

December 13, 2019

Record of the Q&A Session at the ESG Meeting (Discussion with Investors)

Date/time: November 27 (Wed.), 2019; 10:00–11:30 a.m. (Q&A Session: about 30 minutes beginning at 11:00 a.m.)

Venue: 3F Hall, Tokyo Head Office

No. of attendees: 26

Attendees from Sumitomo Dainippon Pharma: Masayo Tada, Chairman; Hiroshi Nomura, President and CEO; Yutaka Atomi, Outside Director; Saeko Arai, Outside Director; Atsuko Higuchi, Executive Officer (Moderator)

■ Questioner 1

Q: What are your thoughts on the present concurrent listing with the parent company, Sumitomo Chemical?

A: (Tada) Since our company was founded, the parent company has never objected to our decisions, which I believe is a testament to independence of our management. Conversely, such parent-subsidary relationship is advantageous in that Sumitomo Dainippon Pharma has easy access to the assets and expertise of Sumitomo Chemical. At present, we have no intention of discontinuing the parent-subsidary listing immediately.

(Atomi) As an outside director, I will point out anything I find that could lead to a conflict of interest or infringe our stakeholders' rights.

(Arai) I have inquired about and checked the company's previous transactions with Sumitomo Chemical from the perspective of whether they have been fair, and I have not found any particular problems as yet.

Q: As an outside director, have you ever pointed out any instance that could be interpreted as a conflict of interest or found any other problems?

A: (Atomi) None in particular to date. I remember having inquired whether the interest rate of the company's loans to Sumitomo Chemical is at an appropriate level.

Q: We occasionally notice those in academia behaving as if their value-creating contributions are greater than the contributions made through the efforts of pharmaceutical companies, consequently, unduly making light of these corporate endeavors. If someone in a position like Mr. Atomi, an outside director, were to actively communicate relevant information to the general public, I assume such misconceptions about the pharmaceutical industry would gradually be reduced. What are your thoughts on this idea?

A: (Atomi) The industry has to decide what risks it should take from a broad perspective. This is what differentiates industry from academia. If, for example, the government provides a mechanism by

which risks can be mitigated to some extent, it would improve the translational relationship between academia and industry.

■ **Questioner 2**

Q: Are there any concerns that failing to enter the DSP Academy could affect employees' motivation?

A: (Tada) Not all employees can become leaders. Selective training programs may have a risk as you have pointed out, but at the same time they bring about (a positive aspect of) changes in the mindset of those selected and how their colleagues interact with them. In addition, since the DSP Academy is not a single-year project, employees who have failed in one year may have an incentive to make greater efforts to gain admission the next year.

Q: Would you tell us if you do anything, as part of recruitment activities, to recruit students who are interested in ESG?

A: (Nomura) While communicating our ESG and other initiatives through our website, among other means, we would also like to continue our activities designed to encourage students to make full use of our internship system so that they will understand and appreciate our company's unique characteristics. Since human resources are the foundation of any company, we will continue to improve our activities to facilitate the entry of highly talented individuals into our company.

■ **Questioner 3**

Q: On page 58 of the Integrated Report, Dr. Atomi states that "it is important to develop young human resources and bring out their potential." Does this statement imply that their potential has not been utilized in your opinion? If so, are you making recommendations or otherwise working to make prompt improvements on that front?

A: (Atomi) I meant that we should further foster the potential of young human resources. The company has a system in place that allows promising researchers to conduct various forms of research on their own initiative, so that young persons can develop in our organization.

■ **Questioner 4**

Q: Ms. Arai serves as an outside director at another company as well. Do you find anything particularly distinctive regarding the Board of Directors of Sumitomo Dainippon Pharma?

A: (Arai) When formulating the Mid-term Business Plan, I was sufficiently briefed on the subject before each Board of Directors meeting, and I found the opinions expressed in a preliminary briefing and the subjects discussed at a meeting were always incorporated into subsequent meetings. Having formulated the plan as a result of a repeated cycle of such processes, I felt a strong sense of ownership and self-fulfillment as an outside director.

Q: Is that distinctive when compared with your previous experience at another company?

A: (Arai) I feel that the company places a strong emphasis on the number of preliminary briefings, the adequacy of their content, and the frequency of feedback on the proceedings.

■ **Questioner 5**

Q: Dr. Atomi, as an outside director, do you consider that the industry and academia maintain a sound relationship and share value with each other, free from influence peddling?

A: (Atomi) Even if academia may appear to hold the high ground in the relationship between academia and industry, I believe that industry should not hesitate to express its opinions at any time. For instance, the company decided, from early on, to provide scholarship donations, subject to adequate screening, to organizations rather than individuals. Because that's the right thing to do, academia also consents to it.

■ **Questioner 6**

Q: Are tangible results emerging from the professional personnel system inaugurated in 2016? Are you increasing the number of professional contributors (PC) positions from now on?

A: (Tada) For those at PC2, the highest-ranking PC position, we hold annual report meetings where they report their activities conducted over the year and make a new commitment for the following year, all of which are evaluated by officers. Reviewing these reports, if we find any subjects that may lead directly to business, we readily take them up. It can be said that even though PC positions are appointed every year, this system has been maintained because they produce tangible results. The maximum number of persons admitted to PC2 and PC1 is about 15 and 40, respectively. We have no intention of increasing this number going forward.

(Nomura) The project leader system in the Drug Research (Division) is one in which young employees in their 20s and 30s lead each project in a proactive fashion. At a research presentation held recently, I gained a vivid impression of the high morale they displayed in their research activities, making me realize that the PC system has begun functioning effectively.

Q: As you aim at "cultivating an ambitious corporate culture," do you have Sunovion in mind as well?

A: (Tada) It has been a long time since Sunovion became a subsidiary of ours, so it is, in a sense, becoming more or less akin to us without any conscious effort. While Sunovion proceeds with any work solidly and neatly, its hallmark ambitious corporate culture may have undergone some diminution, with the exception of several research units. Furthermore, since its administrative expenses are rising, we are considering how to improve its efficiency in the future, including utilizing Roivant's technology.

Q: The acquisition of Roivant's digital specialists and digital platforms must be an integral part of your strategic partnership, but it is hard for outside parties to see what is going on there. I would like you to augment your explanation in the next Integrated Report or future briefing sessions.

A: (Nomura) The digital specialists of Roivant comprise two categories: the first is computational researchers who run DrugOme and the other is technologists (digital innovators) engaged in digital innovation. Having promoted digital innovation since April 2018, even before concluding this partnership, we have been working on how to use data in research, development, sales and

marketing to streamline operations and enhance productivity. We will use DrugOme not only for assessing the business feasibility of outside “seeds” but also in our research, development, sales and marketing. As SG&A expenses are soaring in the U.S., thereby giving rise to operational inefficiency, we intend to apply digital innovation to streamline it. We would like to describe our plan, as openly as possible, in the next Integrated Report.