Sumitomo Dainippon Pharma has three outside directors, who provide support to improve corporate value utilizing their respective expertise and experience. We asked all of the outside directors to discuss the formulation of the Mid-term Business Plan 2022 (fiscal 2018—2022) (“MTBP”), a major issue in fiscal 2018.

Note: Hidehiko Sato served as an Outside Audit & Supervisory Board Member for two years and as an Outside Director for six years, but retired effective June 2019.

—From the standpoint of an outside director, how did you participate in discussions during the formulation process for the MTBP announced in April?

Sato This MTBP is a five-year plan starting in fiscal 2018, so it was initially planned for release in March 2018. However, its start was delayed by about one year. This delay was due to Sumitomo Dainippon Pharma filing a patent infringement lawsuit against a number of generic drug manufacturers, which had made applications for generic drugs to the U.S. Food and Drug Administration (FDA), on grounds of infringement of the LATUDA® use patent (the “ANDA lawsuit”).

Atomi As the management team considered and formulated the MTBP with a sense of decisive change about how to handle the next five years to develop a pillar of earnings following LATUDA® and achieve future sustained growth, the content may have been more fully refined.

Sato The MTBP was the subject of intense debate on multiple occasions at the Board of Directors as well. Sumitomo Dainippon Pharma established its vision for 15 years’ time and the first five-year period for achieving it to formulate the MTBP. Due to the speed of changes in the external environment, there may need to be minor adjustments to the content in the future, but I think that it is an appropriate period of time for clearly showing employees the direction to be aimed for. In fact, it was difficult to rethink strategy assuming various scenarios, but I feel that we have established an ambitious plan which is well-crafted down to the details whilst having a long-term perspective.
Arai  In order to practice its corporate philosophy, Sumitomo Dainippon Pharma compiled material issues into a materiality map in 2018 with the aim of sustained growth and has been working on management with a focus on ESG. When formulating the MTBP, it was also considered that these efforts will lead to achieving the SDGs. As a long-term goal, Sumitomo Dainippon Pharma has set up a “Global Specialized Player” with ability to meet needs for healthcare, as a position we aspire to be in 2033. I think this is very good for indicating a future vision that will form a major guide for all employees.

Atomi  In addition to pharmaceuticals, the traditional pillar of business, we have established the launch of the Frontier Business to be another pillar as a long-term target. Initially, I pointed out that this area is fiercely competitive and it will be difficult to develop with a half-hearted approach. As a result, there was considerable discussion about what kind of action is required to develop it into a pillar of business.

Arai  In this MTBP, I focused on what the position of Sumitomo Dainippon Pharma is in the changing environment surrounding the pharmaceutical industry. There were many issues specific to the pharmaceutical industry and measures to counter them, and the preliminary explanations by relevant departments were extremely helpful. I think that the careful explanations deepened understanding, allowing us to have profound discussions on the content of the MTBP at the Board of Directors. In the formulation process, I was able to participate in the discussion from the drafting stage in the sense that questions and statements from the preliminary explanations were invariably taken up in the subsequent examination and review.

Sato  As the plan was put together with the outside directors asking various questions and expressing opinions, I believe that the final content is compelling from our perspective.

— What challenges are you aware of for achieving the MTBP?

Arai  Nurturing the corporate culture and developing human resources will be important. I think that the explicit description of the vision for employees, including the desired employee profile, is really good.

Sato  In this MTBP, we decided to build a flexible and efficient organizational foundation in which “CHANTO” is instilled. At first, I was dubious about the wording of “CHANTO,” but by writing “CHANTO” I now think that it was effective in unifying the thinking of the group overall, including overseas subsidiaries, as a global company.

Atomi  From my standpoint as a medical doctor, I think that society’s greatest expectation of Sumitomo Dainippon Pharma is for it to keep creating outstanding new drugs that save people from disease. In other words, this is solving social issues through our core business. However, the probability of success in new drug development is low, and we need to value the various seeds of new drugs within the Company in order to increase the probability even by a little. Fortunately, there are many young researchers with unique ideas at Sumitomo Dainippon Pharma, and it is important to develop these human resources and bring out their potential.

Arai  I agree. As future research and development will have a major impact on performance, I think there is a need to establish an environment in which innovative and adventurous researchers can play active rather than passive roles while also complying with the rules.

Sato  It is as you say. One of the reasons why I rate this MTBP highly is that it clearly indicates the vision that the Company will aim for, at the same time, elaborating sufficiently on the systems and methods for achieving the target. The environment surrounding the pharmaceutical industry is extremely challenging, and there are many issues to be overcome, but these risks are properly analyzed in the MTBP.

Atomi  In this MTBP, the issues and responses are presented clearly, which should make it compelling for investors as well.

Sato  Sumitomo Dainippon Pharma is highly motivated to contribute to patients and healthcare facilities by providing even better pharmaceuticals, and I think that this translated into a coherent and clear business strategy. So long as the Company takes this approach, it should be able to solve issues despite the challenging environment.

Atomi  To accomplish this, I hope that Sumitomo Dainippon Pharma will implement the plan with a sense of decisive change going forward.

* CHANTO: 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.
Sumitomo Dainippon Pharma commits itself to continuously pursuing the establishment of a corporate governance system which is highly effective, aiming for the fuller realization of our Corporate Mission and Management Mission. The Company posts on its website the summary for its basic concept and basic policy titled the “Basic Policy on Corporate Governance” (the “Basic Policy”).

**Corporate Governance**

**Governance reform: progression of initiatives**

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<td><strong>Outside Directors</strong></td>
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<td>1 (8)</td>
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<td><strong>Outside Audit &amp; Supervisory Board Members</strong></td>
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<td>3 (8)</td>
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<td>(number of Audit &amp; Supervisory Board Members)</td>
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<td><strong>Supervisory function</strong></td>
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<td>Company with an Audit &amp; Supervisory Board</td>
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<td><strong>Effectiveness</strong></td>
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<td>Nomination and Compensation Committee</td>
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<td>Evaluation of effectiveness of Board of Directors</td>
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<td>Regular meetings of Outside Directors and Outside Audit &amp; Supervisory Board Members</td>
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<td><strong>Policy</strong></td>
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<td>Declaration of Conduct</td>
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<td>Compliance Standards</td>
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<tr>
<td><strong>Basic Policy on Corporate Governance</strong></td>
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<td><strong>DSP Group Risk Management Policy</strong></td>
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<td><strong>Human Resource Development</strong></td>
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<tr>
<td>DSP Academy, a selective training program that includes the Management Course to foster future managers, established</td>
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</table>

**Corporate Governance Structure**
**Corporate governance system**

Sumitomo Dainippon Pharma has elected the organizational structure of a “Company with an Audit & Supervisory Board” to audit the execution of duties by the Directors, independent of the Board of Directors. In addition, the Company has adopted an executive officer system to separate management supervision from business execution.

The Board of Directors consists of eight members, including three Independent Outside Directors (the chairperson: Chairman). The Board of Directors holds a meeting once a month, in principle, and resolves and reports on material business matters.

The Company has a Nomination and Compensation Committee,* which has Independent Outside Directors for a majority of its members and holds meetings as necessary, as a consultative body to the Board of Directors.

The Management Committee holds meetings twice a month, in principle, as a consultative body to the President and CEO for the decision making for important business matters, based on the basic policy determined by the Board of Directors.

In addition, the Executive Committee holds a meeting once a month, in principle, for the purpose of appropriately sharing among the Directors and the Audit & Supervisory Board Members, including the Outside Directors and the Outside Audit & Supervisory Board Members, as well as Executive Officers and other related persons, the status of the execution of business and material matters relating to the execution of business.

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**Audit system**

The Audit & Supervisory Board consists of five members, including three Outside Audit & Supervisory Board Members. The Audit & Supervisory Board holds a meeting once a month, in principle, discusses and resolves matters relating to auditing, and also examines in advance matters to be submitted to the Board of Directors for discussion. The Audit & Supervisory Board determines audit policy, audit plans, task allocation among members and other matters. The Audit & Supervisory Board evaluates the Accounting Auditor based on the evaluation standards established by it, and determines proposals regarding the appointment, dismissal and non-reappointment of the Accounting Auditor to be resolved at the shareholders’ meetings. Accounting audits are conducted by KPMG AZSA LLC, under the audit agreement.

The Company has established the Internal Auditing Department, which reports directly to the Representative Director, President and CEO of the Company. The Internal Auditing Department conducts internal audits for not only the Company but also its subsidiaries to check the basic control from a fair and independent standpoint. In addition, the Internal Auditing Department evaluates the status of development and operation of the internal control over financial reports in accordance with the Financial Instruments and Exchange Act.

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### Accounting Audits, Remuneration (FY2018)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount to be paid (Millions of Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consideration to be paid for the services (audit attestation services)</td>
<td>99</td>
</tr>
<tr>
<td>described in Paragraph 1 of Article 2 of the Certified Public Accountant Act (Act No. 103 of 1948)</td>
<td></td>
</tr>
<tr>
<td>Total amount of fees to be paid in cash or otherwise by the Company or Subsidiaries of the Company</td>
<td>103</td>
</tr>
</tbody>
</table>

**Notes:**
1. The Audit & Supervisory Board of the Company has determined to consent to the amount of remuneration and the like for the Accounting Auditor after performing necessary verifications on the details of the Accounting Auditor’s audit plan, status of performance of accounting audit duties, and the appropriateness of the basis for calculating remuneration.
2. Under the Audit Agreement between the Company and the Accounting Auditor, there is no distinction between compensation and the like for an audit under the Companies Act and the Financial Instruments and Exchange Act. Moreover, the two amounts cannot be substantially distinguished from each other. Thus, the amount of compensation and the like related to the audit attestation services reflects the total sum of these two kinds of amounts.
3. Significant subsidiaries located overseas were audited by auditing firms other than the Accounting Auditor of the Company.

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* *Nomination and Compensation Committee*

The Company has the Nomination and Compensation Committee, which holds a meeting as necessary, as a consultative body to the Board of Directors for enhancing the objectivity and independence of the functions of the Board of Directors on matters such as the nomination of the candidates for Directors and Audit & Supervisory Board Members, and decision on compensation of Directors. The Nomination and Compensation Committee consists of the following four members, the majority (three members) of them being Independent Outside Directors, and the chairperson being appointed from among the Independent Outside Directors.

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### Composition of the Nomination and Compensation Committee

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Yutaka Atomi (Outside Director)</td>
</tr>
<tr>
<td>Members</td>
<td></td>
</tr>
<tr>
<td>Representative Director, Chairman</td>
<td>Masayo Tada</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Saeko Arai (Outside Director)</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Nobuhiro Endo (Outside Director)</td>
</tr>
</tbody>
</table>

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**Ratio of Outside Directors (as of July 1, 2019)**

Inside Directors: 5
Outside Directors: 3
(1 female director)
Directors
The Directors prepare well for meetings of the Board of Directors by proactively collecting the information necessary for promoting discussions at the meetings. The Directors also actively contribute to swift and proper decision making for achieving the Company’s sustained growth and the enhancement of the corporate value over the mid to long term. The Directors perform their duties for the common interests of both the Company and the shareholders, recognizing their fiduciary responsibilities to shareholders and fully understanding the importance of appropriate communication and cooperation with stakeholders.

At present, three of the Outside Directors satisfy the Company’s criteria for the independence of Outside Directors, and having determined that there is no possibility of conflict of interest with ordinary shareholders, the Company has designated them as Independent Outside Directors.

From the independent standpoint, the Independent Outside Directors strive to fulfill their expected roles in decision making at meetings of the Board of Directors and supervision of conflicts of interest, among others, based on their knowledge, experience and insights in their respective fields of expertise.

### Principal areas of expertise and experience of Directors and Audit & Supervisory Board Members

<table>
<thead>
<tr>
<th>Category</th>
<th>Position/Name</th>
<th>Corporate strategy</th>
<th>Human resources</th>
<th>Sales/Marketing</th>
<th>Finance/Accounting</th>
<th>Global</th>
<th>Research/Development</th>
<th>Production/Quality</th>
<th>Quality assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>Representative Director, Chairman Masayo Tada</td>
<td>●</td>
<td>●</td>
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<td></td>
<td>Representative Director, President and CEO Hiroshi Nomura</td>
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<td>Executive Vice President Hitoshi Odagiri</td>
<td>●</td>
<td>●</td>
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<td></td>
<td>Senior Executive Officer Toru Kimura</td>
<td>●</td>
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<tr>
<td></td>
<td>Senior Executive Officer Nobuhiko Tamura</td>
<td>●</td>
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<tr>
<td>Audit &amp; Supervisory Board Members</td>
<td>Yoshinori Oh-e</td>
<td>●</td>
<td>●</td>
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<td></td>
<td>Takashi Kutsunai</td>
<td>●</td>
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</tbody>
</table>

*Indicates current positions and responsibilities held for at least the past two years*

### Status of Convocation of the Meeting of the Board of Directors (FY2018)

<table>
<thead>
<tr>
<th>Organizational Body</th>
<th>Composition</th>
<th>Frequency of convocation</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board of Directors</td>
<td>The Directors 8 members, (including three Outside Directors)</td>
<td>Once a month as a rule</td>
<td>Resolving and reporting important management matters</td>
</tr>
<tr>
<td>The Board of Directors</td>
<td>The Audit &amp; Supervisory Board 5 members, (including three outside Audit &amp; Supervisory Board members)</td>
<td>Once a month as a rule</td>
<td>Discussing and resolving important audit-related matters</td>
</tr>
<tr>
<td>Nomination and Compensation Committee</td>
<td>The Directors 4 members, (includes three Independent Outside Directors)</td>
<td>Meets as necessary</td>
<td>Deliberating on matters related to nomination of candidates for Directors and Audit &amp; Supervisory Board Members and compensation, etc. of Directors</td>
</tr>
<tr>
<td>Management Committee</td>
<td>The members of the Board of Directors, and Executive Officers 13 members</td>
<td>Twice a month as a rule</td>
<td>As a consultative body to the Representative Director, President and CEO for decision making and reviewing important business management matters, guided by the basic policies set by the Board of Directors</td>
</tr>
<tr>
<td>Executive Committee</td>
<td>Executives, including the members of the Board of Directors, the Audit &amp; Supervisory Board, and Executive Officers 25 members (including three Outside Directors and three Outside Audit &amp; Supervisory Board members)</td>
<td>Once a month as a rule</td>
<td>Sharing the status of business operations and other important management matters among the company executives, including the members of the Board of Directors, the Audit &amp; Supervisory Board, and Executive Officers</td>
</tr>
</tbody>
</table>
Message from a New Outside Director

I am Nobuhiro Endo from NEC Corporation, and I was appointed as an Outside Director at the Annual Shareholders’ Meeting in 2019. I have been responsible for ICT-related development work at NEC Corporation for approximately 30 years, and I have 13 years of experience as an executive officer. ICT has evolved considerably in recent years, and we are now moving from an information-driven society to a data-driven society with the source of value shifting from information to data. In conjunction with this, methods of creating value are on the brink of transformation, and ICT use in the medical field is increasingly being stepped up. I look forward to having useful and positive discussions that will help with the Company’s business expansion, primarily in this field of medical ICT usage. In addition, based on my experience of corporate management, I believe that corporate culture is the very foundation of value creation and corporate sustainability, and I hope that I will also be able to provide positive support from this angle.

Nobuhiro Endo
Audit & Supervisory Board Members
The Audit & Supervisory Board Members strive to enhance the effectiveness of audit practices by holding meetings with the Representative Directors on a regular basis, proactively seeking reporting from and discussions with the Directors and employees as necessary and working in collaboration with the Accounting Auditor and the Internal Auditing Department. In addition, the members attend key business meetings, including those of the Board of Directors, to monitor legality and appropriateness of management decisions by the Directors, and proactively audit the implementation status of the internal control system by such means as receiving reports from the Directors and employees on the execution of their duties, requesting additional explanations as necessary and reviewing important approval documents.

The three members satisfy the Company’s criteria for independence, and, having determined that there is no possibility of conflict of interest with ordinary shareholders, the Company has designated two of the three Outside Audit & Supervisory Board Members as Independent Outside Directors.

Executive remuneration
The Company manages its compensation for Directors and the Audit & Supervisory Board Members in accordance with the following policies, etc.

(a) Procedures for determining compensation, etc.
The Company has the Nomination and Compensation Committee, which holds a meeting as necessary, as the consultative body to the Board of Directors for enhancing the objectivity and independence of the functions of the Board of Directors relating to matters such as the nomination of candidates for Directors and Audit & Supervisory Board Members and decisions regarding compensation of Directors.

The compensation of the Directors and Audit & Supervisory Board Members and other related matters are determined by the Board of Directors based on the recommendation from the Nomination and Compensation Committee after the Board of Directors seeks such recommendation and the Nomination and Compensation Committee deliberates the relevant matters.

In fiscal 2018, the Nomination and Compensation Committee deliberated compensation and the like for the Directors and Outside Directors several times and made recommendations to the Board of Directors.

(b) System and the total amount of compensation, etc.
Compensation for the Directors consists of base compensation and performance-linked compensation (bonuses), and this system is designed to serve as an incentive for achieving sustained growth and enhancing the corporate value of the Group. In order to promote value sharing with shareholders, the Directors contribute a certain ratio of their base compensation every month to the Sumitomo Dainippon Pharma Officers Shareholders’ Association to acquire shares of the Company. The Directors continue to hold the shares they acquire during their term of office and for one year after their retirement.

Compensation for the Outside Directors consists of base compensation and bonuses, and the Company adopts a compensation system where the business performance of the Company is not linked thereto, for the purpose of securing the supervisory function and independence of the Outside Directors. Compensation for the Audit & Supervisory Board Members consists only of the base compensation.

The total amount of the compensation and the like for the Directors and Audit & Supervisory Board Members was resolved at the annual shareholders’ meeting held in June 2005 to be not more than 400 million yen annually for the Directors and not more than 100 million yen annually for the Audit & Supervisory Board Members. The numbers of the Directors and Audit & Supervisory Board Members with respect to the said resolution were 10 and four, respectively. Individual amounts for the Directors are determined in accordance with the procedures described in the above (a) at a meeting of the Board of Directors, and the individual amounts for the Audit & Supervisory Board Members are determined by the Audit & Supervisory Board.

(c) Calculation method for compensation, etc.
Of the compensation for the Directors, the base amount is set with respect to the base compensation according to each position, such as Representative Director. The amount of the performance-linked compensation (bonuses) is calculated by reflecting performance-linked elements and individual performance, to the base amount which is set according to each position, such as Representative Director.

The performance-linked elements are evaluated by the Nomination and Compensation Committee, using as an indicator the degree of achievement of forecasts by the consolidated financial results which indicate the operating results of the Company. As for the individual performance, the degree of achievement of performance targets of each Director is evaluated by the Nomination and Compensation Committee. As targets to be achieved, the consolidated financial
The Company has evaluated the effectiveness of the Board of Directors annually since fiscal 2015. As the Company conducted such evaluation for the fourth time in fiscal 2018, the Company asked outside legal counsel to review the method of evaluation of the effectiveness of the Board of Directors of the Company and the evaluation results.

1) Purpose and method of evaluation of effectiveness
The Company has evaluated the effectiveness of the Board of Directors with the aim of improving the effectiveness of the Board of Directors for enhancing corporate governance of the Company: specifically, recognizing any differences between the ideal status of the roles and duties, etc. of the Board of Directors of the Company that are set forth in the Basic Policy and the actual circumstances; regularly and repeatedly engaging in agenda-finding and improvement activities; and thereby continuously improving the functions of the Board of Directors. In fiscal 2018, the Company conducted a questionnaire on all the Directors and Audit & Supervisory Board Members during the period from February 2019 to March 2019. Based on the results of analysis of the answers to the questionnaire, opinions were exchanged at the meeting of the Board of Directors held in April 2019.

2) Survey Categories
The Company partially revised topics of the questionnaire in fiscal 2018 based on the advice of outside legal counsel. The major topics of the questionnaire for fiscal 2018 were as follows:
1) Composition of the Board of Directors
2) Roles and duties of the Board of Directors
3) Status of the operations of the Board of Directors
4) Functions of the Nomination and Compensation Committee
5) Support system for Outside Directors and Outside Audit & Supervisory Board Members
6) Roles of Independent Outside Directors
7) Roles of Audit & Supervisory Board Members and the expectations for the Audit & Supervisory Board Members
8) Relationship with stakeholders
9) Improvements over last fiscal year

3) Improvement from the previous fiscal year
Based on the report of the answers to the questionnaire (quantitative evaluation by four grade scales and the entry of opinions in free space) and analysis thereof (such as the comparative analysis of the numerical values of the evaluation results for each topic for fiscal 2018 and those in the past), all the Directors and Audit & Supervisory Board Members exchanged opinions at the meeting of the Board of Directors in April 2019. As a result, it was confirmed that there is no major problem to be pointed out with respect to the operation of the Board of Directors in fiscal 2018 and the effectiveness of the Board of Directors of the Company has been ensured in general. In addition, it was agreed that appropriate progress was seen as to the handling of the agenda identified in fiscal 2017.

4) External evaluation
At a meeting of the Board of Directors held in May 2019, the Company received a report on external evaluation results from outside legal counsel on the process of evaluation of the effectiveness of the Board of Directors and the evaluation results of the Company for fiscal 2018. Based on the analysis and examination of the topics to be considered in the questionnaire and answers to such topics for fiscal 2018, results of the analysis of answers to the questionnaire conducted in the past fiscal year, examination of the minutes of meetings of the Board of Directors, report materials and other related documents for fiscal 2018, and observation of the circumstances of the opinion exchange at the meeting of the Board of Directors in April 2019, the Company received evaluation results from outside legal counsel to the effect that the process of evaluation of the effectiveness of the Board of Directors of the Company is appropriate,
and the evaluation results of the Company that the effectiveness of the Board of Directors has been ensured in general is appropriate. The Company also received from the outside legal counsel suggestions, etc. regarding matters that are found desirable to be examined for further improvement of the effectiveness.

5) Major matters to be addressed in fiscal 2019
Based on the results of the external evaluation and suggestions, etc., the following agendas have been identified as major matters to be addressed in fiscal 2019 as a result of the evaluation of the effectiveness of the Board of Directors for fiscal 2018.
• Further stimulation of deliberation by the Board of Directors;
• Enhancement of follow-up activities after resolutions are made by the Board of Directors;
and
• Enhancement of reports to the Board of Directors regarding opinions, etc. from shareholders, investors and other related persons.
The Board of Directors of the Company is determined to further enhance its functions, while addressing these agendas.

Factors That Could Significantly Influence Corporate Governance
Sumitomo Chemical Co., Ltd. is the parent company holding 51.78% (as of March 31, 2019) of the voting rights of the Company.
In the case where the Company conducts transactions with the parent company, appropriate supervision is given in light of the importance of the transactions, and in accordance with relevant procedures such as a requirement of approval at meetings of the Board of Directors at which Independent Outside Directors are present, in order to ensure that such transactions are fair and reasonable from the viewpoint of enhancing the corporate value of the Company.
The Company conducts transactions with the parent company, such as leasing lands and procuring raw materials from the parent company. In these transactions, the prices were reasonably determined through negotiations between the two companies, taking into account the general market conditions. The contractual agreements resulting from these negotiations include the clause that the prices may be adjusted when relevant market conditions change. In addition, the Company has made a short-term loan to the parent company. The Company has set the relevant terms and conditions for the loan so that the interests of the Company will not be harmed. For example, a reasonable rate for the interest rate was set while taking the market interest rate into account.

Strategic Shareholdings
Sumitomo Dainippon Pharma does not hold any shares of other companies except when such shareholding supports the sustainable enhancement of its corporate value, such as establishment or maintenance of corporate alliances and other types of relationships with important business partners and customers. In addition to this policy, the Board of Directors annually evaluates whether it is reasonable to continue each respective strategic shareholding based on points such as the purpose of such shareholding, as well as the transaction status and unrealized profit and loss thereof. As a result of such evaluation, while the Company embarked on selling shares for which continued shareholding was found unreasonable, and the number of listed companies whose shares are held by the company is 26 as of May 31, 2019.
With respect to exercising voting rights for such strategic shareholdings, the Company examines the proposal from the viewpoint of whether it will lead to enhancing not only the corporate value of the relevant issuing company, but also that of the Company. To be specific, it was decided that decisions regarding some proposals such as M&A related proposals and all the proposals at the Shareholders’ Meeting held for the first time after any major scandal has occurred should be made with special care.

Efforts to Facilitate the Exercise of Voting Rights
Sumitomo Dainippon Pharma takes the appropriate measures so that the rights of shareholders are actually ensured, sending out a notice of convocation of the annual shareholders’ meeting approximately three weeks before the date of the meeting to facilitate the exercise of voting rights and other rights of shareholders and posting the materials on the Company’s website two days before the convocation notices are sent out. For foreign shareholders, Sumitomo Dainippon Pharma posts an English translation of the convocation notice and other materials on the Company’s website at the same time as the Japanese version. Methods of voting include the Electronic Voting Platform and other digital methods in addition to conventional voting in writing.
The Company has implemented initiatives to invigorate the annual shareholders’ meeting such as presenting the
business report with the use of video and narration. In addition, details of the results of resolutions on proposals at the annual shareholders’ meeting are submitted in an extraordinary report and disclosed on our website. The business report and the presentation by the President at the annual shareholders’ meeting are also posted on our website.

Communication with Shareholders and Investors
Sumitomo Dainippon Pharma shall strive to facilitate purposeful dialogues with shareholders, investors, etc., in accordance with “Basic Policy for Promoting Constructive Dialogues with Shareholders, Investors, etc.”

Sumitomo Dainippon Pharma regularly holds meetings with analysts and institutional investors from Japan and from abroad. In Japan, meetings are held to coincide with financial results announcements at the end of the second and fourth quarters, while conference calls are carried out for announcements of financial results of the first and third quarters. In addition, meetings focused on specific topics are held as appropriate. In November 2018, Sumitomo Dainippon Pharma held an ESG meeting.

We conduct regular visits for foreign shareholders. We also dub the meetings and conference calls held in Japan into English (including the Q&As) and post them on our website. We also take part in the small meetings arranged by securities firms in Japan for foreign investors.

We strive to hold meetings for individual investors several times a year and in fiscal 2018 held six such meetings.

We also post other materials on our website in Japanese and English. These materials include financial results summaries and supplementary materials, materials from investor meetings (including video streaming), press releases, integrated reports, Fact Books and notices of convocation for the annual shareholders’ meetings, among others.

Moreover, since fiscal 2018, feedback from shareholders and investors has been reported to the Directors and Executive Officers each quarter in a report format as well as being reported to the Board of Directors semi-annually since fiscal 2019.

Information Disclosure
Based on the recognition that transparency is vital to being a company trusted by society, Sumitomo Dainippon Pharma discloses corporate information to various stakeholders in a timely, appropriate and fair manner in accordance with the in-house regulations for disclosure of information (the Disclosure Policy*), which stipulate the criteria and procedures for the disclosure of information.

We promptly disclose information for which timely disclosure is required, such as determined facts, occurring facts, and account settlement-related information provided for in the Tokyo Stock Exchange’s various rules concerning timely disclosure, through the Timely Disclosure Network (TDnet), the timely disclosure notification system provided by the stock exchange. We also disclose information in English.

With regard to information for which timely disclosure is not required, we actively disclose information needed for stakeholders, including shareholders, to understand Sumitomo Dainippon Pharma properly through such means as press releases and our corporate website.

* Information on our information disclosure policies and criteria are posted on our website.

Development and Implementation of Internal Control System
The Board of Directors of Sumitomo Dainippon Pharma passed a resolution on the basic policies for the development of a system to ensure appropriate business operation. The status of implementation efforts pursuant to the basic policies for each year is reported based on the Companies Act at the Board of Directors meeting held in March of the fiscal year and the basic policies are revised as necessary to improve the internal control system.

Internal Control over Financial Reporting
In order to ensure the reliability of financial reporting, Sumitomo Dainippon Pharma is striving to enhance its internal control system in accordance with the Company’s basic framework for internal control as required by Japan’s Financial Instruments and Exchange Act.

Specifically, the scope of the system encompasses the company-wide internal control system at Sumitomo Dainippon Pharma and those of its major consolidated subsidiaries, as well as business processes with the potential for significant impact on finances. Every year, the President assesses the effectiveness of the design and implementation of the internal control framework, while also confirming the effectiveness of internal control.
Corporate Governance

**Compliance and Risk Management**

**Compliance**

Sumitomo Dainippon Pharma has declared in our publicly announced Declaration of Conduct our commitment to “comply with laws and regulations, and conduct transparent and fair corporate activities with a good sense of ethics.” To put this declaration into practice and ensure full compliance, we have established Compliance Standards and use them as concrete guidelines for business activities.

One of Sumitomo Dainippon Pharma’s executive officers is charged with overseeing all compliance matters of Sumitomo Dainippon Pharma and its group companies around the world. Three compliance committees have been set up: the Compliance Committee of Sumitomo Dainippon Pharma, the Compliance Committee of the group companies in Japan and the Compliance Committee of the group companies outside Japan. The Sumitomo Dainippon Pharma executive officer in charge of compliance serves as chair of each of the three committees and reports to the Board of Directors on the committee activities. In fiscal 2018, each compliance committee held meeting and the details of those meetings were reported to the Board of Directors.

Sumitomo Dainippon Pharma has set up internal and external compliance hotlines through which its officers and employees can make consultations and reports relating to incidents of real or threatened compliance violation, and the Company operates such compliance hotline in an appropriate manner. Similar compliance hotlines have been installed in the group companies in and outside Japan. The officers and employees of such group companies may use the Sumitomo Dainippon Pharma hotlines, if the use of their own compliance hotlines is not appropriate.

**Risk Management**

Sumitomo Dainippon Pharma has enacted a basic policy stipulating the Company’s fundamental approach to risk management and has developed a system to appropriately promote risk management for the Group. Under this promotional framework, according to the particularities of each risk, risks are divided into those requiring a horizontal, group-wide approach (group-wide risks), and those requiring specific approaches by each company (business activity risks). The Company keeps track of the risk management of the group companies as a whole through reports from each group company, and provides each group company with its guidance, advice and the like when necessary.

In order to address risks bearing an impact on business activities, we have enacted the internal “Risk Management Rule” that clarifies the President’s role in overseeing risk management, and specifies a system for promoting management of each specific risk. The status of operations in each system to promote risk management is periodically reported to the Board of Directors. One of the Company’s specific initiatives is to carry out annual risk assessments and formulate necessary countermeasures based on the results followed by implementation and evaluation. This is undertaken systematically by each section of the Company working on the solution to each problem.

**Response to Guidelines on Ethical Drug Detailing Activities**

Sumitomo Dainippon Pharma has responded appropriately to Guidelines on Ethical Drug Detailing Activities issued by the Ministry of Health, Labour and Welfare in September 2018. In order to promote even more appropriate detailing activities, we established the Rules on Detailing Activities as in-house rules effective April 1, 2019, and we have ensured there is thorough awareness of the guidelines within the Company.

We are also working to establish internal monitoring systems for detailing activities ahead of the full-scale commencement of the guidelines in October 2019.
Business Continuity Plan (BCP)
Sumitomo Dainippon Pharma formulates its business continuity plan (BCP) from the viewpoint of stable supply of the pharmaceutical products that is our social mission, and assumes the occurrence of a large-scale disaster and an infectious disease pandemic, such as new strains of influenza.

For example, the Company has prepared manuals that cover such issues as the set up and operational procedures of a headquarters for countermeasures to respond to a major disaster.

Information Security
With respect to our information security efforts, we continue to update technical measures, rules and procedures according to change of social environment or progress of information technology and monitor compliance. We also strive to strengthen information security in our group companies. In addition, we hold periodic information security training for officers and employees to raise awareness.

Moreover, in addition to creating a system that prevents and detects unauthorized access and responds rapidly when an incident occurs (Computer Security Incident Response Team: CSIRT), we continue to implement efforts to prevent information security incidents.

Managing Personal Information
Sumitomo Dainippon Pharma has a privacy policy in place, and in accordance with its internal rules, properly handles and protects personal information acquired through its business activities from medical professionals, product users, business partners, shareholders, employees and other persons. In addition, Sumitomo Dainippon Pharma actively promotes protection of personal information by building a solid management system that includes an executive officer in charge of personal information management and a personal information hotline, and educating and training its officers and employees.

Management of confidential information
In accordance with the internal rules, we manage confidential information in an appropriate manner according to the degree of importance. We have the information management system such as executive officer who is in charge of information management and the Information Management Committee. In order to prevent insider trading, we have internal rules which specify matters that all officers and employees must comply with.

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Risk Management System

[Diagram showing the Risk Management System]