Policy	Takeda formulates disclosure guidelines that specify disclosure policies, the functions within Takeda with responsibility for information disclosure, and the related communication channels and procedures.	
Regular Investor Briefings for Individual Investors	During fiscal year 2016, Takeda's department responsible for IR organized company presentations aimed at retail investors 5 times throughout Japan with support from securities companies and the securities exchange.	No
Regular Investor Briefings for Analysts and Institutional Investors	In principle, Takeda holds earnings release conferences twice a year on the same days as the full-year and second quarter results are released. These events include results presentations and a Q&A session in which participants can ask senior management questions directly. Conference calls are held when the quarterly results for the first and third quarters are released. These also include presentations of results and the opportunity to question senior management directly.	Yes
Regular Investor Briefings for Overseas Investors	Conference calls are held in English on the release of the full-year results and the results for the first, second and third quarters. Conference call participants have the opportunity to question senior management directly. In June 2016, Takeda organized the company presentation in Tokyo focused on Oncology and R&D strategies. For overseas investors, a live audio webcast was streamed and participation through a conference call was made available.	Yes
Posting of IR Materials on	URL : <a href="http://www.takeda.com/">http://www.takeda.com/</a>	



Website	Material available: Quarterly financial statements, data book, presentation materials used in earnings release conferences, annual reports, notices of convocation of ordinary general meetings of shareholders, presentations given at conference held by securities companies, notices of resolutions, and others.	
Establishment of Department and/or Manager in Charge of IR	Department responsible for IR: Global Finance, IR	

### 3. Measures to Ensure Due Respect for Stakeholders

Update

Stipulation of Internal Rules for Respecting the Position of Stakeholders	Takeda's mission of "striving towards Better Health and Brighter Future for people worldwide through leading innovation in medicine" expresses a commitment to make a positive contribution to patients and healthcare professionals through pharmaceuticals. The Takeda's Values, which encompasses Takeda-ism and its four key priorities (Patient, Trust, Reputation, Business), clarifies the Company emphasizes the importance of its stakeholders including patients. Moreover, the Takeda Global Code of Conduct provides ethical guidelines for employees based on respect for the perspectives of stakeholders.
Implementation of Environmental Activities, CSR Activities etc.	Environmental protection activities: Takeda engages in these activities from a medium to long-term perspective, based on its "Global Policy on EHS". As well as setting specific performance targets as "Environmental Action Plan" for global warming countermeasures and waste reduction centered on the production and research facilities of Group companies worldwide, Takeda also engages in a voluntary "Responsible Care" program to ensure environmental protection, safety, and health as part of its responsibilities as a company that manages chemical substances. CSR activities: A dedicated CSR unit within the Corporate Communications & Public Affairs oversees CSR activities that emphasize the importance of global corporate citizenship, based on international CSR-related principles and standards such as the Sustainable Development Goals (SDGs) and the United Nations Global Compact.
Development of Policies on Information Provision to Stakeholders	Takeda formulates disclosure guidelines that specify disclosure policies, functions with responsibility for information disclosure, and the related communication channels and procedures.
Other	We will continue to actively appoint diverse members to the Company's Board of Directors (One out of total 13 members is female), with the aim of strengthening systems further so that we can reflect viewpoints from multiple perspectives in management decisions. Furthermore, female business division heads take part in discussions and decision-making on management strategies and other important management and operational matters. Takeda established a Global Diversity and Inclusion (D&I) statement and continued to support D&I initiatives across the Company. Significant effort has been dedicated to accelerating D&I in Japan by shifting the mindset of our employees and driving leadership commitment and accountability. Our ultimate goal is to realize an inclusive working environment where highly motivated employees leverage their unique characters to maximize their performance. Ratio of women in managerial positions in fiscal 2015 was 6.2% and it became 7.8% in fiscal 2016. Ratio of male employees taking paternity leave improved from 30% to 42.5% as well as percentage of paid holidays used by employees also increased from 62.2% to 66.5%. Work style flexibility is also our focus area where Takeda introduced various initiatives to provide more flexible working conditions such as discontinuing core work hours of flex-time as well as mitigating the conditions for working-from-home.

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

Update

The Company shares its "Corporate Philosophy" which comprises its "Mission", "Vision", "Values" and "Strategic Roadmap" within the entire Takeda Group and promotes the creation of a disciplined and sound corporate culture. Based on the above mentioned principle, the Company implemented the following measures for the internal control system, taking it as an important component of corporate governance functioning alongside risk management.

The Company converted into a "Company with Audit and Supervisory Committee" from a "Company with Board of Corporate Auditors" at the close of the 140th Ordinary General Meeting of Shareholders held on June 29, 2016. Accompanying such

conversion, the Company developed systems including one for securing the effective audit by the Audit and Supervisory Committee (ASC).

(i) Systems that ensure the appropriateness of operations in the Takeda Group

- As a “Company with Audit and Supervisory Committee,” a system that enables ASC to effectively perform its duties relating to audit and supervision shall be established and the composition and diversity of External Directors in the Board of Directors shall be enhanced. Under the appropriate audit and supervision thereby, the Board of Directors shall make highly transparent and objective decisions and, by resolution, delegate authority to the Directors and expedite the management of business.
- The objectivity and fairness relating to the appointment of Directors and the compensation paid to them shall be ensured by voluntarily establishing the Nomination Committee and the Compensation Committee, wherein an External Director serves as the chairperson and external committee members constitute a majority respectively. By appointing one or more Directors who are ASC Members as members of such committees, the effectiveness of ASC’s function of supervising the appointment, etc. of Directors who are not ASC Members and the compensation, etc. paid to them shall be enhanced.
- Under the system above, the Board of Directors (i) decides on the most important matters for the business operation of the Takeda Group, including matters relating to Basic Management Policy such as Values, etc., and matters relating to the policy on internal control including compliance and risk management, and (ii) discusses business strategy, and monitors and supervises the execution of operations.
- To strengthen its global business management system, the Company shall establish the Takeda Executive Team (“TET”), which consists of President & CEO and members who manage and supervise each function of the Takeda Group, and shall also establish the Business Review Committee (which is responsible for general management matters), Portfolio Review Committee (which is responsible for R&D and products related matters), and Audit, Risk and Compliance Committee (which is responsible for internal audit, risk management and compliance matters), which review important matters to ensure the systems whereby faster and more flexible work execution and deeper cooperation among the various functions take place.
- The Company shall clarify the roles and responsibilities of each function based on the “Takeda Group’s Management Policy,” which summarizes the business management systems, decision-making systems and its operational rules and other important management rules of the Takeda Group. With regard to certain material items, the Company shall oblige each function to propose or report to the decision making bodies, including the Board of Directors of the Company, depending on the materiality of those items. Concurrently, certain level of decision making authorities shall be delegated to each TET member, and decision making authorities shall be exercised under proper governance. In addition, the Company shall maintain Global Policies, etc. (Global Policies mean the rules applied to employees of three or more TET organizations) for the respective operations of specialized functions and shall manage and supervise the entire Takeda Group based thereon.
- Based on the “Global Risk Management Policy,” “Global Crisis Management Policy” and “Takeda Group Global BCP (Business Continuity Plan) Policy,” which respectively lay out the structure of risk management system, crisis management systems and BCPs of the Takeda Group, the Company shall promote the construction of a system in which each group company responds adequately to risks and crises and ensures business continuity, and shall facilitate the disciplined management of the Takeda Group.
- The Global Compliance division and other divisions in charge of compliance shall disseminate the “Takeda Global Code of Conduct” to all group companies and construct and disseminate the compliance programs of all group companies based on that code under the Global Compliance Promotion System. The Global Compliance division shall establish a mechanism with monitoring capabilities to ensure that the Takeda Group’s business activities are in compliance with laws and internal rules. In addition, the Global Compliance division and other divisions in charge of compliance shall periodically report to the Audit, Risk and Compliance Committee, and report to the Board of Directors as necessary on the compliance related affairs of the Takeda Group, including affairs reported through interoffice notifications.
- The Group Internal Audit (“GIA”) shall conduct a regular internal audit of each function of the Company and each group company based on the “Group Internal Audit Charter” and report the results thereof to the President and Chief Executive Officer, Board of Directors, and ASC. GIA shall also conduct an evaluation of the status of development and implementation of the internal control systems for securing the reliability of financial reporting based on the Financial Instruments and Exchange Act.
- The Corporate Finance, Global Finance shall manage the processes of (i) self-inspection based on questionnaires of internal controls over the financial reporting completed by the head of each key subsidiary, and (ii) implementation of the improvement plan in response to warnings or recommendations.
- The Global Quality division shall formulate global quality assurance policies, etc., relating to research, development, manufacturing, and post-marketing safety measures and then audit, monitor, and supervise compliance therewith regularly or as necessary.

(ii) System for retention and management of information in connection with the execution of the duties of Directors

- The minutes of meetings of the Board of Directors, requests for and approvals of managerial decisions and other information concerning the execution of the duties of Directors shall be appropriately retained and controlled in keeping with the term, method and place of retention designated for each category of information, determined in accordance with the “Policy on

Document Control,” in either hard copy or electromagnetic record, and for ease of inspection.

(iii) Risk management rules and other systems

- With respect to all risk factors, including major potential risks for the Company (research and development, intellectual property rights, decline of sales due to the expiration of patents, etc., side-effects, drop in prices caused by measures to constrain the cost of medicine, fluctuation of foreign exchange rates, corporate acquisitions, country risks, stable supply, and litigation and other legal matters), the person(s) in charge of each function shall control and manage such risk factors in each area under his/her charge using qualitative and quantitative criteria in designing and implementing mid-range and annual plans, and shall take all necessary measures or remedies available to avoid and minimize such risk factors, depending on the degree and content of the risk the Company is exposed to, in compliance with the countermeasures to cope therewith and any contingency plans.
- In order to prevent and respond to emergency situations, the Company shall establish crisis management systems through the appointment of persons who are in charge of crisis management and those who are in charge of crisis management in each local region, and establishment of a crisis management committee under the “Policy on Crisis Management.” In addition, from the perspective of business continuity, the Company shall design a Business Continuity Plan for each function under the “BCP Policy.”

(iv) Systems that ensure the duties of Directors are executed efficiently

- A system that enables the duties of Directors to be executed appropriately and efficiently shall be safeguarded through the “Bylaws of Board of Directors” and other internal company regulations relating to authorities and rules for decision-making.

(v) Systems that ensure Directors and employees comply with laws and regulations and the Company’s Articles of Incorporation in executing their duties

- In accordance with the “Compliance Promotion Rule” that provides for the basic policies and procedures in relation to the implementation of the compliance program for the ethical and legal requirements of the Company, a Compliance Officer position, Compliance Promotion Committee and Compliance Secretariat shall be established to promote the company-wide compliance policy.
- The interoffice notification system, a system established for the purpose of i) reflecting the opinions and proposals of Directors and employees with respect to the Company’s compliance, and ii) protecting the whistleblowers, shall be fully utilized in compliance practice.

(vi) System that ensures the audits by the Audit and Supervisory Committee are conducted effectively

Each of the items stated below shall be set forth in accordance with the “Rules of Audit and Supervisory Committee’s Audit, etc.”

- Full-time ASC Members shall be placed, and the ASC Office, which is composed of full-time staff, shall be established to provide assistance to ASC in their duties and functions as the secretariat of ASC.
- ASC shall make efforts to secure the independence of the ASC Office from the person in charge of executing the business and the effectiveness of instructions from ASC, and personnel matters with respect to the members of the ASC Office shall be handled by agreement between the Directors and ASC.
- A Director shall notify ASC of those matters concerning the Company’s basic management policy and plans, and of material matters including the ones involving subsidiaries and affiliated companies (provided, however, that this shall not apply if the ASC Members attend a meeting of the Board of Directors or any other meeting at which such matter is discussed).
- If a Director becomes aware of a fact that might cause material damage to the Company, such Director shall, without delay, give notice of such fact to ASC.
- ASC may appoint the Appointed ASC Members who has the authority to request Directors and employees to report on matters relating to the performance of their duties and investigate the status of the operations and assets of the Company.
- Based on the status of development and operation of the internal control system, ASC shall have close communication with the internal audit division, internal control promoting division and Accounting Auditor to which ASC shall have the authority to give instructions, and conduct a systematic audit utilizing the information derived therefrom.
- ASC shall have close communication with the Accounting Auditors and other divisions responsible for internal control, and improve the effectivity and efficiency of the audit by utilizing an internal control system.
- ASC Members shall request the Company to reimburse their costs for performing their duties, and submit a budget to the Company every year.
- ASC shall make proposals or state its opinions to the Board of Directors as necessary, with respect to systems that ensure that any person who makes a report to ASC and the internal audit divisions, etc., including a report made through the internal reporting system for whistleblowers, would not be subjected to any disadvantageous treatment due to such reporting.

**2. Basic Views on Eliminating Anti-Social Forces**

The Company’s basic policy is to eliminate any relationship, including normal transactions, with antisocial forces that pose a threat to the order or safety of civil society. The Company takes the following actions.

- The Company has built and maintains close cooperative relationships with the supervising police station and external specialized institutes, to proactively collect information on antisocial forces.
- The Company disseminates information on antisocial forces to Company divisions, and also to employees as necessary during internal training, etc., in order to implement activities to prevent any damage from antisocial forces.

**V. Other**

**1. Adoption of Anti-Takeover Measures**

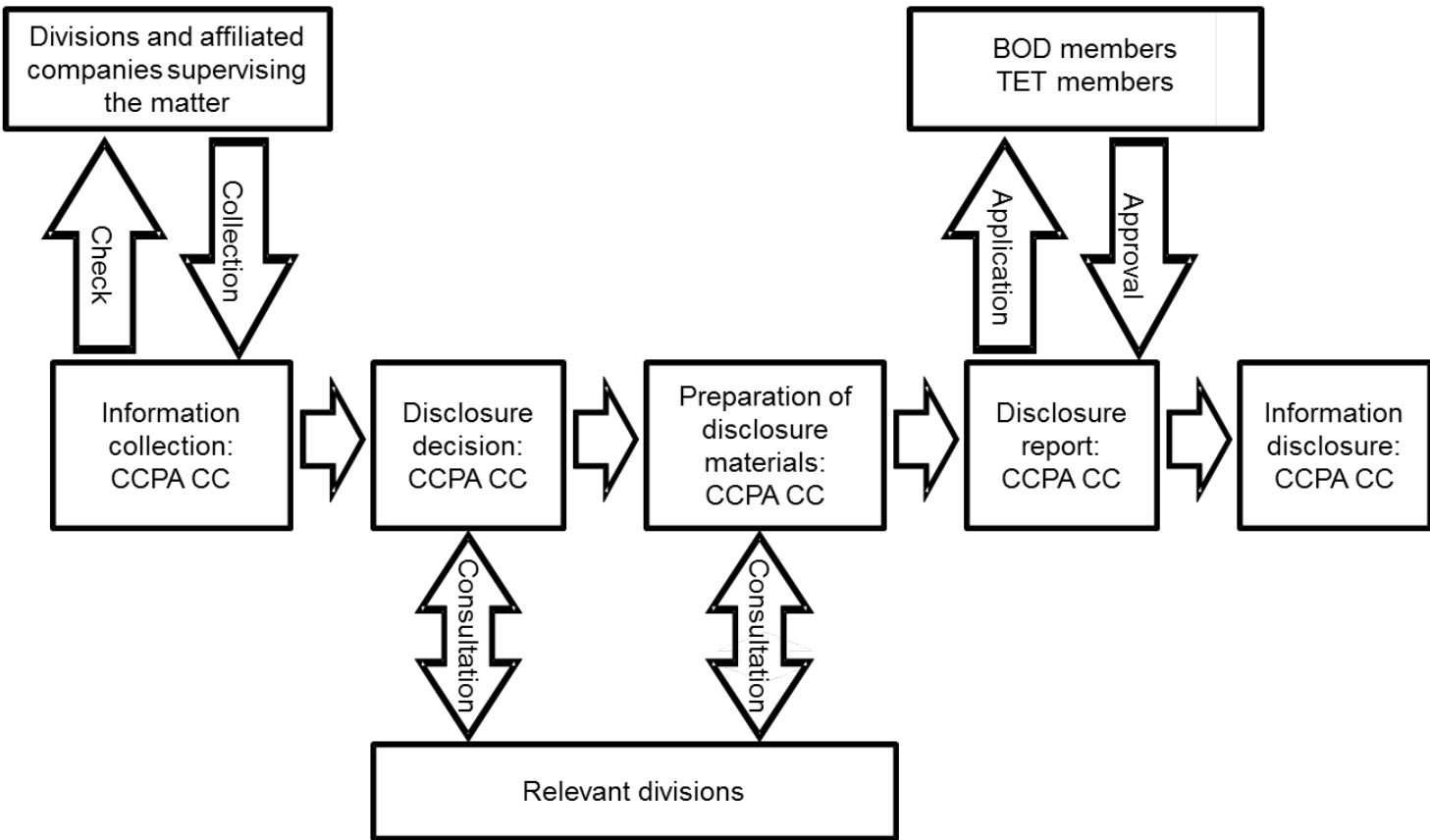
Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

The Company has not adopted any defense measures against hostile takeovers.

2. Other Matters Concerning to Corporate Governance System

The basic procedures for Company information disclosure according to the Information Disclosure Guidelines are as follows:



BOD : Board of Directors  
TET : Takeda Executive Team (TET consists of President & CEO and his direct reports)  
CCPA CC : Corporate Communications & Public Affairs, Corporate Communications

Reference: Schematic Diagram of Takeda's Corporate Governance System, Including the Internal Control System





# Directors' Compensation Policy for Fiscal Year 2017

## 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 talents to realize Global One Takeda
- ◆ To improve the Company's mid- and long-term performance and leverage awareness of contributions toward increasing corporate value
- ◆ 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 in line with the values of Takeda-ism

## 2. Level of Compensation

We aim to be competitive not only in Japan but also in the global marketplace to transform into a "Best in Class" global pharmaceutical company.

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 compensation data from the US, UK and Switzerland, where we need to be competitive with other major pharmaceutical companies.

## 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 as 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" 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 financial results over a 3-year period and with Takeda's share price. To increase corporate value in the mid and long term and to better align the incentives of Takeda's Directors with Takeda's shareholders, the ratio of Long-term Incentive will be gradually increased in the Performance-based Compensation in future.

Eventually, the targets will be changed to 100% of Basic Compensation for "Bonus" and 200% to 400% or more of Basic Compensation for "Long-term Incentive", reflecting the common practice of global companies. Increases in Basic Compensation will be minimized, while Long-term Incentives will be increased.

Basic Compensation	Bonus	Long-term Incentive Plan (stock compensation)
Fixed	100% of Basic Compensation	200% to 400% or more of Basic Compensation*
Performance-based Compensation		

\*Ratio of Long-term Incentive to Basic Compensation is determined according to Director's role.

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

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

## 4. Performance-based Compensation

### 3-2. Directors who are Audit & Supervisory Committee Members and External Directors

The compensation of Directors who are Audit & Supervisory Committee Members and External Directors consists of Basic Compensation, which is paid as a fixed amount, and Long-term Incentive (stock compensation). The stock compensation is not linked to financial performance results but only to share price. The stock compensation will vest upon retirement/resignation. No bonus is available for this category of Director.

The current compensation mix is "Basic Compensation" and "Long-term Incentive", which is a maximum of 40% of the Basic Compensation.

Basic Compensation	Long-term Incentive Plan (stock compensation) Maximum of 40% of the Basic Compensation
Fixed	

### 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) a Long-term Incentive Plan similar to Performance Share and Restricted Stock is in place to strengthen the link between compensation and company performance and the share price, and enhance commitment to increasing corporate value in the mid and long term.

Performance indicators used for the Long-term Incentive will be linked with the latest mid- to long-term performance objectives such as consolidated revenue, operating free cash flow, EPS and R&D targets, etc., as transparent and objective indicators. The variable range is from 0% to 200% (100% at target), based on performance achievement.

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, core earnings and EPS, etc., established for a single fiscal year.

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

The Long-term Incentive (stock compensation) for Directors who are Audit & Supervisory Committee Members and External Directors is not linked to financial performance results but only to share price. The stock compensation will vest upon resignation/retirement.

## 5. Compensation Governance

### 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		● *1			
Long-term Incentive Plan (stock compensation)	Performance based	● *2 (*3)			
	Not linked to performance results	● (*3)	● (*4)	● (*4)	● (*4)

(Vesting timings)

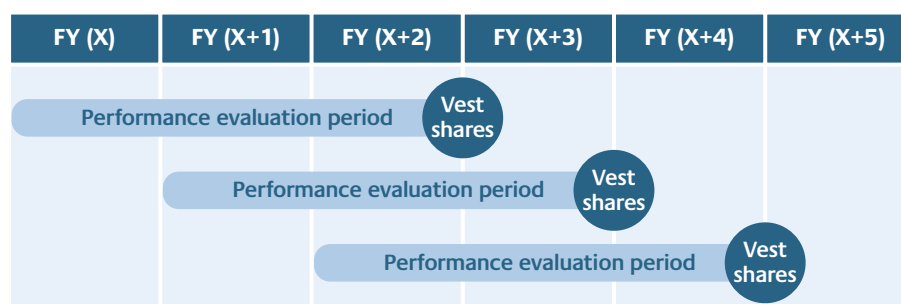
\*1 Varies from 0% to 200%, depending upon the degree of achievement, etc. of the performance indicators such as consolidated revenue, core earnings, EPS, etc., established for a single fiscal year.

\*2 Varies from 0% to 200%, depending upon the degree of achievement, etc. in relation to consolidated revenue, free cash flow, EPS, R&D targets, etc. over 3 years

\*3 During term of office

\*4 Upon resignation/retirement

### Performance-based Long-term Incentive Plan (stock compensation) Image



The Compensation Committee has been established with an External Director as its Chairperson and with the majority of 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 (Mid- and Long-term Incentives and Bonus programs) for Directors are reviewed by the Compensation Committee before resolution by the Board of Directors. 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.