

## Summary of ESG Meeting for FY2021

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|-----------------------------|--|---|
| <b>[Date]</b>               | December 8, 2021                                   | 14:00 – 15:44 (104 minutes)   |
| <b>[Venue]</b>              | Tokyo Head Office, Live stream and conference call |   |
| <b>[Number of Speakers]</b> | 10   |   |
|                             | Masayo Tada  | Member, Board of Directors, Chairman  |
|                             | Hiroshi Nomura                                     | Representative Director, President and CEO  |
|                             | Toru Kimura  | Member, Board of Directors, Representative Director, Executive Vice President, Senior Executive Officer and CSO |
|                             | Yutaka Atomi                                       | Member, Board of Directors (Outside), Professor, Emeritus President of Kyorin University                        |
|                             | Saeko Arai   | Member, Board of Directors (Outside)  |
|                             | Nobuhiro Endo                                      | Member, Board of Directors (Outside), Chairman of NEC Corporation   |
|                             | Minoru Usui  | Member, Board of Directors (Outside), Chairman of Seiko Epson Corporation                                       |
|                             | Atsuko Higuchi                                     | Executive Officer in Charge of Corporate Governance, Corporate Communications, Human Resources                  |
|                             | Mariko Mishiro                                     | CEO of RIDEAL   |
|                             | Miwako Harada                                      | Senior Director, Corporate Communications   |

## Presentation

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**Harada:** We will now begin the FY2021 ESG meeting by Sumitomo Dainippon Pharma.

Thank you very much for taking time out of your busy schedule to join us today. This is our company's fourth ESG presentation. In addition to holding this event at the Tokyo Head Office, we will also hold the event via live streaming and conference call.

I'd like to mention a few things before we get started. Today's presentation will follow the presentation materials posted on our website.

The presentation will be followed by a panel discussion and then time for your questions. As was the case last year, the panel discussion will be coordinated by Mariko Mishiro, CEO of RIDEAL.

In the panel discussion, in addition to the discussion by our panelists, we would like to have a dialogue format to receive comments from the audience. We look forward to your active participation from the floor or from your phone line if you are participating remotely.

For any other topics beside those in the discussion, please feel free to ask any questions you may have during the Q&A session.

I would now like to introduce the speakers for today's session. Mr. Tada, Chairman; Mr. Nomura, Representative Director, President and CEO; Professor Atomi, Outside Director and Emeritus President of Kyorin University; Ms. Arai, Outside Director and Representative Director of Accuray; Mr. Endo, Outside Director and Chairman of NEC Corporation; Mr. Usui, Outside Director and Chairman of Seiko Epson Corporation; Mr. Kimura, Senior Executive Officer and Chief Scientific Officer; Ms. Higuchi, Executive Officer in Charge of Corporate Governance, Corporate Communications and Human Resources; Ms. Mishiro of RIDEAL; and myself, Harada of Corporate Communications, the moderator for today. Thank you.

First, Mr. Nomura will discuss the application for selection for the Prime Market and actions relating to the Revised Corporate Governance Code. Thank you very much, Mr. Nomura.

**Nomura:** I'm Nomura, the Company President. Thank you very much for taking time out of your very busy schedule to attend our ESG meeting and opinion exchange meeting today.

Thank you very much for your continued interest in our company's management. I would also like to take this opportunity to thank you for your valuable comments and suggestions.

As today's meeting is also primarily an exchange of opinions, I would like to receive your frank opinions. I look forward to working with you.

Thank you.

## Application for Selection of “Prime Market”

**At a meeting of the Board of Directors (BoD) held on November 30, 2021, the Company's BoD resolved to select and apply for listing on the Prime Market, Tokyo Stock Exchange new market segments**

### □ Next step

- We will make continued efforts to achieve the high-level governance required of companies listed on the Prime Market by complying with, for example, the revised Japan's Corporate Governance Code
- We will work to achieve sustained growth and improve corporate value over the mid- to long-term through constructive dialogues with investors and other means

This is the application for selection for the Prime Market.

I am pleased to report that at the Board of Directors' meeting held at the end of last month, a resolution was passed to apply for selection by the Prime Market.

In the future, in terms of the high level of governance required of a listed company in the prime market, we will continue to work on compliance with the revised Corporate Governance Code and other measures. We will also promote constructive dialogue with investors in order to achieve sustained growth and increase corporate value over the med- to long-term.

**We have given questionnaire surveys to all the Directors and Audit & Supervisory Board members every year since fiscal 2015 to enhance the effectiveness of the BoD**

**Our responses to major matters to be addressed in fiscal 2020**

□ “Improvement of discussions for enhancing corporate value in the mid- to long-term”

Members of the BoD discussed management issues from a mid- to long-term perspective, in a total of four times

(Going forward, a venue will be provided where even deeper discussions can take place)

□ “Ideal future composition of the BoD for the future”

Based on the Company’s “Vision for 2033” and business strategies, the Nomination and Compensation Committee had two discussions to consider the areas of expertise and perspectives required of the members of the BoD

(We will also focus on ensuring diversity of directors and developing director candidates in-house)

□ “Further improvement of the quality of deliberations by the BoD”

Efforts were made to enhance explanations for Outside Directors and to not only improve the quality of the materials but also distribute them early, in addition to setting an appropriate amount of time for deliberation according to content of the inquiries

**Major matters to be addressed in fiscal 2021**

Further enhancement of discussions on risk management, provision of the appropriate number of agenda items and an appropriate amount of time for deliberation, and enhancement of training

I would also like to talk about actions relating to the revised Corporate Governance Code.

We have been working on this area since FY2015 to improve the effectiveness of the Board of Directors.

There were 3 issues that we faced in this project last year.

There was interest in more discussion on improving our corporate value in the med- to long-term. This was the theme of last year's meeting. Last year, the Board of Directors took time to delve into various med- to long-term issues that we are facing. We have discussed this issue 4 times. Many of the fruits of those discussions have made it into our revision of the mid-term business plan.

In the survey, another topic that came up was the future makeup of the Board of Directors. We are working on this independently from the revised code, which also talks about skills sets.

We had discussions on this topic at 2 meetings in the previous fiscal year. We discussed the expertise and perspectives required of Board Members. In terms of ensuring the diversity of the Board of Directors, there is a need for female directors and foreign directors. There were also discussions about how to develop internal candidates for the Board of Directors.

In addition, to further improve the quality of deliberations at Board of Directors meetings, since our Board of Directors meetings cover a variety of major themes related to the Company's business, it is necessary to have a process of reading and reviewing the materials in advance. We have taken measures to establish a system that enables outside directors and corporate auditors to do this.

One of the key issues for FY2021 is to further enhance discussions on risk management. The term "risk management" is quite broad, and we need to delve a little deeper into the individual risks inherent in compliance, information management, and the pharmaceutical business itself.


We would like to devote as much time as possible to these important agenda items, so we have slightly changed the criteria for importance and narrowed down the agenda to those items that can be discussed at the Board of Directors meetings. We are working on optimizing the number of topics and the time for deliberation as much as possible.

This is for the training of directors and auditors, but since there are many people who are not necessarily experts in the pharmaceutical industry, we would like to have them learn about the drug pricing systems and insurance systems in various countries, especially in Japan, the US and China, where we do business.

We will also ask outside consultants to explain to us how we can strengthen country risk profiles in the regions where we operate. In addition, I would like to provide training to the Board of Directors on the current status of our DX activities. We are currently working on these projects.

**Complying with the Revised Japan's Corporate Governance Code**

**Our Responses to the Revised Japan's Corporate Governance Code**



**Fulfillment of BoD functions**

|     |        |  |
|-----|--------|--|
| New | 4-11.1 | The BoD should identify the skills that it should have and disclose the combination of skills, etc. that each director possesses |
|-----|--------|--|

- Our present situation: Our thoughts on the balance of the BoD and policies and procedures for nominating directors are disclosed in the Basic Policy on Corporate Governance. We have multiple independent outside directors with management experience in other companies
- Our responses: We have identified the knowledge, experience, and skills that the BoD and Audit & Supervisory Board should have as a whole (skills sets of the Directors and Audit & Supervisory Board members) in the Basic Policy on Corporate Governance as shown below and disclosed a "Skills Matrix" on our website and elsewhere

**Knowledge, Experience and Abilities to be Held by the BoD and the Audit & Supervisory Board as a Whole**

The BoD and the Audit & Supervisory Board of the Company shall be diverse and have the well-balanced knowledge, experience and abilities described below as a whole so that the BoD can fully exercise its function and secure its effectiveness to achieve the sustainable growth of the Company and enhancement of its corporate value over the mid- to long-term through implementation of the Corporate Mission

- (1) Extensive knowledge, experience and abilities as a person who is in charge of corporate management or organizational operations in Japan or abroad
- (2) Extensive knowledge, experience and abilities in different industries
- (3) Extensive knowledge, experience and abilities concerning the creation and cultivation of new business or business development
- (4) Extensive knowledge, experience and abilities concerning digital technologies and data utilization
- (5) Professional knowledge, experience and abilities in the healthcare industry
- (6) Professional knowledge, experience and abilities concerning finance, accounting and tax matters
- (7) Professional knowledge, experience and abilities concerning legal, compliance and risk management matters

The knowledge, experience and abilities to be held by the BoD and the Audit & Supervisory Board as a whole shall be reviewed as necessary in accordance with changes such as those in the outside environment and the circumstances of the Company

Partially excerpted from "Practical Responses to the Revision in Japan's Corporate Governance Code," Tokyo Stock Exchange, Inc.

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This is being undertaken in relation to the revised Corporate Governance Code.

As for the necessary skills of the Board of Directors, our basic policy in the Corporate Governance Code is to promote policies and procedures for the election of the Board of Directors. It is very simple at present, and we have just revised the Code to make it more detailed.

There are 7 items covering knowledge, experience, and abilities that directors and the Board of Corporate Auditors should have as a whole.

The first of these is a wealth of knowledge, experience, and ability as a person in charge of domestic and international corporate management and organizational operations. This includes awareness of the global situation, both domestically and internationally.

If you are in charge of corporate management or organizational operations, you have experience and insight in areas such as governance and sustainability.

In particular, given the fact that governance is a major role of the Board of Directors, I believe that experience as a person in charge of corporate management and organizational operations in Japan and abroad will be very beneficial.

Then there is the second, covering different industries. Of course, we belong to the health care and pharmaceutical industry, but we also need objective opinions from a different perspective to look at our business.

The third is new businesses, and the fourth is the use of digital technology and data. In order to create corporate value over the med- to long-term, new businesses are necessary, and DX and the use of digital technology are indispensable, which is why we have included them as numbers 3 and 4.

And fifth, professional knowledge, experience, and ability related to the healthcare industry. I feel that this is a matter of course for a pharmaceutical company, but it is also a matter of expertise, especially in medicine, pharmacy, and healthcare administration. We also believe that the Board of Directors needs to have the experience, knowledge, and abilities that have been cultivated over a long period of time in the healthcare industry, such as our Internal Directors.

Then there is number 6, finance, accounting and taxation, and number 7, law, compliance and risk management. This is a very basic or infrastructural functionality of the Board of Directors.



**Initiatives on sustainability**

New

3.1.3

Companies should appropriately disclose their initiatives on sustainability  
 Companies listed on the Prime Market should enhance the quality and quantity of disclosure based on the TCFD recommendations or an equivalent framework (Principle for companies listed on the Prime Market)

- ❑ Our present situation: We have disclosed our materiality, including sustainability issues (environment, human rights, health of employees, etc.), development of employees, and R&D investments in our Integrated Reports and elsewhere, and announced support for the recommendations of the TCFD in November 2021
- ❑ Our responses: Following the support for the TCFD recommendations in November 2021, we have begun collecting and analyzing the necessary data on the impact of climate change-related risks and earning opportunities relevant to our business activities and profits, in an effort to enhance the quality and quantity of disclosures

**How group governance should be**

New

4.8.3

Companies that have a controlling shareholder should either appoint at least one-third of their directors (the majority of directors if listed on the Prime Market) as independent directors or establish a special committee for material transactions or actions that conflict with the interests of the controlling shareholder and minority shareholders

- ❑ Our present situation: Although our independent outside directors currently account for less than half of the BoD (4 out of 9), we have established the Supervisory Committee for Conflict of Interests in Transactions between Group Companies, which comprises only independent outside directors and deliberates on material transactions, etc. with our parent company group to protect the interests of minority shareholders, as an advisory body to the BoD
- ❑ Our responses: The Committee will continue deliberating on material transactions, etc. with our parent company group for the sake of protecting the interests of minority shareholders

Partially excerpted from "Practical Responses to the Revision in Japan's Corporate Governance Code," Tokyo Stock Exchange, Inc.

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In addition, companies listed on the prime market are required enhance the quality and quantity of disclosure based on the TCFD or an equivalent framework. This also encourages disclosure of sustainability initiatives.

We do not have a high level of disclosure at present, but we announced support for the recommendations of the TCFD last month. We are working to improve the quality and quantity of our disclosure accordingly.

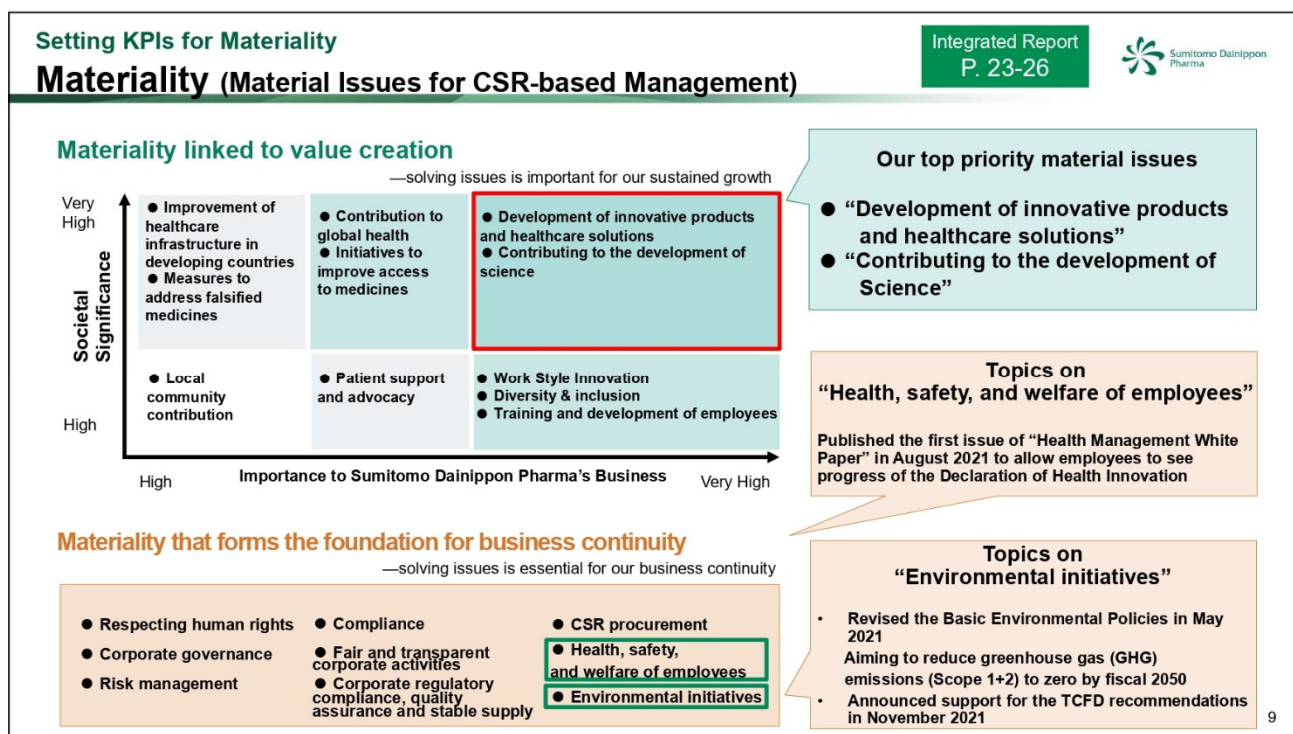
As you all know, we are currently aiming for a 35% reduction in Scope 1 and 2 in FY2030 compared to FY2017. This is on a base of a well below 2 degrees centigrade reduction. If we get the SBT Initiative certification, it will be 1.5 degrees centigrade, which means that the standards will be more stringent. We are going to examine the situation a little more carefully and then decide what we are going to do in Scope 3.

In the area of Group governance, there is a requirement for independent Outside Directors for companies with a controlling shareholder, parent and subsidiary listed companies, and their subsidiaries, and a majority of Directors for prime market companies. We are considering setting up a special committee for important transactions or actions with conflicting interests.

Currently, 4 out of 9 directors are independent directors, which is not a majority. However, since last year, we have established the Supervisory Committee for Conflict of Interest in Transactions among Group Companies to deliberate on important transactions that conflict with the interests of the parent company or the parent company's Group Companies. We believe that we are currently in a position to answer the requirements of the revised Corporate Governance Code.

This concludes my explanation. Thank you very much.

**Harada:** Thank you very much, Mr. Nomura. Ms. Higuchi will now give a presentation on setting KPIs for materiality and environmental initiatives. Thank you very much, Ms. Higuchi.



**Higuchi:** Thank you very much. My name is Higuchi, and I look forward to working with you.

I will now report and explain about the setting of KPIs for materiality and environmental initiatives.

For materiality, we first set and disclosed this in FY2018. Since then, we review it every year through discussions with experts.

In FY2019, following multilateral discussions, we categorized materiality items that lead to value creation and those that serve as the foundation for business continuity, as shown here. These have been disclosed.

We have set KPIs for this materiality. As we have already disclosed in the Integrated Report, of the materialities that lead to value creation above, we have set KPIs for the materiality that we place the highest priority on, as well as for the 2 materialities that form the basis for business continuity, employee development and environmental initiatives. I will also report on the setting of KPIs for the 2 materialities that form the basis for business continuity: employee development and environmental initiatives.

Topics include employee health and safety. In August of this year, we prepared and published a white paper on health to visualize the status of our health declaration efforts.

As for our environmental efforts, as Mr. Nomura mentioned earlier, we announced our support for the recommendations of the TCFD last month. In May, we revised our basic environmental policy and announced our goal of achieving zero emissions of greenhouse gases—Scope 1 and 2—by 2050.



Setting KPIs for Materiality  
**Setting KPIs for Materiality**

● **Objectives and background**

To promote CSR-based management, set KPIs as indicators for evaluating/analyzing progress vis-à-vis targets for each materiality targets

● **Key considerations given to the setting of KPIs**

Express our initiatives to enhance our sustainability that are linked with our business strategies in as many quantitative indicators as possible to make their progress visible from outside the company

● **Challenges**

- Link SDGs and other social issues with our business strategies more closely to realize a sustainable society
- How we should express the impact of our initiatives on society (outcomes)
- KPIs for our Group and those for the Japan segment are mixed

● **Next step**

In light of our business strategies and comments from dialogues with various stakeholders, we will keep updating our materiality and targets to make the KPIs more pertinent

Process of determining materiality targets and KPIs  
 (Fiscal 2020-2021)



This is the process of setting the KPIs for materiality.

As you can see on the right, we first updated our materiality and set qualitative targets at the Management Committee in July 2020, and explained them at the ESG meeting here last year.

In parallel, we exchanged opinions with experts and held internal hearings with the departments in charge, and proceeded to study KPIs for materiality.

It was not easy to finish the process in just one meeting at the Management Committee, so we deliberated several times, reported to the Board of Directors, and set materiality targets and KPIs in June of this year.

We set the goal to evaluate and analyze the progress of each materiality in conjunction with the business strategy, and to create KPIs that are objectively easy to understand.

Overall, I think we have achieved a certain level of success, but as mentioned in the issues section, we still need to link our business strategies to social issues such as the SDGs, and set KPIs that are linked to these issues. Also, what is the impact on society, what are the outcomes, and how are they set and expressed?

Some of the KPIs are for Japan alone, and some are for the entire Group. How to sort out these mixed KPIs is still an issue, so we would like to receive your opinions today and make the necessary revisions.

## Setting KPIs for Materiality

### Setting KPIs for “Development of innovative products and healthcare solutions” “Contributing to the development of science”

Integrated Report  
P. 23-26



#### KPIs

- Progress on main development pipeline
  - Targets in Psychiatry & Neurology area (ulotaront (SEP-363856): launch in fiscal 2023 (U.S.), SEP-4199: launch in latter half of 2020s)
  - Targets in Oncology area (DSP-7888: launch in fiscal 2024 (Japan and U.S.))
  - Targets in Regenerative Medicine / Cell Therapy field (congenital athymia: launch in fiscal 2021 (U.S.), Parkinson’s Disease: launch in fiscal 2023 (Japan), age-related macular degeneration: launch in fiscal 2025 (Japan))
  - Targets for other areas with high unmet medical needs (relugolix: Obtain approval for endometriosis in fiscal 2022 (U.S.), rodatristat ethyl: launch in latter half of 2020s (Japan and U.S.))
  - Targets for Frontier business (commercialization of multiple products (target: launch in fiscal 2023–2025 (Japan and U.S.)))
- Progress on early-stage development pipeline
  - Number of transitions to Phase 2 and Phase 1 in Psychiatry & Neurology area and Oncology area
- Progress on development of modalities
- Work motivation of research & development staff
  - Evaluation score of research & development staff in employee engagement survey

#### ● Objectives and background

Set KPIs for not only the outcomes (product pipeline) but also their process (early development stage pipeline, new modality, R&D staff’s work motivation) to show overall progress in R&D

#### ● Our unique approaches

Evaluate/analyze R&D staff’s work motivation by taking note of their work morale as described in the “work” of the Employee Engagement Surveys (responsibilities and job satisfaction, a sense of contributing to customers and society, acquisition of professional skills, demonstration of individuality and abilities)

#### ● Challenges

Setting indicators for the impact that our products might have on society after launch

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Also, for discussion is the setting of KPIs for “Development of innovative products and healthcare solutions” and “Contributing to the development of Science.”

I won’t explain each of them individually, but as you can see on the left, in terms of linking them to our business strategy, we have set KPIs for each of the development pipeline targets and progress toward them, as disclosed in our mid-term management plan and financial results.

We have also set KPIs for the number of products that have moved to Phase 1 and the development of modalities in the early stages of development, before the pipeline is established.

Another feature is the motivation of the R&D staff to work. We have also established these KPIs to evaluate the motivation of R&D staff. As you can see on the right, we have been conducting a company-wide awareness survey every year since immediately after the merger. We have paid attention to the items in the current survey, such as the content of work, whether staff feel responsible and worthwhile, and whether they feel they are contributing to customers and society.

One of the challenges is to determine the impact of launched products on society. Measure outcomes in this area remain a future issue.

**KPIs**

- Number of participants in selective training
- Number of employees with overseas work experience
- Number of participants in programs to enhance English proficiency
- Number of cases and applicants utilizing internal job posting system
- Number of career consultations

● **Objectives and background**

Set KPIs that facilitate development of leaders and global-minded individuals who will play essential roles in achieving our sustained growth, and support employees’ self-disciplined and independence

● **Our unique approaches**

To establish “taking on challenges” as part of our corporate culture that we wish to bolster, set indicators with which to measure employees’ independence of mind, such as “number of cases and applicants utilizing internal job posting system” and “number of career consultations”

● **Challenges**

- Set indicators for outcomes of training and development of employees
- Set indicators for utilization of human resources on a global basis
- Set indicators for training and development/utilization of DX specialists

This is KPI setting for “Training and development of employees.”

In order for our company to achieve sustained global growth, it is essential to develop human resources who can lead and work on a global scale. We also believe that it is necessary for employees to become independent and think about their own careers, so we have set 5 KPIs on the left side to measure and evaluate their performance.

For example, the word "challenge" is mentioned as a corporate culture that we would like to value. In addition to regular transfers, we also have an internal recruitment system. We have set up indicators to measure the autonomy of our employees, such as the number of hands raised in internal recruitment, and the number of career consulting sessions, where qualified employees provide consultations to help employees think about their careers independently.

As a result, we have to determine whether we are really developing human resources who can play an active role in the global arena, which is our goal. We must also aim to develop human resources with DX skills, and with this in mind, we are also providing DX training.

**Setting KPIs for Materiality**  
**Setting KPIs for “Environmental initiatives”**

**KPIs**

- Implementation of measures to achieve FY2030 and FY2050 goals
- Per-unit energy consumption
- Recycling rate and final disposal rate of waste
- Acquisition of third-party assurance for environmental data
- Promotion of evaluation of risks and opportunities related to climate change and water

**● Objectives and background**

Set KPIs for what we need to address to reduce environmental burden

**● Challenges**

- Set indicators for GHG emissions reduction for the entire Group
- Set indicators for urging business partners including suppliers to take environmental initiatives

**Results and explanation of Mid-term Environmental Goals (fiscal 2020 goals)**

| Priority issues               | Objectives   | Results                                | Explanation   |
|-------------------------------|--|--|---|
| Building a low-carbon society | <b>Climate change measures</b><br>① Reduce CO <sub>2</sub> emissions by 23% from FY2005 level by FY2020<br>② Improve per-unit CO <sub>2</sub> emissions by 1% or more per year | ① Achieved<br>② Achieved<br>③ Achieved | ● 34% reduction from FY2005 level<br>Reason: Contribution of reorganization into two plants at the end of March 2019, in addition to capital investment in energy conservation and CO <sub>2</sub> reductions (including upgrading to high efficiency equipment and installation of LED lighting) and measures to conserve energy and save electricity in summer and winter<br>● 1.4% improvement on previous fiscal year<br>● 1.4% improvement on previous fiscal year<br>Reason: Contribution of improvements in energy efficiency and associated improvement in per-unit CO <sub>2</sub> emissions |
|                               | <b>Energy Saving Measures</b><br>③ Improve per-unit energy consumption by 1% or more per year  |  |   |
| Biodiversity conservation     | <b>Effective Use of Water Resources</b><br>Reduce water consumption by about 20% from FY2010 level in FY2020   | Achieved                               | Reduced by 35% from FY2010 level<br>Reason: Contribution of reorganization into two plants at the end of March 2019, in addition to changing the number of times certain facilities were washed with water  |

**Long-term environmental goals (targeting fiscal 2030 and fiscal 2050)**

- Reduce our greenhouse gas (GHG) emissions (scopes 1 and 2) by 35% from fiscal 2017 level by fiscal 2030, and aim to achieve net-zero emissions by fiscal 2050
- Reduce water withdrawal by 12% from fiscal 2018 level by fiscal 2030
- Maintain recycling rate at 80% or higher and aim for at least 85% by fiscal 2030
- Maintain final disposal rate at less than 1% and aim for less than 0.5% by fiscal 2030

This is the setting of KPIs for environmental initiatives. Naturally, we have set the 5 items listed here as what we need to work on in order to reduce our environmental impact.

Next, the section in the lower right corner. As Mr. Nomura explained earlier, we have set a long-term goal of reducing greenhouse gas emissions from Scope 1 and 2 by 35% by FY2030, and to zero by FY2050. We have set KPIs to measure our progress toward this goal.

Other long-term goals are also listed, and KPIs are set to show how much progress has been made toward them.

**□ We announced support for the TCFD recommendations in November 2021**

We will disclose climate-related risks and opportunities starting on a domestic non-consolidated basis in fiscal 2021 and then the entire Group in fiscal 2022 and thereafter

| Steps |   | Timeline and scope  |            |   |   |
|-------|---|---|------------|---|---|
|       |   | FY2021  | FY2022     | FY2023 -  |   |
| 1     | Establish governance  | Environmental management system<br>On a domestic non-consolidated basis |            | Risk mgt. promotion system<br>Expand to Group companies |   |
| 2     | Evaluate materiality of climate-related risks and opportunities | Done →  |            | →   | → |
| 3     | Conduct scenario analysis                                       | Underway →  |            | →   | → |
| 4     | Evaluate impact on business                                     |   | Underway → | →   | → |
| 5     | Draw up measures to mitigate risks and acquire opportunities    |   |            | Plan →  | → |
| 6     | Documentation and disclosure                                    |   |            | Plan →  | → |

Reorganized "Practical guide for Scenario Analysis in line with TCFD recommendations" ver.3.0~: Ministry of the Environment Government

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We announced our support for the recommendations of the TCFD in November, and we are now working on disclosure.

Our goal is to disclose information on a non-consolidated basis in Japan by the end of this fiscal year. From the next fiscal year onward, we plan to gradually expand the scope of disclosure to include all Group Companies.

This concludes my presentation. Thank you.

**Harada:** Thank you very much, Ms. Higuchi. Now, I would like to move on to the panel discussion.

First of all, I would like to address the comments made by the participants at the venue and by phone. If you have any comments or suggestions on the topics being discussed by the panelists, we will call your name when it is your turn to speak. Please give your name and affiliation.

Ms. Mishiro, the coordinator of the panel discussion, has been active in corporate integrated reporting consulting, report reviews, and advisory services for stakeholder dialogues.

So, Ms. Mishiro, please go ahead.

**Mishiro:** My name is Mishiro from RIDEAL. Thank you for taking part today.

Before we begin the panel discussion, I would like to begin with a few words from Outside Director Professor Atomi. Thank you, Professor Atomi.

**Atomi:** I'm Atomi, Outside Director. I am a surgeon by profession, and have been involved in education and clinical research at universities. I have served as Director of the university hospital for 6 years, Dean of the School of Medicine for 6 years, and School President for 8 years.

I have been an Outside Auditor for 4 years and an Outside Director for 4 and a 1/2 years at Sumitomo Dainippon Pharma. I am now the Chair of the Nomination and Compensation Committee.

During my nearly 9 years as an outside director and outside corporate auditor, Sumitomo Dainippon Pharma has had its share of ups and downs. We can see the Company's development globally, for example through the rapid growth of Latuda<sup>®</sup> in the United States. Then again, there was the patent cliff issue with Latuda<sup>®</sup>, and the subsequent cessation of development of promising drugs. There was also the issue of the lawsuit over the expiration of the Latuda<sup>®</sup> patent, and the alliance with Roivant Sciences and the acquisition of 5 subsidiaries. In China, there was a governance issue, and I remember that there were problems in the establishment of the Chinese headquarters.

During this period, I was deeply aware of the dedication and hard work of the Board of Directors and the Executive Officers, led by the Chairman and President.

I believe that what I can do is to fulfill my responsibilities as a highly independent outside director. That's all.

**Mishiro:** Thank you very much. Ms. Arai, please go ahead.

**Arai:** I am Saeko Arai, Outside Director. Thank you.

As a certified public accountant, I have provided accounting and auditing services, and as a co-founder of an IT venture company, I have been involved in the start-up of venture companies. From that background, I am now supporting venture companies. I also provide training and development in financial accounting and auditing to improve accounting literacy for executives, professionals, and students.

As an outside director, I monitor and comments from my experience in auditing and venture management as a professional, and from the perspective of minority shareholders or patients. Thank you.

I have also served as an outside director for about 4 years. I am also the Chairman of the Supervisory Committee for Conflicts of Interest in Transactions among Group Companies.

**Mishiro:** Thank you very much. Mr. Endo, please go ahead.

**Endo:** I am Endo, the Chairman of NEC, and I serve as an outside director.

My background is in business management. Also, our company is in the manufacturing industry. From that perspective, I think I am expressing my opinions from the perspective of the manufacturing industry and from the perspective of company management.

In particular, business risk, governance, and since we are in the ICT industry, another focus is how we should value creation be from the perspective of digital technologies. I am expressing my opinion on this point of view. I would like to thank you for your cooperation today.

**Mishiro:** Then, please, Mr. Usui.

**Usui:** Hello, everyone. I am Minoru Usui, Chairman of Seiko Epson Corporation. I have been serving as an outside director since June of this year.



I have worked mainly in the research and development field at Seiko Epson. I invented Epson's inkjet printhead, and have led its development.

During my 12 years as president, I have implemented various structural reforms in the Company. I believe that I will be able to make good use of that experience here. More importantly, since we have a corporate structure that is based on R&D, I hope that I can make good use of the experience that I have cultivated over the years.

At the same time, I would like to contribute to the experience and governance of businesses that are expanding globally. Thank you.

**Mishiro:** Next, Mr. Tada, please.

**Tada:** My name is Tada. We have a parent company that owns more than 50% of our shares, and we are listed as a subsidiary company. We believe that the most important governance issue is to have minority shareholders recognize our independence from the parent company.

In this sense, in order to be recognized, we need to manage our business from the standpoint of minority shareholders, and for us, minority shareholders are represented by investors like you. I believe that listening carefully to your opinions and requests and reflecting them in our management policies will lead to the resolution of issues.

I believe that for many stakeholders, including shareholders, the first and foremost step in ensuring that management is conducted under proper governance is for the Board of Directors to properly fulfill its responsibilities, including supervision, guidance and support, and for the corporate auditors and the Board of Corporate Auditors to function properly.

In addition to this, we believe that it is extremely important to enhance the transparency of management's intentions and the status of execution through adequate information disclosure. It is also important to receive frank opinions and guidance through dialogues with minority shareholders at the general meeting of shareholders, Q&A sessions at various briefings with investors and analysts, and meetings to exchange opinions with labor unions.

For this reason, I believe that dialogue with management is extremely important and meaningful for us, and as Mr. Nomura said at the beginning of the meeting, I would appreciate your comments and suggestions. Thank you very much.

**Mishiro:** Thank you very much. Now, let us begin the discussion. Today, I would like to focus on 2 major themes and explore them in depth.

We conducted a questionnaire of investors and asked them to name a number of themes, but I would like to focus on 2 of the most interesting themes: the skills sets of executives and human resources.

The first topic is skills sets. What kind of skills are executives expected to have in order to improve corporate value over the medium and long-term? Also, does Sumitomo Dainippon Pharma have a full gamut of such skills among its personnel?

Who made the decision about the skills sets and how? I would be very interested in hearing about this point.

## Appendix: Skills Matrix

### Skills Matrix of Current Directors and Audit & Supervisory Board Members



The Skills Matrix of the current Directors and Audit & Supervisory Board Members is as described in the table below\*1

| Name/Position   | Corporate management or organizational operations in Japan or abroad*2 | Different industries*3 | Creation and cultivation of new business/ business development*4 | Digital technologies and data utilization*5 | Healthcare industry  |     |                           | Finance, accounting and tax | Legal, compliance and risk management | Major career, expertise, etc.   |
|-----------------|--|------------------------|--|---|--|-----|---------------------------|-----------------------------|---------------------------------------|---|
|                 |  |                        |  |   | Medical science, pharmaceutical science, public administration | R&D | Planning, marketing, etc. |                             |                                       |   |
| Masayo Tada     | Member, Board of Directors and Chairman                                | ○                      | ○  |   |  |     |                           |                             |                                       | Served as the Representative Director and President of the Company from June 2008 to March 2018. Served as a responsible person for the departments of corporate planning, international business management, and sales and marketing of the Company                                    |
| Hiroshi Nomura  | Representative Director and President                                  | ○                      |  |   |  |     |                           | ○                           |                                       | Served as a responsible person for the departments of global strategy, global corporate management, human resources, finance and accounting, and drug development of the Company, and in responsible positions at its overseas subsidiaries   |
| Hitoshi Odagiri | Representative Director  | ○                      |  |   |  |     |                           | ○                           |                                       | Served as a responsible person for the Japan business and the sales and marketing department, and in responsible positions of the human resources department of the Company and at its overseas subsidiaries  |
| Toru Kimura     | Representative Director  | ○                      |  |   |  |     | ○                         |                             |                                       | Served as a responsible person for the departments of global strategy, regenerative and cellular medicine and research of the Company   |
| Yoshiharu Ikeda | Member, Board of Directors   | ○                      |  |   |  |     | ○                         | ○                           |                                       | Served as a responsible person for corporate regulatory compliance and quality assurance of the Company, and in responsible positions of the departments of global strategy, IT system, research, technology research and manufacturing of the Company and at its overseas subsidiaries |

There are notes at P.18 that describes the skills matrix

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First of all, Professor Atomi. Professor Atomi, you are the Chairperson of the Nomination and Compensation Committee, and I would like to ask you to give us an overview of the skills matrix on slide number 16, the document that has been distributed to you.

**Atomi:** As Ms. Mishiro just mentioned, I will explain as the chairperson of the Nomination and Compensation Committee. In the regulations of the Nomination and Compensation Committee, it is stated that the committee should be consulted by the Board of Directors and should consider the matter, so the Nomination and Compensation Committee discusses the matter and finally the Board of Directors deliberates and makes a decision.

First, the skills matrix. I am sure that you are all much more familiar with this than I am, but we have had a series of sincere discussions on this. The focus is that this is an announcement of what kind of system the Board of Directors has in place to realize Sumitomo Dainippon Pharma's goals, ideal image, and management strategy.

I think this skills sets can be broadly categorized into what is required by general listed companies and what Sumitomo Dainippon Pharma should aim for. This list will give you an idea of that.

As an aside, I have also included the main background and expertise here, so that you can understand why each item is circled.

The initial list was 20 or 30 items, but we reviewed them and decided on the ones you see here. There was a lot of discussion about the creation of new businesses and the use of digital technology and data, especially in the area of different industries, which was explained earlier by Mr. Nomura.

In particular, the internal directors made a strong statement regarding this, which I believe will be explained by Directors Arai and Endo.

Also, as I mentioned earlier, the percentage of overseas companies is very high. We also spent a lot of time discussing how to handle international things such as global management, and the fact that profit margins are very high overseas.

As you can see from the main background section, most of the Directors at the Head Office have overseas experience, with corporate experience. In the first column, "Corporate management or organizational operations in Japan or abroad," we have indicated that this is not only for domestic use but also for international use.

As you can see here, we have taken up 3 areas of the health care industry, which is unique to Sumitomo Dainippon Pharma. We believe that Sumitomo Dainippon Pharma will have to respond quickly and appropriately to changes in management strategies and other factors. That's all.

**Mishiro:** Thank you very much. Mr. Tada, as the Chairman of the Board, do you have any additional comments on this point?

**Tada:** I think the process is as explained by Director Atomi, but if you look at the current members of the Board of Directors, they cover a very wide range of functions and knowledge. And of course, several are from outside the Company.

I haven't explained much about our domestic operations, but we have a group of people who have deep experience and knowledge in the 6 core functions of our business: research, development, production, engineering, sales, and reliability assurance.

Because of this structure, there are always discussions that come up from somewhere in the Board of Directors meetings, and what I struggle with the most is how to keep them within the time limit. In this sense, one of the themes for improvement this time is to reduce the number of agenda items to be discussed at the Board of Directors meetings.

That is why the current Board of Directors is not just a skills matrix, but also a structure that allows for very serious discussions about the future of the Company, its current improvements, and measures for the future. This is a focus for us at present. Thank you.

**Mishiro:** Thank you very much. I think the Group is made up of people with very diverse backgrounds.

Next, I would like to ask Mr. Arai about one of the items in the skills matrix, which is the creation and nurturing of new businesses.

As the name suggests, this item is one of the most important skills for creating future value, and I would like to know how it was added to the skills sets and why it is important.

**Arai:** Now, let me explain.

Our intention in listing the creation and cultivation of new businesses and business development separately is to emphasize the importance of creating and cultivating new businesses and business development. It is important to connect the pipeline in order to achieve sustained growth and increase corporate value.

If you look at this skills matrix, you will see that the circled items are technologies such as pesticides, wireless communication, MEMS, etc., that were developed outside the Company. Here, the names of directors with experience in developing new businesses through research and development are circled.

On the other hand, internal directors who are working on or have worked on new businesses such as research and development are circled as they are positioned in planning or marketing, for example, in the healthcare industry. If you look at it in light of the main background and expertise, you will be able to understand.

In the area of new business creation and cultivation, we are developing on 2 axes: those that emerge from within the Company and those that are brought in from outside.

In terms of our own initiatives, we are creating new business plans one after another in a concrete form centered on frontier businesses. There are company-wide movements centered on the frontier business that was established in FY2019. I am sure that some of you have attended the briefing on that.

In terms of creating new business value by combining the value of the Company with the value brought in from outside the Company, recently we have been working in the pharmaceutical field. At the same time, we have acquired tools and engineers for a platform using data analysis engines such as DrugOME. I think that's a good example.

In frontier businesses, in addition to biotech ventures, we are also working with so-called tech ventures, such as Pixie Dust Technologies, to develop convenient and healthy lifestyles for healthier tomorrows using people and technology.

In the case of these particularly large alliances, we have received detailed reports on the background and details of the alliance at multiple times in advance and at Board of Directors meetings. As a result, a resolution has been agreed. In this process, active discussions are always held from various perspectives.

Also, I think this is a company-wide trend, especially with regard to new businesses, the ability to do things properly, which is a guideline for action. I personally feel that this ability will be taken as CHANTO and implemented exactly. That's all.

**Mishiro:** Thank you very much. You talked about the importance of combining new and different perspectives from outside the Company with those from inside the Company, and I think this can be said for digital as well.

I would like to ask Mr. Endo about one of the unique aspects of the matrix, namely the use of digital technology and data.

I think your DX efforts are accelerating with the alliance with Roivant Sciences, and I would like to ask you about the significance and importance of DX for Sumitomo Dainippon Pharma.

**Endo:** Thank you very much. I don't think it's just pharmaceutical companies and Sumitomo Dainippon Pharma. Nowadays, people are talking about DX, but I think that all of us value-creating companies need to be aware of the original direction of DX.

I think the biggest thing that will change with DX is that what used to be hardware decisions will become software decisions.

To use a simple example, if the hardware decision is to say that the car will go forward when you step on the gas pedal, then when you step on the gas pedal too hard, the brakes will be applied because you think that is not right. I think the basic principle of DX is to be able to apply the brakes even though the hardware is on the gas pedal.

That's why I think the essence of DX is to collect data well and use it to create value.

For software decision making, I think it is very important to be able to collect a large amount and wide range of data.

Of course, being able to collect data in your own company is one of this company's strengths, and having the ability to access and access data is another big strength.

In any case, we are in the midst of Society 4.0, the information society. Information is also created from data, but since information is created from a subset of data, there is a limit to the value creation that can be created from information. Only so-called partial-optimization type answers are available.

However, by working with data, it is possible to create holistically optimized solutions because it is possible to use a wide range of data as a source of value. I think this means that we will have to make big changes in the future, especially in the case of medicine.

I think it is very important for value creation in the future to know whether the Company is focusing on this area or not, or whether the process itself incorporates such a data-centered development process or not. I think such discussions should be actively held in the Board of Directors. Therefore, we discussed the possibility of including them in the skills sets.

As I mentioned earlier about Roivant Sciences, Sumitomo Dainippon Pharma itself has been making very aggressive efforts. Although Roivant Sciences was a very expensive M&A, I believe that Sumitomo Dainippon Pharma gained a very high value from it.

Regarding digitalization, it is important to move quickly. Sumitomo Dainippon Pharma has about 30 DX personnel, but about 20 of them, more than 2/3, are career hires. So, in addition to cultivating their own business, they are also making an effort to recruit talented people to start up their own businesses right away.

Actually, yesterday I attended a 4-hour briefing on production technology outside of development. Data is collected in the production process and multiple decisions are made based on specified failure modes. These production lines produce 500 million tablets per month for a drug, so it is paramount to prevent failures. You have a production line with tremendous capacity, but you can't let even one of them go wrong.

Yesterday, I was able to confirm that you are actively using data to maintain the quality of your platform, and that interpretation of the process is continuing. This includes the value that comes out of the data, and even the data itself. In that sense, I am very encouraged that you are continuing your efforts. That's all.

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**Mishiro:** Thank you very much. Now, I would like to take any questions related to the topic of skills sets.

**Questioner 1:** Thank you very much for today. And thank you for picking me to ask a question.

Let me ask you a question about the skills matrix. In recent years, there have been a number of companies that have included sustainability in their skills matrix, so that people who understand sustainability are included. I think it is a new and intergenerational concept.

I think it would be better if these things were built separately as part of the skills matrix. If I had to categorize them, I would say that they are legal, compliance, and risk management, and I think it would be a little different if sustainability were to be included in a rather defensive category.

### Appendix: Skills Matrix

#### Skills Matrix of Current Directors and Audit & Supervisory Board Members (Notes)



\*1 Circles (○) for Internal Directors and Full-time Audit & Supervisory Board Members indicate knowledge, experience and abilities cultivated through the relevant person's career, etc. Circles for Outside Directors and Outside Audit & Supervisory Board Members indicate knowledge, experience and abilities expected of them based on the relevant person's expertise, career, etc. The number of circles indicated for each Director or Audit & Supervisory Board Member is limited so that it does not exceed four, and therefore the matrix does not necessarily show all the knowledge, experience and abilities held by the relevant person

\*2 The BoD considers that it is necessary that the Directors and Audit & Supervisory Board Members have comprehensive knowledge, experience and abilities concerning various matters, including governance, sustainability, business strategy, and global business operations as the extensive knowledge, experience and abilities of a person who is in charge of corporate management or organizational operations in Japan or abroad

\*3 The BoD considers that it is necessary that the Directors and Audit & Supervisory Board Members have extensive knowledge, experience and abilities in different industries to offer a perspective which is different from those of the healthcare industry

\*4 The BoD considers that it is necessary that the Directors and Audit & Supervisory Board Members have extensive knowledge, experience and abilities concerning the creation and cultivation of new business or business development to contribute to the development of new business

\*5 The BoD considers that it is necessary that the Directors and Audit & Supervisory Board Members have extensive knowledge, experience and abilities concerning digital technologies and data utilization to contribute to the creation of new value through digital technology or data utilization

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**Nomura:** Thank you for your question. Sustainability, together with governance, as mentioned earlier, is a very important aspect of management.

As for your suggestion that it would be better to separate it, I believe this pertains to both domestic and international management, as well as organizational management. This was mentioned earlier, and I think it appears in page 18 of the appendix.

The second mark, extensive knowledge, experience, and ability as a person in charge of corporate management and organizational operations, includes governance and sustainability.

This is a little different from the opinion that it would be better to separate it, but I hope you understand that we are conscious of this skills sets.



**Questioner 1:** Thank you. The time axis of corporate management is a little different now. There was no such concept as 2050 if we look 10 years or 20 years ago. In addition, if your company is aiming to obtain the SBT certification for environment-related matters, I think it would be better to separate them a little bit. I also think it would be better to separate this element when appointing Outside Directors in the future.

This is just one opinion, but I would just like to add that looking from the outside, this appears to be a sensible approach. That's all.

**Nomura:** Indeed, this as an important point. Thank you.

**Mishiro:** Thank you very much. I would like to move on to Theme 2.

Theme 2 is about human capital. In order to increase corporate value over the med- to long-term, how do we acquire and develop human resources that are useful to the Company, and what results and outcomes do we aim to achieve as a result of this development? I would like to ask you about this source of value creation, which will have a significant impact on future information, focusing on what you have accumulated so far.

Mr. Nomura, first of all, the Integrated Report has a lot to say about human resources, but I would like to ask you to share your image of the kind of human resources we are looking for as a source of creating value unique to Sumitomo Dainippon Pharma.

**Nomura:** The image of the kind of person we are looking for has changed from time to time.

As for the type of human resources we are looking for, I think we are looking for people who are self-disciplined, independent, who are individuals, and who can bring about innovation by involving others.

**Appendix: Human Resources**

## Penetration and Practice of CHANTO

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**Promoting Project CHANTO**

In Project CHANTO, launched in February 2020, management formulated Conduct Guidelines\* (CHANTO) to achieve our corporate vision. By disseminating CHANTO throughout the Company, we aim to accomplish both the behavior modifications of each and every employee and the generation of individual and organizational results

**CHANTO: delivery of the highest performance**

The capability to continuously foster and deliver innovation to patients and other customers, while transforming our organization in flexible ways to adapt to changes in the world

**CHANTO Fiscal 2021 Goals**

**Aiming to deepen employees' understanding of the meaning of CHANTO, while moving forward with initiatives targeting ongoing action and the development of habits that enable employees to implement CHANTO**

| FY 2020 Initiatives  | FY 2021 Initiatives   |  |   |   |
|--|---|--|---|---|
| <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Formulation of Conduct Guidelines</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Understand</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Heart-level understanding</div> | <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Empathize (Motivate)</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Putting into action</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Head-level understanding</div> | <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Practice (Ongoing action)</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Ongoing action</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Heart-level understanding</div> | <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Develop habits</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Ongoing action</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Heart-level understanding</div> | <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Develop habits</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Ongoing action</div> <div style="background-color: #e0f2f1; padding: 5px; margin-bottom: 5px;">Heart-level understanding</div> |
| Language formation<br>State where CHANTO language has been formed and established  | Head-level understanding<br>Level where CHANTO is understood on a rational level  | Heart-level understanding<br>Level where content of CHANTO is empathized   | Putting into action<br>Level where the meaning and criteria represented by CHANTO are deeply understood, empathized and are being put into action on a daily basis  | Ongoing action<br>State where the process up to here is being actioned autonomously   |

**\* A set of five Conduct Guidelines to help employees when they are unsure of or worried about something for CHANTO**

1. Goal-oriented, take as one's own issues, and follow through
2. Show courage to meet challenges
3. Self-disciplined, independent and exert individual abilities
4. Respect each other and collaborate with peers
5. Continue to cherish diligence and integrity

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To put it another way, recently we have been running an initiative called CHANTO, which is about the ability to do things properly. When I say the ability to do things properly, I mean that as an employee, you should have that ability. It means that you should become an employee with such power.

What kind of employees are they? As I said earlier, they are people who can bring about innovation, and in short, they are people who will take on lofty and challenging goals. As a company, we work as an organization, and we confront difficulties by involving others as an organization and discussing various issues, including what methodologies to use.

We have a diverse team, and we place great importance on the need to listen carefully to all opinions. We respect each person's opinion. We are considering the kind of person who would be able to commit to the final result and produce results. We are now working on the CHANTO internal activities initiative so that such human resources will emerge.

However, although we will commit to the project and aim to produce results in the end, it does not mean for sure that we will succeed. The point is that we are trying to achieve a very challenging goal. So, for us, it's not just about success, but also about good failure. In other words, we want our employees to do their best so that they can learn from their mistakes, and we will place value on mistakes that lead to new paths.

I envision a person who is capable of doing such things well.

**Mishiro:** Thank you very much. Autonomy and a spirit of challenge are keywords that have been mentioned, but I would like to continue with Ms. Higuchi.

I would like to ask you about your company's human resource development system to achieve the image of people and human resources that you mentioned, and the resulting outcomes.

**Higuchi:** It is difficult to measure whether human resources have been developed or not, and I mentioned this as an issue earlier.

The basis of human resource development may be the same in any company, but I think there is importance on on-the-job training, learning on the job, being nurtured, and growing independently.

In that sense, I think it is very important to educate the direct manager, and for the manager to find and develop people, so in that sense, manager training is very important. I know that training alone is not enough, but we are putting more effort into training than in the past.

In addition, as Nomura mentioned about CHANTO on page 21, the 7 executive officers had a discussion on what kind of ability it takes to do things properly. We have identified what elements we should consider, and we are now trying to spread this throughout the Company.

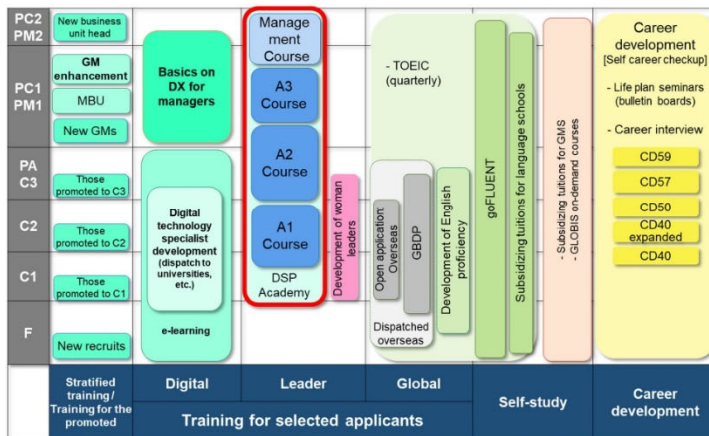
In addition, although it is difficult to express quantitatively, we will incorporate it into personnel evaluations and make sure that we do everything right. We are also working on how to incorporate points such as setting high goals and making good mistakes into personnel evaluations, and how to make them more widely known.

**Appendix: Human Resources**  
**Employee Training System and Selective Training “DSP Academy”**

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Employee Training System



MBU: Management Brush Up    GBDP: Global Business Person Development Program  
GMS: GIOBIS Management School

DSP Academy (selective training)



- **Objectives**  
To select and nurture future managers, executive candidates
- **Targets**  
Select those who are ambitious and show potential from four different grades, including young through mid-career employees and managers
- **Features**
  - ✓ Management courses to nurture future managers with Mr. Tada (Member, Board of Directors, Chairman) as head
  - ✓ Various types of training, including that based on case studies and action learning
- **Began in Fiscal 2016, 397 employees participated in the five years to Fiscal 2020**

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As for the overall human resource development system on page 20, as shown here, the leftmost column is for training by layer, and in particular, we are strengthening the training for Group managers.

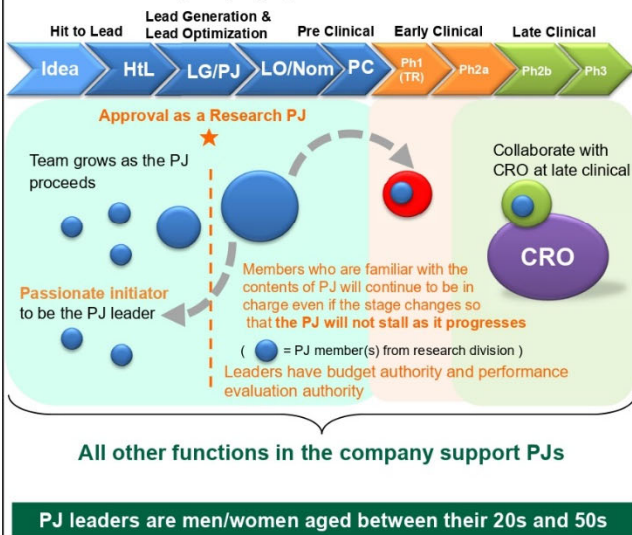
In the area of digital, there will be training to raise the level of all employees, and training for all managers. We also offer a higher level of training.

As for the word Leader, as I have mentioned before, we have a management school at the top that trains people who want to become managers, and we also nurture talented people in each of these areas. There are many more things to talk about in this area, but I think that suffices as a summary.

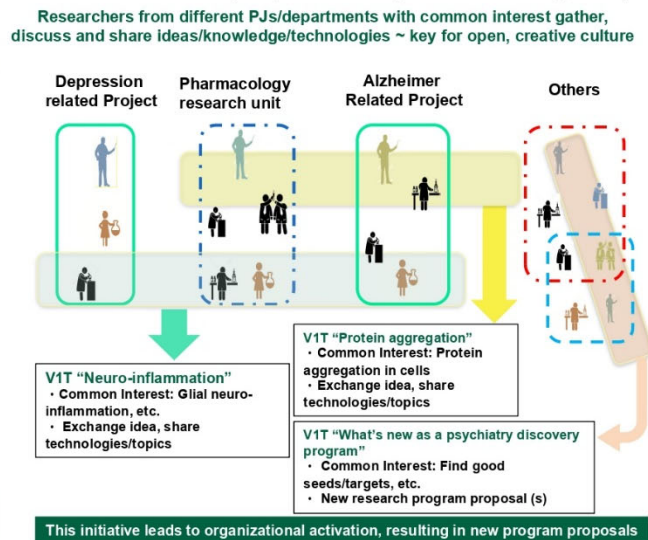
**Mishiro:** Next, I would like to ask Mr. Kimura about research and development, which is one of the most important aspects of human resources and determines competitiveness.

Could you tell us more about your company's unique R&D structure, research project system, and virtual one-team initiatives?

□ Research Project (PJ) System (Number of projects: Approx. 30)



□ Virtual One Team (V1T) Initiatives (Number of teams: Approx. 10)



Non: Nomination, TR: Translational Research

**Kimura:** As shown in the figure on page 19 of the preliminary materials, the research project system and the virtual one-team initiatives that we are currently adopting in the Research Division are producing very good results, and I would like to briefly explain them.

The project system is a term that is often used in the course of various jobs, but the research project system that we have adopted in our research means that when a research or drug discovery theme is proposed, in most cases, 2 or 3 people discuss it, and when a young person comes up with an idea for a theme, we assign a person with such passion as a leader. As the theme becomes larger and larger, 2 people become 5, 10, and in many cases, more than twenty people, and after the non-clinical research, we may enter the clinical stage.

In this process, the leader also has the right to execute the budget and evaluate the personnel, and negotiate with other departments while carrying out the project.

On the other hand, in the past, the line has been more of a management role, but now it is more of a support role for young researchers who are passionate about their projects. In addition, we will be focusing on the approval of the budget.

However, for the past several years, the actual leaders have been transferred to the clinical departments to lead the development.

Virtual one teams are groups of people who are interested in a particular topic, such as neuroinflammation or accumulation of proteins such as amyloid proteins. It isn't related to the vertical structure of other projects, and instead joins people with shared interests to discuss various issues and develop themes from these discussions.

One of our criteria is nomination, which is the process of identifying candidate compounds for development, and last year we received a record 7 candidate themes for development.

One of the things that we have noticed is that young researchers who go back to their universities and tell their juniors about Sumitomo Dainippon Pharma's project system or virtual one-team initiatives. Many job applicants said that they wanted to work in such a system. The fact that they are saying that they want to become leaders as soon as possible is very impressive to me.

**Mishiro:** Thank you very much. You just mentioned motivation and passion, but I think that opportunities to interact with such things are limited for executives outside the Company.

I would like to ask you about this point, Mr. Usui. I heard that Sumitomo Dainippon Pharma holds reporting meetings from the Research Division and Global Data Design Office, and that outside executives also participate in these reporting meetings.

I felt that there were many opportunities to gain a better understanding of the Company outside of the board meetings.

**Usui:** This is Usui. I have been working as an Outside Director since June of this year, and Sumitomo Dainippon Pharma has been holding research presentations from the R&D, manufacturing, and data utilization departments. I've attended a few of these, or should I say, most of them.

In fact, I felt that the presenters were very lively and confident in answering some of the questions I asked them. Some of them are young and some of them are probably old, but I felt that each of the presenters and the people who were running these presentations were very lively and confident.

The themes themselves are of very high quality, and members from external universities and other organizations also participate in projects, so I feel that the quality is very high. They were very inspiring events.

More importantly, the people who are actually doing the research need to work with high goals. The first thing you want to do is to set a high goal. However, when I started to do it, it did not go well. At that time, I told them to try harder, that it was okay to try harder, and that it was okay to fail. If you ask me who gives me the courage to challenge high goals, I would say it is the top management.

In that sense, what I was most interested in was the fact that Mr. Nomura and Mr. Tada always appear at these research presentations. When I left, I was surprised to find out that neither of you is a researcher. You may be a member of the management team, or you may have more experience in administration. However, I can comment on each theme properly. That's how committed the top management is to R&D and these presentations, and how they manage their business with empathy. I was really interested in this as I grasped the reality of running a company.

So, as you mentioned earlier, the fact that we are getting results from this means that the R&D system and the structure are starting to work very well. I feel that this is very promising.

**Mishiro:** Thank you very much. Mr. Endo mentioned earlier that he attended a 4-hour briefing session on production technology, but Ms. Arai, what were your impressions?

**Arai:** Thank you very much. I participated in 3 of them, and the first thing that struck me was how passionate everyone was about what they were doing.

Each of the employees are doing their best with the patients in mind, especially as we saw in yesterday's report from the Manufacturing Division. I could feel their passion and, as I mentioned earlier, their strong will

to accomplish their goals by taking up the word CHANTO in various places and using it as a guideline for their actions.

**Mishiro:** Thank you very much. The level of involvement of the outside directors was very clear.

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**Mishiro:** If you have any questions on Theme 2, human capital, I would like to hear from you.

**Questioner 2:**

I'm sorry to interrupt your discussion, but in a pharmaceutical company, the President understands the R&D theme and makes proper comments on it. It is obvious, or at least indisputable, that promoting such things properly is the fundamental growth engine for pharmaceutical companies.

Even if you say that this is a wonderful thing, I think it is something that we have seen and heard in every pharmaceutical company.

It is impressive that a record 7 compounds have been nominated. If you take that fact alone, it is very revolutionary, but how does it compare to the past? Can you show us all the data?

The research team at Sumitomo Dainippon Pharma has been excellent ever since the days of the former Sumitomo Pharmaceuticals. They conducted a lot of advanced research in patent applications, and came up with new discoveries such as semaphorin, which did not exist before. However, in some cases, these did not result in the development of products. I think this has been a problem for Sumitomo Dainippon Pharma in the past, so I would like to know what has changed and what has become better. Can you please explain about this?

**Kimura:** Thank you very much for your comments and suggestions. This is Kimura.

I was involved in the semaphorin project, and the biggest difference between current and previous projects is that I had to explain the passion of the research or the nature of the results of the research, and then receive approval, or in the case of the moving forward with research, receive approval for clinical development.

In addition, it took a lot of time and effort to transition from Phase 1 to Phase 2 of the clinical development process. It takes a lot of passion and energy to achieve that. As a result, I think one of the factors was that it took a long time.

However, with this system, the same people will keep moving forward. It's not just a matter of people working together, but also of collaboration between departments. I am aware that the movement is very different when the line is firmly grounded so that it can proceed smoothly.

As you know, it takes a very long time for a pharmaceutical or drug discovery candidate to become a real product or a drug, so it may take some time for it to reach the patients, and they may have to wait. As I explained earlier, there is a very big difference in the sense of the field.

One thing I would like to add is that the research on semaphorin is the basis of the regenerative medicine that we are currently promoting. The team, the network, and the science are now being applied to regenerative medicine.

**Questioner 3:** In addition to the KPIs that you introduced today, I would like to ask you about human resource development. I felt that you have not fully incorporated the perspective of human resource development into



the most important materialities, such as the development of innovative products and contributing to the development of science.

While completing projects properly is set as a theme, if the number of layers is the number of people who will move on to the next level, I fear that it may be possible for people to progress even if the quality is not necessarily high. I think it's more likely that the numbers will be attained, but if it's not accompanied by quality, it's possible to get stuck in the next stage.

Human resource development for its own sake may not reap the intended rewards. I believe that human resource development should be utilized to achieve the most important materialities in work.

You can set KPIs that reflect the corporate culture you want to create and the challenges you have accomplished. I wonder if there are any more creative ways of setting KPIs, incorporating this into the materiality of this project, such as in the area of innovative drugs creation and medical solutions? I would like to ask you to introduce the discussion in the process of setting these KPIs.

**Nomura:** In terms of human resource development for research, as Kimura explained earlier, we have a project system.

So even people in their 20s can become project leaders. In this way, these young people will become leaders and manage budgets themselves. We also do personnel evaluations. Otherwise, there will be no centripetal force. That's how groups are managed. On top of that, we have the mini-ventures, a kind of venture. In such a situation, the project leader gets very tangled up in the process of carrying out the project, right?

In that sense, in terms of human resource development, although it is on-the-job, I think this has been a very valuable experience.

Most people who have been a project leader have grown tremendously. Therefore, although there may be some luck depending on the compound, the fact that the number of layers has increased as a result of the project leader's efforts is proof that the abilities and experience of the project leader and the people supporting the project leader have improved dramatically.

You pointed out that it is natural for the president and chairman to attend the research report meetings, but if we compare the report meetings of some years ago and the recent ones when the project system was introduced, the faces of the researchers are more lively and passionate. This is totally different.

In this sense, we feel that the efforts, experience, and abilities of researchers have improved considerably.

But of course, people outside the Company don't have the opportunity to attend such events, so I can't tell you that much. However, I think it is important for you to understand that the people behind the rise of the layers are the ones who are driving it.

Of course, we can see the clinical part of the research, but the research part is still subject to a lot of confidentiality issues, so it is difficult to disclose. I'd like to be able to express that somehow. But for now, I think a fair substitute is notification when candidates move to the next stage of research.

**Tada:** I think that research activities not being developed into products is firm, but fair.

However, I would like to say a few words about this issue of research not being developed into products, in particular what steps we are taking and how we are reflecting on this fact.

In the past, there was a barrier between research and development, and once a compound entered the clinical stage, the development staff suddenly took over from the research staff. However, in our new system, from

the late stage of the initial research, the development staff join the team and work on the project. They give their opinions from a developmental perspective to enhance future work.

This project system was not explained earlier, but we are hoping that this will be one of the ways to reduce the number of lost compounds in development. We are working on that as an area for improvement.

I can understand your frustration because it takes so much time, and it is difficult to come up with a product. I would like you to understand that we are making efforts in this sense.

**Mishiro:** Thank you very much.

I would like to end the panel now, as we are out of time. Thank you very much for your comments and suggestions.

**Harada:** Thank you very much Ms. Mishiro, our panelists, and all participants.

## Question & Answer

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**Harada:** I would like to move on to the question-and-answer session. When the moderator calls your name, please state your affiliation and your name followed by any questions you may have.

**Questioner 4:** Thank you.

I would like to ask people outside the Company about the recent comprehensive alliance with Otsuka Pharmaceutical. We have heard the Company's explanation in the second quarter, so we understand the Company's opinion. However, some people in the stock market, and I agree with them, think the price was a bit low. There is a part of me that can't shake the impression that this is something of very great value.

What I would like to ask is how much did the people outside the Company agree with the Company's explanation during the discussion? I wonder if some of you were not so convinced. It would be helpful if you could share information about that, including what discussions took place.

**Harada:** Thank you very much. Now, let's start with Mr. Atomi.

**Atomi:** The drugs co-developing with Otsuka Pharmaceutical are promising drugs. We have been looking forward to the next drug for several years.

As for your question, I was fully in agreement at the Board meeting. I think it is important to consider what has been invested in the current Roivant Sciences relationship and so on, and consider Sumitomo Dainippon Pharma's financial situation. We are also considering several companies to partner with that have expertise in the US. It was also noted that both of them can cooperate in the commercialization area, which I found to be true.

When it comes to selling at a discount, I feel that it was an appropriate tie-up considering that it was an urgent matter and we had to proceed with it somewhat quickly. Thank you.

**Harada:** Thank you very much, Mr. Atomi. To the other directors, do you have any additional comments? Mr. Usui.

**Usui:** I'm not very experienced, but I was also convinced.

As I listened to the discussion, considering that it takes a lot of money and time to approve a drug for a single case, I thought that the more wonderful the drug is, the better it would be to move to increase the indications as soon as possible.

In any case, once a patent expires, it becomes almost worthless, so if it is a good product, it would be good for Sumitomo Dainippon Pharma to get as many cases as possible as quickly as possible and make it useful to society.

**Harada:** Thank you very much, Mr. Usui.

**Questioner 4:** Thank you very much. In other words, people outside the Company were convinced of the economic argument as well, right? I learnt a lot from your discussions. Thank you.

**Harada:** Thank you very much.

**Questioner 1:** I have 2 questions for the outside directors.

Regarding the effectiveness of the Supervisory Committee for Conflicts of Interest in Transactions between Group Companies, do you think that this is actually a scheme that is beneficial not only to Sumitomo Dainippon Pharma, but also to the parent and subsidiary listed companies? Please comment on this point. This is the first question.

I would like to ask Mr. Endo about the other point. Mr. Endo, from the standpoint of NEC, you have been involved in the parent-subsidary listing of subsidiaries. While at Sumitomo Dainippon Pharma, you have been playing a role in protecting the interests of minority shareholders. I would like to hear your comments on the parent-subsidary listing by Sumitomo Dainippon Pharma. These are my 2 questions.

**Harada:** These questions are for the outside directors. Ms. Arai, would you like to comment on this?

**Arai:** I will respond to the first point.

The committee discussed with the parent company first of all about the legitimacy of the project, whether it is reasonable and in accordance with the objectives, and mainly about whether it would be harmful to the interests of minority shareholders as a transaction with the parent company. We also report to the Board of Directors.

For this matter, we considered the establishment of S-RACMO, a joint venture with Sumitomo Chemical, in FY2020. In this regard, I believe that the committee was able to discuss the issue from a very impartial standpoint, since it is composed solely of Outside Directors. In that sense, I think it would be effective in the case of transactions with conflicts of interest between parent and subsidiary companies.

In the future, we will look at the process as well as individual cases. I will be supervising them. Thank you.

**Harada:** Thank you very much, Ms. Arai. Next, about the second question.

**Endo:** Could you clarify the question please?

**Questioner 1:** In general, parent-subsidary listings are not good for the world. On the other hand, Mr. Tada said that the first and foremost point of governance is to have minority shareholders approve the parent-subsidary listing.

From that standpoint, I would like to ask you what you think about the significance of Sumitomo Dainippon Pharma's presence as a listed company.

**Endo:** I think the parent-subsidary listing came about as a way to strengthen the capital of the subsidiary when it became more capable of creating value.

In that sense, Sumitomo Chemical is now the parent company, and Sumitomo Dainippon Pharma is not going to be listed as an independent company, but rather as a parent company. However, I am sure that the actual technologies that Sumitomo Chemical possesses, including its production technologies, are very useful for Sumitomo Dainippon Pharma's development.

So, in that sense, I personally feel that the current parent-subsidary listing is a good use of the advantages of both companies.

However, if Sumitomo Dainippon Pharma wants to grow in a big way in the future, it certainly seems it will be more capable of obtaining capital. In such a case, I feel that whether the parent-subsidary listing is meaningful or not is a different question.

However, from the perspective of successfully using Sumitomo Chemical's technology at the current scale of Sumitomo Dainippon Pharma, I have a feeling that the parent-subsidary listing may be one of the steps in this process.

**Questioner 1:** Thank you very much for your very clear answer. That's all.

**Harada:** Thank you very much.

**Questioner 5:** This may be a slightly different theme this time, but I think that ESG in the pharmaceutical industry has expanded and improved a lot in the past 2 years. I am sure that your company was one of the first to take the initiative, but when I looked at the value reports of other companies, I found that almost all of them were heading in the same direction.

It makes sense to bring up issues such as climate change and greenhouse gas emissions since they happened to come up this time, but I feel that the social mission of pharmaceutical companies is to improve the quality of life of patients and their families by providing new drugs as quickly as possible. If this trend continues, I am concerned that too much stress will be put on ESG, and then the focus simply becomes sustainability.

I think it is also important to present KPIs that focus more on the regenerative medicine initiatives that your company is working on, for example.

Also, in the area of human resource development, I think one of the KPIs would be publication of scientific papers. I think this is near-equal, and may be connected to the protection of intellectual property, so what do you think about ESG in your company and in the industry in the future?

As a doctor. It's not so related to the outlook, is it? It's not particularly related to development either. I would like to ask you what you think about such things. Thank you.

**Harada:** Mr. Atomi, I would like to pass this question to you.

**Atomi:** I'm not sure about how to comment as a doctor. To be honest, I wondered at first about how these keywords, such as environment, social, governance, came to have such significance.

In particular, I wondered about how it came to be that some funds invest according to these principles. This may be my fault as a scientist. I always want to see the evidence supporting these things. That's the part that can sometimes be an obstacle for me.

Although it was not discussed today, there is a revision to the compensation system that requires higher incentives, and they are being very strict about it. The question is whether or not increasing incentives will improve company performance. I have asked the secretariat many times if there is any concrete evidence for this. The evidence is not very clear.

From the perspective of a scientist, an individual's opinion is the lowest level of evidence, regardless of whose opinion it is. I think it's important to be guided by evidence. Therefore, I feel that there is a responsibility to explain the true meaning of ESG based on scientific evidence. I'm sorry if this was a digression. This is what I feel. That's all.

**Questioner 5:** Understood. Thank you.

**Harada:** Thank you very much.

**Questioner 6:** Thank you very much.

Given the new format of this meeting, I'm not sure about the atmosphere there, so I apologize if my question is a little tone-deaf.

As mentioned in the previous question, the deal with Otsuka Pharmaceutical had various effects. One is that your company's profits will be cut in half. But on the other hand, working together with Otsuka Pharmaceutical, profits are also likely to increase in the future. As a result, the share would increase. That is the underlying logic.

The same is true for both Roivant Sciences and Otsuka Pharmaceutical. As a result, even though we are in the era of alliances, there are more and more projects that your company cannot control 100%, so it is difficult to see how much profit your company will lose as a result.

I'm not trying to make any point by saying this, but rather, I think that the case that this will be a net plus for the Company could perhaps be in stronger terms.

I would be grateful if you could say more on the topic of how the Otsuka Pharmaceutical and Roivant Sciences deals will ultimately benefit your company.

**Harada:** Would an outside director like to make a comment? Or shall I pass this to Mr. Nomura?

**Nomura:** Thank you very much. I understand that this is a comment rather than a question.

I think that I am responsible for the fact that this has not been fully conveyed, even though I have tried to do so. I would like to think about how to explain it a little more in the future.

It is true that we are the majority shareholder of Myovant, a subsidiary of Roivant Sciences, but the issue of control is difficult given that we are a listed company. Otsuka Pharmaceutical is 50-50, so I can appreciate why that may seem difficult.

Since Myovant is a listed company, it is difficult for me to comment on it. As for Otsuka Pharmaceutical, it may be difficult given the issue of making that type of contract with a US company. I thought it would be difficult to move forward because of the conflicting interests of both parties. Fortunately, I was able to talk with President Inoue of Otsuka Pharmaceutical, and although we are 50-50 in this area, we are really aligned.

So, in that sense, I don't really see the disadvantages of not having that kind of control. Rather, having consensus, we can move forward firmly. I believe that this is the kind of contract that we have, so I don't think there is any concern about what we might lose by not being able to control it. That's all.

**Tada:** This is Tada. This is related to comment earlier that research activities not being developed into products, but Otsuka Pharmaceutical's development capability is very high in this field. There is an expectation that by combining our power with their power in development, we will be able to succeed.

So, it is true that if you only look at the numbers on the chart, people may talk about profit and loss, but in the end, the amount will be based on success. In aiming for success, we see them as partners of whom we can expect a great deal.

In this sense, I would like you to understand that we are thinking about how to utilize external power as one of the themes in our management. As was suggested earlier, we need to strengthen our development capabilities, not research.

I hope you understand that this deal was made after considering how to cover not only the parts that appear in the numbers, but also our weaknesses and other factors in the background.

**Questioner 6:** Yes, thank you very much. That's all.

**Harada:** Thank you very much. We will now conclude the question and answer session.

This concludes today's briefing. Thank you very much for your time today.

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