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PRESENTATION

Hiroshi Nomura - *Sumitomo Dainippon Pharma Co., Ltd. - CEO, President & Representative Director*

My Name is Hiroshi Nomura. I'm the President and CEO of Sumitomo Dainippon Pharma. Thank you for joining ESG meeting today. Thank you also for having interest in our company. Your feedback, comments and opinions are very important in managing the company. So I'm looking forward to the discussions today with you.

I would like to explain business model, materiality and corporate governance. After my presentation, Kimura-san will present R&D part, and Higuchi-san will present human resources, social contributions and environment.

This is my first slide regarding business model. On the left, you see 6 types of capital, intellectual capital, social and relationship capital, human capital, financial capital and manufactured capital. We use those capital in our strength in R&D, global platform and human resources. Capitalizing on those strengths, Sumitomo focuses on materiality that creates value and materiality that forms foundation for business continuity. These are very important in our corporate social responsibility.

These serve as a foundation for our business model, and these are part of the value change. And the values we provide to society are creating innovative pharmaceutical products and health care solutions in areas with high unmet medical needs and contributing to the development of science. As a result, we contribute to improving quality of life for patients and their families, improve sustained corporate value and also contributing to achieving the sustainable development goals.

Next, I would like to go over our strategic alliance with Roivant. The midterm business plan 2022 covered the period before loss of exclusivity of LATUDA. And we said in the midterm plan that we would need to invest somewhere between JPY 300 billion to JPY 500 billion to address post LATUDA period. To ensure sustainable growth, we entered into strategic alliance with Roivant. On this slide, here, it says, add best-in-class focus on value to R&D. The strategic alliance with Roivant gives us the ability to focus on high-value, late-stage, best-in-class treatment like relugolix and vibegron. Roivant is also developing very innovative regenerative medicine advanced therapy for pediatric congenital apnea and the disease-modifying agent for pulmonary arterial hypertension.

Through the acquisition, we are able to fill the gap until the in-house pipeline makes progress in development stages in post LATUDA period and to generate cash flow to ensure growth of our in-house assets.

We're also accelerating digital transformation through acquiring infrastructure through the alliance. We started the midterm with digital innovation in mind and we successfully obtained DrugOme and Digital Innovation platform along with talent as a result of the strategic alliance with Roivant.

If you could go back to the previous slide. Through strategic alliance with Roivant, we acquired new pipeline and promising research team in research and development. We also acquired new global platform and talent. When I say talent, I mean talent in R&D and commercial and also digital innovation. By increasing our strengths in [war], we're able to achieve sustainable growth. That's an outline for strategic alliance.

If you could go to the next slide. As I just mentioned, digital innovation has become an important part of infrastructure. Digital innovation, or DX, forms the foundation of every process in our business model. If you look at promoting the use of DX for R&D, it says utilizing AI drug discovery and other cutting-edge technologies.

In January of this year, we issued a press release announcing the initiation of a clinical study of DSP-1181 that we created using artificial intelligence for the first time in the world for the treatment of obsessive compulsive disorder. Since then, we have reached top level in clinical drug discovery today.

Next is regarding utilization of DrugOme and Digital Innovation. We acquired those through strategic alliance with Roivant. As you can see on this slide, we are applying them in many areas of our business, particularly in selecting drug discovery targets. For example, exploring target genes in oncology area. We're also doing commercial assessment for development pipeline by using real-world data. We're also optimizing study designs. The same goes through Digital Innovation. We are recruiting patients and monitoring patients by improving processes based on data.

Traditionally, we used to wait until someone starts these initiatives. Instead, any business unit can start initiatives now. We find DrugOme and Digital Innovation useful because process improvement occurs naturally once results are delivered in many parts of our business.

In the area of research, in silico and iPS drug discovery technologies are common. Likewise, we want to make digital a standard in our business. Over to the right-hand side, we see accelerating operational reform: improving/expanding communications, infrastructure allowing 3,000 employees to work on home. We started working from home even before COVID-19 pandemic. From information management point of view, we are minimizing documents and use electronic format. Because of this, we haven't had major obstacles working from home under the pandemic.

Next is utilizing digital tools for information provision. We make full use of digital tools in sales activities. For example, in Japan, remote reps and virtual reps are interacting with physicians and prescribers. So we have other channels in addition to face-to-face engagement to provide information to our customers.

Next, I'd like to explain materiality. materiality is an integral part of CSR management. On this slide, corporate culture is mentioned. It's been 15 years since the merger of Sumitomo and Dainipon in 2005. We have nurtured a corporate culture based on diligence and integrity, respect for others and trust. Looking back the last 15 years, we acquired Sepracor to develop LATUDA in-house in the United States and then launched LATUDA successfully.

In 2012, we made a decision to add oncology to the pipeline. 1 in every 2 Japanese will have cancer and 1 in every 3 patients die from cancer. As a pharmaceutical company, we decided to address these serious unmet medical needs.

We also entered into regenerative cellular medicine area. And the most recent alliance with Roivant gave us another step forward to globalization. So we accepted many new challenges over the last 15 years. As it says here on this slide, establish a culture of challenge. That is what we have been doing, taking on new challenges, and that's who we are.

Next slide. I would like to take a look at materiality from 2 aspects. In 2019, we defined materiality in 2 areas, materiality linked to value creation and materiality that forms the foundation for business continuity.

Before we had brought materiality on this chart together based on social significance and importance to Sumitomo business. However, we received feedback from you that it was confusing. So we provided clarity by separating them into 2 categories. We then made further changes this year.

First, regarding materiality linked to value creation. We deleted therapeutic areas from development of innovative products and health care solutions. So developed innovative products and health care solutions, that is all we need to say. How to do that and in which therapeutic areas will be discussed in the midterm business plan.

Next, with regards to materiality that forms the foundation for business continuity. We made respecting human rights an independent material issue from CSR procurement. Sumitomo Dainipon Pharma clearly states in our code of conduct that we respect human rights. We are a company operating globally that expands geographically in Japan, U.S., China, Southeast Asia and Europe. Our employees in these regions have different nationalities, races, sexual orientation, region and so forth. And we want to make sure that the employees are happy to work for us because that's an important factor that raises corporate value. And we respect human rights, not only of our employees, but also all the stakeholders were involved in our business. For this reason, we made respecting human rights an independent material issue from CSR procurement. So that's another change we made this year.

Next slide, please. Once materiality targets are established, how to achieve targets are very important, such as KPI goals. As the slide shows here, we had discussions 3x this year at management committee and more discussions in many different places. And we said, is it always right to establish quantitative targets.

For example, how do we measure productivity as we change the way we work? It's difficult to measure. Or another example would be are we creating innovative medicine? And we use how many compounds transitioned to a clinical stage. But is it fair assessment? As a result of our conversations and discussions, we decided to set qualitative goals only for the fiscal year 2020 without KPI.

If you could go to the next slide, these are the qualitative targets for materiality. Some qualitative targets are for global oriented, while others are country specific. So granularity may not seem consistent to you, but we are making progress to make it better. Today, we would like to provide more details in the following slides for the ones highlighted in red symbols.

Next slide, please. So qualitative targets for materiality that forms the foundation for business continuity, more details will be explained regarding these 4 areas.

Next, please. So I would like to discuss corporate governance here. The qualitative targets, as shown here, include pursuit of highly effective corporate governance. As the Chairman, Tada-san said in the integrated report, we must put in place the best corporate governance structure for subsidiaries outside Japan. So we need to upgrade global governance in this regard.

Next is establishment and appropriate implementation of an internal control system. We have a basic policy in place for internal control, and we review how we implement the policy once a year.

Next is improvement of effectiveness of the Board of Directors. We conduct a survey every year, and I'll come back to this topic later.

Next one is pursuit of diversity of the Board of Directors. This is one of the qualitative target that we need to work on in the long term above and beyond this year. Today, the Board includes outside directors from the industries, certified accountants and the academia. And the one of them is a female board member. And outside auditors include ex government official, another from industry person and another one in the legal community. We believe diversity of the Board is already in place, and we will continue to work on diversity even more.

The next one is ensuring the independence of management and protecting the interest of minority shareholders. This relates to the relationship we have with our parent company, Sumitomo Chemical, as well as subsidiary companies in the United States that are publicly traded, namely Myovant and Urovant.

So Sumitomo Dainippon Pharma is both a child company and the parent company. As you can see on the left-hand side here, the relationship with the parent company, Sumitomo Chemical, is based on independence. In other words, we manage and operate independently from the parent company. They respect our intentions and don't impose on decisions.

However, the parent company has its own business intentions. Some might be concerned about how that could affect our business activities, creating conflicts of interest. On this end, the Supervisory Committee for conflict of interest in transactions between group companies was established to ensure transparency. The first agenda they reviewed was a joint venture company with the parent company for CDMO business, Contracts, Development and Manufacturing Organization. The committee reviewed whether the joint venture was established appropriately without causing conflicts of interest. The Committee is, by the way, comprised of only independent outside directors.

We are also a parent company to publicly traded companies. We have managed to find the right balance between Sumitomo management intentions and that of the minority shareholders. We also entered into an agreement for going private transaction with 1 of the 2 publicly traded companies. So we took that step. Myovant remains to be a listed company, and it is our intent to keep the balance with the minority shareholders.

Next slide, please. Next, I would like to talk about effectiveness of the Board of Directors. We conduct surveys every year since 2015. The evaluation results in fiscal year 2019 are as follows. Very few points were found that could affect effectiveness. The Board also made appropriate progress in handling key matters in FY 2019.

Some of the key agenda that the Board addressed are described on the table below. First is further stimulating deliberation by the Board, allocated appropriate deliberation time to each matter, improved the quality of handouts and provided said handouts early.

Second is enhancement of follow-up activities after resolutions are made by the Board. Once decisions are made, sometimes updates were not given to the Board as a follow-up. So the response was enhance the situation reports to the Board. Third is enhancement of reports to the Board regarding opinions from shareholders, investors and other related persons. The feedback in an ESG meeting like today from shareholders and investors were reported to the Board twice a year.

Major matters to be addressed in FY 2020 include enhancement of discussions to increase corporate value in the midterm to long term. As you are aware, we are working on revising the midterm business plan. In this exercise, we are not only revising the plan, but also began discussions about longer term beyond the midterm period. The Board members and auditors are involved in the discussions.

Next is regarding ideal membership to constitute the Board of Directors for the future. The Nomination Committee and Remuneration Committee discussed this matter.

Next, further improvement of the quality of deliberation by the Board. We also worked on stimulating deliberation in FY 2019. We make sure information is provided to the Board beforehand so that the Board understands our business. This helps, particularly the outside board members who are from outside the industry, outside the pharmaceutical industry, providing materials beforehand or supplying additional information has been useful.

After a series of discussions take place internally, it's very important to inform the outcome of the internal discussions with outside Board members and auditors. This helps improve discussions at the Board.

Next is regarding risk management. Qualitative targets include appropriate implementation of risk assessment. This is something we do every year. But instead of repeating the same routine risk assessment each year, we need to find ways that truly manage risks to avoid complacency.

Next target is rebuilding of business continuity plans. BCP is usually created in preparation for natural disasters, such as earthquake and fire. More recently, we faced a challenge of global pandemic, and the supply chain has been affected. We didn't expect something like this magnitude, and we are updating business discontinuity plan accordingly.

Next target is system development, training and seminars for anticipated risks. If you look at the bottom of the slide, we organized a crisis management team, CMT. It's easier to do training for crises we can predict, but what do we do when risks are unexpected. So we need to address that as well.

Next one is proper information management. I, myself, received e-learning training on this matter to ensure information is managed properly, and that happens across the organization.

In the area of IT security, CSIRT, the Computer Security Incident Response Team was formed in case of a cyber attack. We are committed to keeping upgrading ourselves in these areas.

This is the end of my presentation. Thank you very much.

Toru Kimura - *Sumitomo Dainippon Pharma Co., Ltd. - Senior Executive Officer, Chief Scientific Officer & Director*

My name is Toru Kimura. I would like to explain R&D part. R&D plays an important role in materiality in developing innovative products and health care solutions and in contributing to the development of science. In other words, R&D forms an essential part of our business as a pharmaceutical company. One of the targets we continue to work on is continuous development of pharmaceuticals in areas with high unmet medical needs. This will continue to be our top priority.

In the new midterm business plan, we set development of health care solutions. This is to respond to the future health care needs centered on areas where synergies with the pharmaceutical business can be expected. This means that we develop solutions that include the use of IT technologies and robotics technologies in order to address challenges that prescription drugs alone could not address. If you look at the bottom of the slide, you find R&D structure. In April this year, a Chief Scientific Officer was appointed to oversee all R&D activities across all therapeutic areas and to manage R&D resource allocation.

Over to the right, you see a diagram that shows our focus areas. To ensure effective R&D activities in each therapeutic area, decision-making is done independently within its therapeutic area. However, because decisions are made independently, the question is how do we ensure overall alignment? To address this concern, Chief Scientific Officer or Executive Officer for Corporate Strategy are attending decision-making meetings to join discussions in all therapeutic areas. This helps ensure consistency across all therapeutic areas. When issues come up that requires company-wide discussions beyond a specific therapeutic area, the issue is escalated to the management committee. This allows us to better manage portfolio.

On this slide, you see responsibilities in each therapeutic area. They are business unit or head office functions or subsidiary companies in Japan and the U.S. All the stakeholders are connected organically and collaborate together to move forward R&D activities.

Next slide, please. Earlier, I mentioned high unmet medical needs. On the right-hand side of the slide, you see economic losses of approximately $47 trillion from noninfectious disease worldwide from 2011 to 2030. Sumitomo's focus area of CNS or mental health accounts for $6 trillion in economic losses in 2030, while oncology or cancer is $500 billion in losses according to the estimate. Over half of the economic losses will come from mental health and cancer. And Sumitomo works very hard to make a great contribution to the society in these areas.

Traditionally, the R&D activity is focused on small molecule compounds or antibodies therapies to provide treatment in these areas. But in case of neurodegenerative diseases, for example, these medicines will not restore dead sales. So Sumitomo is now focusing on regenerative cellular medicine as a new modality to supply cells, tissues and organs.

Next slide, please. Another area that makes Sumitomo R&D unique is network-based drug discovery. The R&D team of Sumitomo works collaboratively with external partners, such as biotech companies, different industries and academia. In a new area like regenerative medicine, we work closely with regulatory agencies to address new regulatory requirements.

Next, please. This slide outlines targets and strengths in each therapeutic area. In the area of Psychiatry & Neurology, we have developed and launched a number of products over the years. We have the track record and know-how for so many years. We are proud that the revenues and the R&D pipeline have reached the world class. More recently, we added to drug discovery the in silico and DX Technologies, as well as the latest technologies like iPS cells.

Oncology is another important focus area for us, although we haven't established a global presence yet. So we are aiming to establish presence worldwide through R&D activities. We particularly focus on drug discovery, science and development in the tumor microenvironment. We also have a strong network with academia and biotech companies outside of Japan.

Next is regenerative medicine and cell therapy. We are a front-runner for iPS cell-derived cell therapy products and tissues. We own our manufacturing facilities and in-house production equipment as well as manufacturing know-how. We are working diligently for the commercialization of this area. We also have a strong network with academia and biotech companies for research activities, just like we do for cancer and oncology.

Next one is infectious diseases. We created Meropenem, one of the key carbapenem antibiotics. With the experience and expertise, we are doing research on drug-resistant treatment as well as vaccine adjuvant. In other areas, unmet needs are high because, for example, patients are not always satisfied with drug therapy or patients are treated with a medicine that's difficult to use.

Last year, Sumitomo entered into an agreement with Roivant for strategic alliance. This gave us the ability to provide innovative, value-focused, best-in-class solutions in gynecology and urology. Lastly, with regard to Frontier business, we are focusing on creating new solutions that involves IT technologies and robotics in addition to pharmaceutical solutions.

Next, please. So far, I have discussed Sumitomo's focus in therapeutic areas and how R&D team is organized to support these initiatives.

Next, I would like to touch on how we're activating energy within the team and because stimulating the team is important in creating value more efficiently. A few years ago, we started project-based system for research division, in particular, psychiatry & neurology and infectious disease team.

There are so many different projects ongoing within Research division. What's unique about the system is that each project team is empowered to control budget spending. Project lead is now able to make decisions for assays to move forward with project. And anyone can become a project lead from someone who is relatively new to the organization with 2 to 3 years with Sumitomo, or someone who's close to 50 years of age. A variety of project leaders are working on research projects.

Mr. Ishikawa is featured on this slide as he's the project lead for DSP-1181. It was created using artificial intelligence. The drug discovery process was very effective, and it created buzz around the world. We worked with a biotech company on this project very efficiently. Today, we apply the technologies completely in-house. Furthermore, as a result of alliance with Roivant, we work collaboratively with scientists who have IT technologies and digital technologies to build a better drug discovery system. So we've made great progress in improving efficiency of R&D activities. That is the end of my presentation for R&D part.

Atsuko Higuchi - *Sumitomo Dainippon Pharma Co., Ltd. - Executive Officer of Corporate Governance, Corporate Communications & HR*

Thank you. My name is Atsuko Higuchi. I would like to go over human resources, social contributions and environment.

First is respecting human rights. As Mr. Nomura said earlier, respect for human rights has become an independent materiality issue starting this year. As you can see here on the bottom, in our Declaration of Conduct of Sumitomo Dainipon, item #5 specify respect human rights. So it's not something new for us. Having a separate independent materiality for human rights, it renews our commitment and clarifies our position.

We have followed international principles for human rights. We conduct our business in accordance with those principles. We also follow the UN Guiding Principles on Business and Human Rights, adopted in 2011 by the United Nations Commission on Human Rights. Following the UN Guiding Principles, Japan announced guiding principles in October 2020. We intend to follow that as well.

We are currently formulating the human rights policy as a global group policy to establish appropriate working environments and respect the human rights of our business partners, including suppliers in supply chains and all of our stakeholders. The qualitative targets are as follows: promotion of respecting human rights throughout all the value chain based on global trends; promotion of initiatives in accordance with the United Nations Guiding Principles on Business and Human Rights; and formulation of human rights policy as a global group policy.

Next, I would like to discuss training and development of employees. Earlier, Mr. Nomura was explaining about 6 capitals in business model, one of them was human capital. Our employees are important capital for Sumitomo. It's very important that employees are happy, energized and improved confidence and demonstrate the full potential. This is an essential part of the sustainable growth of the company and, ultimately, the contribution we make to the society.

We will provide self-driven employees with opportunities to keep challenging themselves, thus realizing a virtuous cycle where they enjoy their evolution as they create new value.

What makes us unique in development, talent and leadership is what's called DSP Academy. It's a selective training program that lasts 5 years since 2016. This is the fifth year of the academy. Levels are broken down to A1, 2 and 3. And the top class is taught by Mr. Tada, the Chairman, to develop leaders. About 400 employees go through the training for 5 years.

Next is talent management system. It's a centralized system that's available to manage all of our talent resources. This way, we can deploy strategic placement of employees and talent development.

As Mr. Kimura said earlier, project-based system is also available. The goal is to generate results from research projects. It's a very nice system because being nominated by someone or nominating yourself to be a project lead is very helpful in developing talent. It helps increase motivation among scientists, and that results in better outcome of research projects.

Next is promoting English proficiency. Talent must be developed who can manage businesses globally, and English language is part of a component, and we have ongoing programs available to help support English proficiency. In this fiscal year, due to COVID-19, many employees signed up for goFLUENT program, the English proficiency program. It's available for all employees.

A number of employees also signed up for correspondence course for business skills. So the qualitative targets in the talent development are as follows: fostering of leaders through the DSP Academy; promotion of company-wide education programs to enhance capabilities of individuals; promotion of English proficiency toward globalization; strategic allocation of human resources through talent management and acceleration of human resources development.

This slide shows a part of global talent development efforts. Each year, we send out employees to work outside Japan in subsidiary companies and universities. The line graph shows the number of employees transferred overseas. You see the numbers on the right-hand side. In FY 2019, about 30 employees had opportunities to work outside Japan. And the accumulated number is the bar graph in FY 2019, about 180 employees and about 185 employees in early FY 2020, have worked overseas. Working in a foreign country helps develop talent to a great deal. When we acquired Sepracor in 2009, we didn't have very many talent who can work on the global front. Since then, we made progress in developing global talent.

Next, I would like to talk about Project CHANTO. This is a part of talent development initiatives as well as nurturing corporate culture. The midterm 2022 includes Project CHANTO. It means installing a mindset of completing something to the end and delivering the highest performance. The project is now ongoing. The picture on the right bottom shows 7 executive officers of Sumitomo serving as an ambassador. It was a lot of work for them. They had a kickoff meeting, followed by 4 workshops to discuss what needs to be done and how we can train our employees so that they can demonstrate CHANTO policy.

Some of the ideas identified have been implemented within the company. The goal of instilling the guidelines, we will develop self-disciplined professionals who think and act for themselves and challenge themselves to achieve targets and optimize performance, thus, generating results for business unit and for the company.

Next is regarding work style innovation. The idea comes from transitioning to more flexible work styles with added value and productivity, while employees adapting to environmental changes. We also want to make sure employees have a fulfilled life, both at work and at home, to focus on work with greater motivation and the sense of happiness.

So how do we do that? As you can see on the bottom of the slide, we will bring the true work style innovation by utilizing digital technology. We are also providing opportunities and training to learn how to improve individual competencies and productivity. This year, we started teleworking in full swing due to COVID-19. Even before the pandemic, the employees were encouraged to work from home. But due to the unfamiliarity of teleworking, we faced some challenges in communication area in the beginning between managers and direct report, for example or within the team. So the company provided training to help address those communication issues.

On the same topic of working from home, we are trying to hit the right balance between work and life. And we also allow employees to work flextime under COVID-19. All employees are asked to consider the way they work, how to improve efficiency and how to keep motivation. Although the pandemic is not over yet, our employees did not decrease motivation or performance. That is an evidence of how strong our employees have become.

Next is diversity and inclusion. On the left bottom of the slide, you see promotion of active participation by female employees. Ever since Mr. Tada was the CEO of the company, we've been focusing on female employees to play an active role in the company for a number of years, and this goal is beyond gender.

Sumitomo provides workspace where a diversity of people can actively participate. When we say active participation of female employees, we measure that by percent of female managers. And the 10% goal was achieved last year, sooner than the plan. We are now working towards more active participation with our managers.

Next topic is the one above, creation of an environment where each employee is respected for their differences and can perform at their full potential. This year, we made changes to ensure a friendly workplace for LGBTQ. In April 2020, the same-sex partnership policy was introduced, making it possible to treat same-sex partners in the same way as spouses to qualify for benefits. We also offered e-learning for LGBTQ and allies and made guidelines available for these employees coming out.

Over to the right-hand side, regarding active participation by people with disabilities. We are creating workplace where people with disabilities demonstrate potential through appropriate placement and work assignment. Because Psychiatry & Neurology is one of the focused therapeutic areas for Sumitomo, we provide not only pharmaceutical solutions but also help patients to go back to the community and find employment.

On this end, we established a company called Cocowork to support employment for people with mental disabilities. The company grows vegetables without soil in fertilized water under LED lights. So the quantitative targets for diversity and inclusions are as follows: creation of an environment where each employee is respected for their differences and can perform at their full potential; promotion of active participation by female employees; and promotion of active participation by people with disabilities through appropriate placement.

This is a snapshot of how diverse we are in the subsidiary companies. There are 4 group companies in the U.S., including Sumitovant. Over 40% of the leadership team is women. The number isn't as high in Japan, but we are getting closer to 20%.

Next is contribution to Global Health. It goes beyond saying, good health is a very basis of all human activities. As a pharmaceutical company, Sumitomo is committed to making contributions in this area. We are placing focus on the infectious disease area where we can utilize our strengths. We are also focusing on raising public awareness. If you look at the middle section of the slide, we have strengths in the infectious disease area, and we focus on sustainability and feasibility of support activities. This means working collaboratively with local people and NGOs, ensuring motivation and the involvement of local communities to solve issues, and we make ourselves available for both physical and emotional distance for direct interventions. From those perspectives, we conduct activities on global health.

In the area of infectious disease, we are working on developing vaccines for malaria. We're also working -- doing research and development with Kitasato Institute for the treatment of AMR, antimicrobial resistant bacterial infections. In Vietnam where antimicrobial resistant bacterial infection is a serious societal problems, we conducted and completed the drug susceptibility study. The study is not for developing a drug, but it helps promote proper use of antibiotics in the future.

Furthermore, in order to promote global health in Japan, we participated in WELCO Lab, which was established by Bill & Melinda Gates Foundation. If you could look at the right-hand side regarding awareness raising activities for Health, Hygiene & Nutrition, we are part of Access Accelerated initiative by global pharma companies and MDOs. We implemented our own unique program for mothers and children in Cambodia to help improve their health. We believe these activities will serve as a baseline for accessing pharmaceutical products and medical care.

With regards to our efforts against COVID-19, we are not directly creating treatment or vaccines, but we make donations to Kitasato Institute projects and supplied drug substances to basic screening plan and participating as a collaborator in COVID-19 research database.

So our qualitative targets for global health are as follows: development of drug to treat malaria and antimicrobial resistant, AMR, bacterial infections; strengthening public-private collaboration on countermeasures against AMR and appropriate use of antibiotics; promotion of public awareness raising activities for Health, Hygiene & Nutrition.

And the last materiality is the environment. As the global environment is facing serious crises each year, there is always more that we can do as a company. In FY 2019, Sumitomo formulated new targets until FY 2030. More stringent target to reduce greenhouse gas emissions by 35% from FY 2017 level and reduce water usage by 12% from FY 2018 level and other longer-term targets have been established.

I would like to explain the right-hand side regarding a low-carbon society. We aim to obtain Science-Based Targets, SBT, certification for our FY 2030 GHG emission reduction target. The current midterm target of reducing CO2 emissions by 23% by 2020 from 2005 level was already achieved 1 year ahead of the plan in FY 2019 at a higher reduction percentage. We will continue to reduce CO2 in the next midterm plan.

The left bottom is about climate change and water risk. On this end, in light of the recommendation of the task force on climate-related financial disclosures, TCFD, and concerns about the global water risks, we're analyzing risks and opportunities related to climate change and water risks.

In FY 2019, we also conducted risk surveys for water supply and demand and vulnerabilities in downstream environment at our main sites, which we will analyze going forward.

Qualitative targets for the environment are as follows: contributing to building a low-carbon society; chemical substance management; contribution to building a recycling-oriented society; promotion of environmental communications; and contribution to biodiversity conservation. This is the end of my presentation. Thank you.

Hiroshi Nomura - *Sumitomo Dainippon Pharma Co., Ltd. - CEO, President & Representative Director*

Now let me introduce to you Ms. Mishiro, the moderator today. And from 2011 to 2013, she was involved in the international integrated reporting framework, that is the framework of international disclosure of the corporate reporting at International Integrated Reporting Council, as a technical manager. And in 2016, she established RIDEAL incorporated. And currently, she is quite active at the integrated report consulting of our company, review of the report and also adversary at stakeholder dialogue.

And she also serves as an outside audit and Supervisory Board member at DRAFT Inc. And since 2018, we are asking Mr. Mishiro to review our interim report and also to give us improvement proposal. And she has accepted our offer to serve as a moderator today. Ms. Mishiro, now you have the floor.

Mariko Mishiro

Thank you for your kind introduction. This is Mishiro. And this session is titled as panel discussion. And we hear the keyword that is the constructive dialogue. So we'd like to make the session interactive with the participants who have a variety of background and knowledges. And this is followed by the Q&A session afterwards, therefore, we'd like to welcome more suggestions than questions in this session.

First of all, I would like to ask a comment from Tada-san, the Chairman, and Endo-san, who are joining the session from here.

Masayo Tada - *Sumitomo Dainippon Pharma Co., Ltd. - Chairman*

This is Tada, the Chairman of the company. And this time, you have organized a session like this to exchange our views and opinions. And if possible, we would like to invite opinions and inputs from the audience who are joining us online in relation to ESG, and that we are having difficulties and we welcome such suggestions.

As you are aware, this ESG meeting is the third time, and it involved every year. And I understand this is the panel discussion, which is the evolution of ESG meeting. And with a good facilitator, I strongly hope that this panel discussion will go very smoothly and fruitfully.

And let me comment as to today's participants or panelist, they are the 3 leaders of our company. And Mr. Endo is outside Board member. And he has quite a deep understanding to this matter, so we have invited him to join. And I, myself, have a great and deep interest in such matter. So that's why I decided to join. As Nomura-san, the President, explained that we are aiming at the sustainable value provision and he explained our business model and the materiality.

And to business model and also to materiality, the most important point is the continuous creation of in-house developed new product and providing them to the patients all over the world. And in addition, when our in-house developed new product isn't available, then we always have some measures so that to be ready for that.

So these 2 are very important from the -- both important business model and the materiality. And other value creation materiality included as a foundation to continuous and stable business value creation. As we've been saying, the global core company standard, namely the respect for human rights and corporate governance and risk management. And today's explanation also had emphasized on these points.

And to realize or achieve the materiality and the key or the most important thing is human resources because the human can only realize that. Therefore, the human resource recruitment, development, assignment and treatment and compensation, we've been making lots of effort in the past 10 years.

And as was explained by Mr. Nomura, the important challenge of our governance. And if we are -- I am to name 3, then effectivity of the Board meeting and also the parent subsidy relationship or protection of minority shareholder protection in relation to Sumitomo Chemical. This is the second point. And third point is overseas subsidiaries, especially those acquired companies from Roivant and the governance of such company. These 3 are important things.

And the first two, the status of the improvement, were newly established conflict of interest oversight committee activities included. I think Endo-san will be the most pertinent person to explain. If we are to explain, then it would sound self-praise or self-seeking. And therefore, I'd like to ask Endo-san to explain.

And as to the newly acquired group of subsidiaries and the business model has been already roughly explained by Nomura-san, and its status has been also explained. But as to the status of the governance, I'd like to make a comment.

Amongst the group of the companies, newly established 100% subsidiary, that is Myovant. If you look at Page 30, then you will see the photo of the management group. In addition to this company, additionally, there are 5 companies, or 5 sub subsidiaries underneath. And this Myovant, that is the controlling managing company. And from this company, we sent our executive, you see the name of Haruyama-san as EVP, Finance and Corporate Strategy. And even though it's not written there, Director and CEO is Myrtle Potter-san, who is supported by -- or assisted by Haruyama-san.

And on the other hand, the Board of this company, our Board members are present. Nomura-san is there, Kimura-san is there, and also I'm present. So with all DSP, we are working very hard to make this company a mature and first-rate company. And the CEO serves as the Chairman of the Board of the 5 sub subsidiaries, and Haruyama-san also supports that. And more importantly, this Myovant company, it has relugolix, which is -- has a lot of potential and also, which will be the most important product for us.

And Mr. Nomura participates as the Board member to this company. And Nomura-san and Potter-san, who is the President of the Control subsidiary, have daily communication. I heard that they had communication this morning too. And Potter-san, from time to time, joins our management meeting to give us explanations directly.

So in the sense, it's less than 1 year since. But as to the management of the group of subsidiaries or governance, originally, I thought it would require the very difficult management. But on the contrary, so far, thanks to the effort of the parties concerned, things are going very smoothly. And there

is a change of the president and also the direction of 100% subsidiary, where we are making one of the sub-subsidiaries to 100% subsidiary or the development stage.

And the status, these are all progressing as per schedule. This reflects the fact of the governance is really progressing nicely. This is my understanding. Thank you very much.

Mariko Mishiro

Now Endo-san please.

Nobuhiro Endo

Yes, this is Endo, outside director. Since I was asked by Tada-san, I'd like to touch upon that. But before that, I oftentimes think about what a company should be. The company creates the value, and that value is provided to human society. And the most important thing for a company, I believe, is the continuity. But on the other hand, in a human society, the important thing is sustainability, as is pointed out in SDGs. And with the company providing value to the human society, and when we make a contribution to the sustainability of human society, we appreciate it, and we can guarantee our continuity. Therefore, the company and human society continuity and sustainability are supporting with each other, so they are like the both sides of same coin.

And continuity and sustainability are supporting with each other like the both sides of a coin. That means the company has a role to generate the human society's long-term vision. In that sense, the company has a very, very heavy responsibility. Therefore, the company's governance or direction, those should be checked by directors, especially that is the role of the outside directors.

And from viewpoint of governance, my impression of Sumitomo Dainippon Pharma is a very, very serious company, and you do everything quite meticulously. That's my belief. And from viewpoint of governance and before the Board meeting, we get lots of information. And the management leader meeting takes place in the morning, and after, we get sufficient information, then we have a deliberation of the Board meeting in the afternoon. And prior to the Board meeting, we have sufficient time to listen to explanations. Therefore, we receive lots of information. And on the good understanding of the information, on that basis, we can have a good discussion.

This routine is really functioning nicely. That's my understanding. And I also understand that is supported by the significant efforts of the departments and divisions. And in the Board meeting, atmosphere allows us the very frank and free exchange of opinions and views. And each individual outside director makes a solid and dependable opinion and also you are ready to accept that. I also would like to add that. And in the second point, Tada-san mentioned conflict of interest, oversight committee, that is organized by the outside directors.

And some time ago, S-RACMO Co. was established. This is the company to manufacture iPS cells. And at that time, and Sumitomo Chemical and Sumitomo Dainippon Pharma decided to form a company, with the ownership of 51% versus 49%, respectively. And the trigger was to check the existence or nonexistence of conflict of interest. But anyway, the conflict of interest oversight committee was organized by the outside directors. And we checked whether Sumitomo Dainippon Pharma can make our own decision for their direction without any influence by Sumitomo Chemical now and the future. Is it really projected contractually, we have concern with that.

From that viewpoint, Sumitomo Dainippon Pharma decides to establish such organization to listen to the opinion from outside. And this actually reflects the very serious management since of Sumitomo Dainippon Pharma. But anyway, I understand I will have an opportunity to talk a lot about the many topics. So listening to your opinion, I also would like to respond to you when I can. Thank you.

Mariko Mishiro

Tada-san, Endo-san, thank you very much. Since the time is limited today, so we'd like to just discuss 2 topics. They are governance and materiality. We have just heard the major points from Tada-san and Endo-san.

But first, let's talk about governance. The conflict of interest oversight committee has been discussed, and Endo-san also talked about its effectiveness. And I also would like to invite today's participating stakeholders to give us your evaluation of these Sumitomo Dainippon Pharma initiative's and how this company can make a transparent corporate management. I'd like to invite your suggestion and ideas.

QUESTIONS AND ANSWERS

Mariko Mishiro

First, Mitsubishi UFJ Trust and Banking, [Yogo-san], please.

Unidentified Analyst

This is [Yogo] of Mitsubishi UFJ Trust and, Banking. And I would like to ask you a question in relation to governance. This is about conflict of interest oversight committee. I believe this is a very good mechanism to secure the transparency and also it's led by the public -- outside directors. And I appreciate that greatly. In a Japanese company, especially those publicly listed parent-subsidiary pairs, things are not well defined. And I think this is close to one of the best practices.

So let me ask you this, Endo-san, and those outside directors, many of them didn't have a lot of experiences of doing the pharma business. And when such proposition is brought in, can they really understand them? And can we also apply this mechanism to other industry or other companies. And if we do so, are there any challenges or any practical problems recently?

Nobuhiro Endo

Thank you very much. This is Endo speaking. First of all, in terms of the understanding of the content. The governance point of view is a key where we talk about the conflict of interest. Therefore, the understanding of the contractual point of view and also the understanding of the business execution, and listening to the explanation and also listening to the content of the contract, we think we can understand those. Therefore, even though we may not be able to understand the complete detail of the business, but as long as we can understand the risk process, then we think that we can make decision of existence or nonexistence of conflict of interest to some extent. That's my point of view.

And as to your second question, is it applicable to others? Yes. As you have just pointed out, Yogo-san, when the content is quite complicated and intertwined, then can we make a very fine and minute decision that may be difficult. However, when we think about the power balance and what is the power balance in the business process, to this, we can make some assumption at least. In the sense, it is really important that this mechanism exists on the subsidiary side of a listed parent and subsidiary pair. That's my idea. Thank you.

Unidentified Analyst

I quite agree with you. Sumitomo Dainippon Pharma has decided to adopt this mechanism on itself. And this is quite an epoch-making thing as I see. Therefore, as much as possible, in the future, wherever you have mentioned the establishment of the subsidiary with'49% and 51% ownership each, they're ready. And if you include such information and disclosure in some format, that will also further enhance your transparency. That's my personal view.

Mariko Mishiro

Thank you very much, Yogo-san. Yogo-san pointed out that the Sumitomo Dainippon Pharma's initiative could be best practice. And also, he gave us a tip for the specific actions towards the next disclosure and dialogue. Thank you. Mr. Tada, would you like to comment to Yogo-san's comment.

Masayo Tada - *Sumitomo Dainippon Pharma Co., Ltd. - Chairman*

This is Tada speaking. Yogo-san has a keen interest in ESG or SDG, and he also has the progressive and pioneering knowledge and giving you advice, I -- always thankful.

And at this time, we had a very nice proposition at a very nice timing. And the main technology, actually, is owned not by Sumitomo Chemical, but Sumitomo Dainippon Pharma has its ownership. And since the establishment and the management and including human resources, we took the initiative. Therefore, the relations of the parent and subsidiary is somewhat reversed. That is our governance structure. And we have decided that this will be the best for both of the parties to manage in such a way. And we have agreed upon this.

Mariko Mishiro

Now quickly, we'd like to move on to the discussion of materiality. This materiality has 2 steps: materiality linked to value creation and the materiality that forms the foundation for business continuities. It's classified into 2 like this. And Nomura-san, can you please elaborate on the process to come up with this format. And if there are any positive impact to management through this process, I would like to know them.

Hiroshi Nomura - *Sumitomo Dainippon Pharma Co., Ltd. - CEO, President & Representative Director*

Yes. Then I would like to now respond to that. In 2018, we developed materiality for the very first time. And we have lots of discussion in the management meeting, and we have made materiality and the vertical axis is societal significance and the horizontal axis is importance to Sumitomo Dainippon Pharma's business. So this is a 2-dimensional approach. And in the autumn, we had the ESG meeting, and I made a presentation that there are questions like, which do you believe is the most important? Or others say that how can you handle so many things at a time?

And at that time, I said, this is the -- coming from a discussion. Therefore, I believe they are all important. That was my response. But still, I realize that it may be a little bit difficult to understand.

And therefore, I have decided maybe we could separate them into 2 in some form. Then the materiality is for -- that is the development of innovative products and health care solutions, which drives our dynamic growth. That is one materiality. And there's another materiality, which would be the absolute must to execute the business. Therefore, as to the classification, there might be a different opinion from others.

But there is a certain type of infrastructure like materiality. And also, we have other materiality to grow the business and also to enhance the value. It's more the dynamic type of the value creation materiality. So that's how we classified them into 2.

And I actually do not know a lot about the materiality of other companies, but I don't believe there are any other companies which has the materiality like this. So if I can invite input from the -- you, then and I would like to know whether it's easy for you to understand such a division or classification of materiality? Or do you have any better idea? And if we can get such a suggestion, then that will be greatly appreciated.

Mariko Mishiro

Thank you very much, Nomura-san. I believe materiality is one of the process that evolve through dialogue. So your evaluation of materiality of Sumitomo Dainippon Pharma and also the important external environmental changes or topics, the trend the Sumitomo Dainippon Pharma should grasp in the future. And we would like to welcome suggestion from you with a variety of rich backgrounds.

While you are thinking about that, I'd like to ask you this, Kimura-san. It's about R&D. I believe you have received many questions from investors in terms of the setting of the KPIs. But currently, how much and what consideration have you made? And do you have any challenges or difficulties? Please share with us.

Toru Kimura - *Sumitomo Dainippon Pharma Co., Ltd. - Senior Executive Officer, Chief Scientific Officer & Director*

As I have explained already, R&D is really the true foundation of the pharma business. And in terms of the investment to R&D, it's really huge compared to other industries. About 20% of the revenue is invested back into R&D. But on the other hand, from the starting of the research to the final completion of the product, it takes more than 10 years. And how we can see the smooth progress of the R&D activities and what index we can use, that is a major challenge. Internally, starting from the compound and also decision-making of a compound choice, clinical safety study and once it gets clinical, then progress of the studies and the result, we can monitor them.

But of course, we need to consider the competition. Therefore, each individual content cannot be disclosed to external people. And also, it's very difficult to explain. Therefore, the KPI to evaluate the R&D activities should also be objective and also quantitative. So currently, we share the pipeline of R&D and also -- and mainly the clinical development pipeline in Phase I, II and III and we explained them every term, and we also emphasize those changes. However, in early stage of research and also more detail in the KPI, how can you show them? We are still debating internally that we haven't come to any conclusion yet. As a result, currently, we are just sharing the table of pipeline. Therefore, those of you in the audience, I believe you are expert in this matter. Therefore, what type of the KPI do you desire to share the indices of R&D? If you have any idea or opinion, that will be very helpful to us.

Mariko Mishiro

Now [Inagaki-san] of Nomura Asset Management, please.

Unidentified Analyst

This is [Inagaki] of Nomura Asset management. Rather than asking a question, rather than KPI of R&D, I would like to discuss materiality. And of course, it concerns R&D. I would like to state my opinion. And also, I'd like to ask you a question.

In terms of materiality, the value creation and the foundation for business continuity, you classify them into 2. And how do we like it? In principle, since you are a pharmaceutical company, therefore, the innovative drug creation, which sits on the upper right-hand side corner is a business. Therefore, that is the most important materiality, which applies to not only you, but in all the pharma company. But to support that, human rights or risk management or CSR or governance exist. Therefore, they're classifying them into the infrastructure and others, it's quite easy to understand. And I don't believe you have to narrow down the materiality. And amongst of the many materiality, what is the most important one for you? If you can show this clearly then, that will be helpful. And you have classified them. And I think it's better for us to have a better understanding when it's seen from outside. I had a chance to look at your integrated report. I have impression or opinion. Well, as a question, and I would like to know something about the procedure of initial fitting.

And Nomura-san said that 3 management meetings were the only opportunities for deliberation. But I'd like to know more how you have decided setting -- you have set the materiality through what steps? And prior to the management meeting, you would have analysis of mid- and long-term environmental risks, and also you will listen to the input from outside and also you will compare this to other companies, and you also analyze the difference of the opinion from outside.

And after the hearing internally, you will determine materiality. And I also would like to know whether outside directors were involved or not. And how have you decided on this materiality? It's not clear to me. And at this time, you have only shared with us qualitative indices, and no quantitative indices.

And then what is the most appropriate indices? And when you generate an innovative new drug, can you just show us the number of the material item in pipeline? Or will that suffice or not? That is a difficult question. But what's missing here is that I desire that you would like to share your value with us. If without such indices, then it will be very difficult for you to understand that you are making a steady progress towards your goal. Therefore, I would like to, if possible, you to share with us the quantitative indices or KPI with us.

And you have just set materiality this time. But the important thing is how you can achieve and realize the materiality, and you haven't shown any measures this time. And the other time, I had the opportunity to discuss with the person from your company, and you are going to review the midterm plan, and that is the renewal of the midterm plan to 2022. But looking at 5 years, 10 years, 20 years or dozens of years ahead, how are you going to achieve materiality? And that should be built in into the original management plan. Therefore, my request is that when you are going to announce a new midterm management plan, please incorporate the strategies to achieve materiality. That's it from me.

Mariko Mishiro

We have heard a very encouraging message that you would like to ask to share the value with you. And in addition, as to the materiality, the process should be defined more clearly. Last year's integrated report, there were some comment, but this year, there wasn't any comment. And those should be reinforced. And to show the level of achievement, the KPI is necessary. So I believe that we have gotten the several tips for the future direction. Thank you very much.

Now [Ahi Wasan] from Mitsubishi UFJ Trust and Banking, would you like to comment?

Unidentified Analyst

This is Yogo speaking. My comment, the overlaps, to some extent, with Inagaki-san's. And the process of the setting of the materiality is described in integrated report in any company. And in addition to the management meeting, you invite the input from external experts and discussion will take place, including such process.

And also, what is the mechanism to review that? Those should also be included. And this time, qualitative in this only is a slide, but it's very difficult to get an image. And what changed? What is done one year from ahead. They may not be very clear.

As Higuchi-san said, you send people overseas to do overseas assignment. But the increase, actually, is linked to the corporate value investment in the future process not very clear. You can talk about the general talent development policy or human resource policy, but that may not be well understood.

For example, chronological trend of the employee satisfaction could be one of the KPIs. I believe that you have such KPIs ready to share. Therefore, you explained the direction at launch day. And so I ask you to discuss internally, again, what is the -- your focus area, important point for your own business? And so translate that into KPI, but not because investors are demanding that. Therefore, you don't have to disclose everything. So depending upon the importance, please consider in coming one year, what is the most important KPIs for you.

Mariko Mishiro

Thank you very much. Lastly, let's talk about human resources. Sumitomo Dainippon Pharma put lots of effort in the development of the global human resources. Higuchi-san, setting the KPI related to human resources. And what are your challenges? Or do you have any request or questions to investors?

Atsuko Higuchi - *Sumitomo Dainippon Pharma Co., Ltd. - Executive Officer of Corporate Governance, Corporate Communications & HR*

Well, thank you very much. As has been pointed out by Yogo-san, quantitatively, I believe the employee satisfaction or engagement can be shared. And also, what are the factors to enhance engagement? And in what engagements are enhanced? Maybe we could analyze to that level, but then how will that be linked to the future corporate value? That is a very difficult part.

In terms of the talent development, we can share with you the number of the overseas assignments, but one step ahead, or in the part of education, and we can also share the number of the people who attended the DSP Academy. Or if it is the training on English, how many points improved in the proficiency test, we can share that. But then how is it linked to the value creation of the company, that is really challenging area.

The linkage between the nonfinancial activities and the financial result is a really difficult area. And therefore, I hope that you will deepen the dialogue with the important stakeholders, including investors. And also, I hope that you can further enhance the quality of the dialogue with them.

Mariko Mishiro

Lastly, Tada-san, would you like to comment the panel discussion and dialogue this time?

Masayo Tada - *Sumitomo Dainippon Pharma Co., Ltd. - Chairman*

Thank you very much. Well, actually, I wanted more time. The first part of the explanation was quite detailed because we have received many questions prior to this meeting. So we wanted to answer those questions in the presentation. That was the original idea (inaudible). So we spent a lot of time in the first half. And actually, we didn't have sufficient time in the latter half, it's quite regrettable.

For example, as was pointed out in the human resource issue, you develop talent. Then how is it linked to the value? And how do you evaluate that with -- and it's difficult to represent that numerically. But as was explained by Nomura-san in the beginning, and we had a process of negotiation and acquisition of a company like Roivant, which has a new structure. And this was done by our employees with the past experiences.

And also with lots of knowledge and experiences on overseas, they make a good team. And I think due diligence is one of the good example, and they could analyze think not very dependent upon the consultant. And that's how they have completed the project in such a way.

I believe that is the effect of education and also of experiences at the overseas assignment. Then how do we -- or do you evaluate such value, corporate value? And its significance should be understood in the framework of the business operation. And without such understanding, forging the KPI doesn't mean anything at all.

Therefore, I have counterargument or argument to Yogo-san's idea.

Mariko Mishiro

Well, actually, I wanted to take more time to such discussion, but quite unfortunately, we need to close this discussion. I strongly hope that there will be another opportunity like this. Thank you very much. Time was really limited, but there are lots of lessons learned. And also, there are lots of tips and hints for the better management in the future. Thank you very much.

Hisayoshi Kashima - *Sumitomo Dainippon Pharma Co., Ltd. - Senior Director & Corporate Controller*

Thank you very much, Mishiro-san, panelists and also participants.

Kazuaki Hashiguchi - *Daiwa Securities Co. Ltd., Research Division - Research Analyst*

This is Hashiguchi of Daiwa Securities. I have one question. In relation to the business alliance with Roivant, what are the changes in terms of ESG? What is expected? And those newly joined companies will do their activities underneath Sumitomo Dainippon Pharma's policy? And what are the changes taking place in those companies? And what are the challenges and issues still remaining to overcome? And I believe also there is something Sumitomo Dainippon Pharma can learn from those newly jointed companies. If you have any specific episodes, please tell us.

Mariko Mishiro

Nomura-san, the President, will answer.

Hiroshi Nomura - *Sumitomo Dainippon Pharma Co., Ltd. - CEO, President & Representative Director*

Yes. I believe there are many things we can learn from those newly joined companies. As Tada-san, the president, explained the governance structure of Sumitomo Dainippon, underneath that company, as was pointed out, we have Myovant and Urovant and other publicly listed companies. How do we manage such publicly listed companies? This is the experience we have never before. Such experiences are now acquired what we are occurring through joining the Board of those companies. And this is a big learning for us.

And as I have also touched upon in my presentation, and we are thinking every day, that what will be the right governance for such publicly listed companies. And this is the day-to-day learning for us.

And in your question, you are asking for these changes in terms of ESG and [SDG]. Since we are a pharma company, so we actually don't have huge environmental burden. So we actually didn't have a profound discussion consideration in the past. Therefore, regardless whether newly joined a member or not, we would like to revisit and reconsider that.

As to us, we provide innovative product or health care solutions. That's how we are connected to the society. That is the access. Therefore, in a sense, what we can provide, well, actually, the scope of the value is greatly expanding the therapeutic area tapped by us in the past, or those technology we didn't have before. They are now available. So those are added to our value creation.

So what we didn't have before are now available to us. That's how I understand it. And in terms of governance, as I have said before, we are now having experiences we didn't have before. And in the past, according to them overseas subsidiaries. For example, the SDPO is an oncology company that we established on their own. And Sunovion is with us for more than -- or over 15 years. Therefore, they have become a company very close to a Japanese company. Therefore, management wise, we are managing them as if they were Japanese companies. But now we have publicly listed companies or the venture-type companies joining. Therefore, we have to take a new management and a governance style, and now that's -- we are thinking about that.

And if I may add one more thing, CEO of Sumitovant is Myrtle Potter-san, who is the African American women, and she is quite talented. She has a very nice personality. And in the United States, the big social movement of Black Lives Matter is still going on. And since she is positioned as such, so she was invited to other company to make some educational presentation. And so she had made a presentation there.

So the human rights issue, when we are truly globalized and I strongly refer to that importance this time. And this has never been happened while we are in japan, while in the framework of the past subsidiaries with us, the importance of the human rights is very important when we consider globally and a long-term basis. And I think this was a good start to consider that as one of the symbols of this company. So this is the most important learning for me.

Hidemaru Yamaguchi - *Citigroup Inc., Research Division - Research Analyst*

This is Yamaguchi. Well, it's a little bit diverted in terms of the theme, but I'd like to ask you this. It's about the past competitiveness and productivity of R&D. And since it was the original background, so you are quite competitive in the psychiatric & neurological area. But you joined the oncology in halfway through. And as to the regenerative medicine and cell therapy area, you're having a difficulty to materialize it with the regulatory issues and others. Therefore, when you disclose such information, I would like to ask you to consider to share with us the potential market, scientific risk and also your competitiveness.

And as to the midterm plan numbers, well, once you actually announced a number without probability adjustment, and we were quite surprised at that time. And how do you see the probability adjustment? And internally, that will be very important in your message to the external world.

Therefore, especially in the oncology and the regenerative medicine area, it seems like you are struggling. That's our impression. Therefore, how do you differentiate that? How do you share information? You can consider that, then we can make a better evaluation to your R&D.

Mariko Mishiro

Thank you very much. Kimura-san, do you have any comment to that?

Toru Kimura - *Sumitomo Dainippon Pharma Co., Ltd. - Senior Executive Officer, Chief Scientific Officer & Director*

Well, thank you very much for your very good suggestion. As to the probability of success, in the past, once, we announced a number without any probability of success. But nowadays, our numbers are all reflecting the probability of success at announcement for the new area.

But actually, we are making new things starting from the drug discovery. Therefore, we have to depend upon the past numbers to come up to the probability of success, and we try to collect objective numbers as much as possible to announce such numbers. Especially we have just pointed out, we've being quite active in CNS area. Therefore, we have our own probability of success, and also the result of our R&D activities can be shared in the form of products and lineup.

And as to the probability of success, we have a sufficient accumulation of numbers. But on the other hand, so oncology and regenerative medicine, these are new things for us. So there are lots of challenges, but we also need -- would like to consider that, so that we can make ourselves capable of making objective dialogue with you.
