

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

Date and time: November 20 (Tues.), 2018, 10:00 - 11:45 a.m. (Q&A Session: about 50 minutes beginning at 10:50 a.m.)

Venue: 3F Hall, Tokyo Head Office

Attendees from Sumitomo Dainippon Pharma: Masayo Tada, Chairman; Hiroshi Nomura, President and CEO; Kazuhiro Takada, Executive Officer; Ichiro Takahashi, Senior Director, Human Resources; Atsuko Higuchi, Executive Officer (Moderator)

■ Questioner 1

Q. In the area of governance, how do you assess the balance between risk and return? In addition, do you take any special measures in the mechanism for proper decision-making?

A: (Nomura) Research and development are at the core of our business. At each key step in the research and development stage, we make solid studies of each case individually to decide whether or not to proceed to the next step.

Q. How do you select the participants for the DSP Academy?

A. (Nomura) About ten people participate in the Management course. We select those who stand out in various areas to serve as next-generation candidates for executive positions.

Q. In your Overseas Open Recruitment Training program, why do you send people to industries different from yours? Can't you attain the objective by quickening human resource exchange with overseas subsidiaries?

A: (Nomura) The employees have interchange with our overseas subsidiaries in a variety of divisions, including development and administration, and accumulate overseas experience. Our Overseas Open Recruitment Training program is aimed at cultivating an unshakeable courage in promising young employees by having them work with overseas counterparts in tasks for which their past experience is of absolutely no use.

Q. What is the approximate scale of the personnel exchange with overseas subsidiaries?

A. (Nomura) The exchange is implemented in correspondence with the needs of the respective divisions. In the development division, it is on a comparatively large scale, because the same division is in the United States as well.

■ **Questioner 2**

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- (1) Because ESG has a long timeframe, when you announce the Mid-Term Business Plan, we would like you to present a long-term vision for the company 15 years later and indicate targets for the immediate future.
- (2) Your Integrated Report has much information on return and strengths of the company but few on risks and weaknesses. We would like to see wider disclosure of the latter.

Q: Are all of the agenda items that must be accomplished in order for the company to remain an excellent one 15 years from now comprehensively covered in this Materiality? Twelve items of very high importance to the company are listed at the top of the Materiality Map. What are the three top-priority items required for enhancing the corporate value?

A: (Nomura) It would be hard to simply select three. The most important item is “development of innovative products.” We think “advancement of science” is also vital. In regard to “development of innovative products,” we believe we will be able to contribute to patients in the frontier area that are not limited to pharmaceuticals 15 years from now.

Q: To combat climate change, do you have in mind endorsement of the Task Force on Climate-related Financial Disclosures (TCFD), as Sumitomo Chemical has done?

A: (Nomura) We do not have high levels of CO₂ emissions like all-around chemical manufacturers, but intend to consider what action we should take on this issue from now on.

■ **Questioner 3**

Q: What factors lay behind your entry into the frontier area?

A: (Nomura) The frontier area is not far away from our business to date. Instead of sticking strictly to pharmaceuticals, we would like to take approaches to providing patients with other means of improving their quality of life.

Q: Are research and development risks included as subjects of risk management?

A: (Nomura) We are performing risk management in research and development, and I believe we are hedging risks, because we make assessments and decisions at each key step as regards whether or not to take development compounds to the next stage.

■ **Questioner 4**

Q: Is the Materiality Map fixed, or will it change in the course of future discussions with various stakeholders?

A: (Nomura) It is not fixed. We will revise it as necessary.

Q: In connection with your thinking on social contribution, do you have standards of judgment related to cost increases in CSR procurement and decisions on exclusive use versus sharing in the aspect of technical innovation?

A: (Nomura) Our actions in this aspect are on a business basis, and we will not immediately disclose and share our technology. As for CSR procurement, we determine suppliers on the basis of comprehensive judgments.

Q: Would you characterize the social contribution activities and support for patient groups as charity or leading investment?

A: (Nomura) We are implementing it as social contribution. It also has the effect of heightening the trust placed in us by society and enhancing the image of our brand.

Q: Is there a career path that would make it possible for even a person who joined an overseas subsidiary to enter the DSP Academy and become an executive at Sumitomo Dainippon Pharma?

A: (Nomura) There are some first-rate personnel at our overseas subsidiaries as well, and we would like to make full use of such global human resources for the advancement of the entire Group. A career path of the sort you mentioned, however, would be difficult to offer at present. The employees eligible to enter the DSP Academy are those of Sumitomo Dainippon Pharma. But at the same time, those placed in charge of overseas subsidiaries are executive officers even though they are locally-employed.

(Tada) The DSP Academy treats a period of five years as one term. The current targets are third-term students. The Management course is open to all DSP employees, even people hired in mid-career, regardless of where they came from. We have a policy that at least 20 percent of the students are women. Admission is not based on recommendations from the division. We have selected ten outstanding students through the Human Resource Strategy Meeting. As I see it, the question of how to develop overseas human resources should be considered in the context of the next new framework.

■ **Questioner 5**

Q: The DSP Academy extends from the A1 course to the Management course. If about 80 employees enter every year, about how many continue up to the Management course? I understand that the professional contributors (PCs) currently number about 50. Do you intend to increase this number in the future?

A: (Tada) We are making selections in each layer every year. We are going to produce 400 in total for all layers over the next five years. The setup does not require all personnel who graduate from the A1 course to go on to the A2 course.

(Nomura) The key factor for appointment as a PC is the power to produce results based on outstanding individual capabilities. There are two levels of PCs: PC1 and PC2. The latter have a higher power for producing results. Every year, we review the degree of result achievement by PCs. If the results are not up to the level to which the PC made a commitment, he or she loses the PC designation. The number of PCs depends on individual potential. We would like to increase it, but we must apply rigorous standards in making selections. Professional managers (PMs) produce results by maximizing organizational power.

■ **Questioner 6**

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The Integrated Report apparently does not contain all the issues and problems. I would like the Outside Audit & Supervisory Board members to talk about issues.

Q: Does the determination of executive remuneration take account of the resolution of long-term non-financial issues? In the system for employee evaluation, is there a mechanism to recognize their contribution to boosting the responsiveness to non-financial material issues?

A: (Nomura) At the beginning of the fiscal year, the president formulates management issues for that year and shares them within the company. I am going to incorporate the Materiality into the management issues and link it with the setting of targets for employees. The determination of executive remuneration is partly linked with the corporate result and partly based on individual assessment. We would like to consider including the element of resolution of long-term issues for the future.

■ **Questioner 7**

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- (1) The ESG Meeting is a help for investors, and should be held at regular intervals from now on, too.
- (2) The issues for fiscal 2018 cited in the assessment of effectiveness in the Board of Directors meeting are issues for the secretariat. I think it would be better to cite substantial issues, that is, what the Board of Directors should discuss.

Q: Concerning the relationship with Sumitomo Chemical, the presentation material provides information on the independence of management and exchange of personnel. Is there any policy in the aspect of fund management?

A: (Nomura) As part of our fund management, we make loans to Sumitomo Chemical, upon studies in the Fund Management Committee. We have concluded a contract with them to the effect that we can have them repay loans at any time, as necessary.