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## CORPORATE GOVERNANCE

Sumitomo Dainippon Pharma Co., Ltd.

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The status of Sumitomo Dainippon Pharma's corporate governance is described below.

### I. Basic Concept on Corporate Governance, Capital Structure, Business Attributes and Other Basic Information

#### 1. Basic Concept

Sumitomo Dainippon Pharma Co., Ltd. (the "Company") 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.

##### Corporate Mission

To broadly contribute to society through value creation based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide

##### Management Mission

- To contribute to healthcare and people's well-being based upon the principles of patient-oriented management and innovative research
- To continuously strive to maximize corporate value through constant business development and to fulfill shareholder expectations
- To create an environment in which employees can fulfill their potential and increase their creativity
- To maintain the trust of society and to contribute to the realization of a better global environment

The Company posts on the website the summary for its basic concept and basic policy titled the "Basic Policy on Corporate Governance" (the "Basic Policy").

[https://www.ds-pharma.com/profile/governance/basic\\_policy.html](https://www.ds-pharma.com/profile/governance/basic_policy.html)

#### Reason for Not Implementing Principles of the Corporate Governance Code

The Company implements all the principles of the Corporate Governance Code.

#### Disclosure Based on Principles of the Corporate Governance Code

[Principle 1-4]

- The strategic shareholdings policy is presented under 4-1 of the Basic Policy. In addition to this policy, pursuant to 4-2 of the Basic Policy, the Board of Directors annually evaluates whether it

is reasonable to continue respective strategic shareholdings based on points such as the purpose of such shareholdings, as well as the transaction status and unrealized profit and loss thereof. As a result of such evaluation, while the Company had strategic shareholdings in 39 listed companies as of June 2015 when the Corporate Governance Code was introduced, the Company embarked on selling shares that were found not reasonable for continued shareholdings, and the number of listed companies whose shares are held by the Company is 25 as of May 31, 2020.

- The review and decision standards for exercising voting rights for the strategic shareholdings are presented under 4-3 of the Basic Policy. 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.
- If any shareholders who hold the Company's shares for the purpose of strategic shareholdings inform the Company of their intention to sell their shares or take any other similar action, the Company respects their intentions.

<Basic Policy> (excerpt)

- 4-1 The Company shall 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.
- 4-2 The Company shall have the Board of Directors evaluate the reasonableness and the economic rationale of respective strategic shareholdings on an annual basis, and when the Board of Directors finds any such shareholdings not reasonable, the Company shall proceed to reduce the relevant shareholdings or sell the relevant shares.
- 4-3 With respect to exercising voting rights for such strategic shareholdings, the Company shall examine 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.

[Principle 1-7]

The outline of procedures for the related party transactions is presented under 3 of the Basic Policy.

<Basic Policy> (excerpt)

- 3 The Board of Directors shall supervise transactions between the Company and any of its Directors, Audit & Supervisory Board Members, major shareholders, etc. (i.e., related party transactions) appropriately in light of the importance of such transactions, and in accordance with the Company's relevant procedures such as the requirement of approval at a meeting 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.

[Principle 2-6]

Aiming for the stable operation of the corporate pension plan through the corporate pension fund, the Company has established a basic policy on the operation of pension reserves and established appropriate bodies such as the board of representatives and the asset management committee as stipulated under applicable laws and regulations. In order to secure the effectiveness of the basic policy, a system has been established through which the Company can appropriately keep track of and evaluate the management status of the pension reserves by such measures as appointing an appropriate person who has specialized knowledge regarding reserve fund management as the chair of the committee and seeking advice of outside specialized agencies.

[Principle 3-1]

(i) The Corporate Mission and the Management Mission of the Company are presented under “1. Basic Concept” of this Report.

(ii) The basic concept and the basic policy on corporate governance are available on its website as the Basic Policy.

(iii) The Board policies and procedures in determining compensation of Directors are presented under II-1 [Directors’ Compensation] of this Report.

(iv) The policies and procedures for the nomination of candidates for, and the dismissal of, the Directors and the Audit & Supervisory Board Members are resolved by the Board of Directors based on the recommendation from the Nomination and Compensation Committee. The candidates for the Directors and the Audit & Supervisory Board Members are nominated by the resolution of the Board of Directors from persons who meet criteria set forth in Exhibit 1 “Nomination Criteria for Candidates for Directors and Audit & Supervisory Board Members” of the Basic Policy, based on the recommendation from the Nomination and Compensation Committee. The candidates for the Audit & Supervisory Board Members are nominated with consent of the Audit & Supervisory Board. The appointment and removal of the Representative Directors, the President and other Directors with special titles are resolved by the Board of Directors based on the recommendation from the Nomination and Compensation Committee.

(v) The reasons for nominating each candidate for the Directors and the Audit & Supervisory Board Members are presented in reference documents for the Shareholders’ Meeting. Explanation will be made if any Director or Audit & Supervisory Board Member is dismissed.

[Supplementary Principle 4-1-1]

The matters resolved by the Board of Directors and the matters delegated to the senior management are stipulated in the Regulations of the Board of Directors, Regulations Regarding Electronic Approval, and other relevant internal regulations.

The following matters require a resolution of the Board of Directors: (1) matters stipulated in the laws and ordinances or the Articles of Incorporation; (2) matters delegated at the Shareholders’ Meeting for resolution; (3) material business matters; and (4) other matters deemed necessary by the Board of Directors. Status of execution of business operations and material matters among those approved by the President are reported to the Board of Directors.

[Principle 4-9]

The independence criteria are presented in Exhibit 2 “Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members” of the Basic Policy and II-1 [Independent Directors and Independent Audit & Supervisory Board Members] of this Report.

[Supplementary Principle 4-11-1]

The Company’s views on the balance, diversity and size of the Board of Directors as a whole are presented under 7-1 of the Basic Policy.

<Basic Policy> (excerpt)

7-1 The Board of Directors shall consist of a diverse group of Directors who have various knowledge, experience and abilities and meet the criteria set forth in Exhibit 1 “Nomination Criteria for Candidates for Directors and Audit & Supervisory Board Members.” The number of Directors shall be set to ensure that the Board of Directors performs its duties effectively and efficiently. Two (2) or more members of the Board of Directors shall be Independent Outside Directors.

[Supplementary Principle 4-11-2]

The status of the positions concurrently held by Outside Directors and Outside Audit & Supervisory Board Members at other companies and organizations are described in reference documents for the Shareholders' Meeting and II-1 [Directors] and [Audit & Supervisory Board Members] of this Report. None of the Directors and Audit & Supervisory Board Members (other than Outside Directors and Outside Audit & Supervisory Board Members) concurrently holds positions as officers at other listed companies.

[Supplementary Principle 4-11-3]

The Company has evaluated the effectiveness of the Board of Directors annually since FY2015. In FY2018, the Company utilized external evaluation by outside legal counsel. In FY2019, the Company evaluated the effectiveness of the Board of Directors after revising topics of the questionnaire.

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 FY2019, the Company conducted a questionnaire on all the Directors and Audit & Supervisory Board Members during the period from February 2020 to March 2020. 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 and May of 2020.

2) Topics to be considered

The major topics of the questionnaire for FY2019 were as follows ((9), (10) and (11) were added.):

- (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) Related party transactions;
- (10) Strategic shareholdings;
- (11) Training; and
- (12) Improvements from the previous fiscal year.

3) Evaluation results

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 FY2019 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 and May of 2020. 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 FY2019 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 FY2018.

4) Major matters to be addressed in FY2020

The following agendas have been identified as major matters to be addressed in FY2020 as a result of the evaluation of the effectiveness of the Board of Directors for FY2019:

- Enhancement of discussions for increasing corporate value in the medium- to long-term;
- Consideration regarding ideal members to constitute the Board of Directors for the future; and
- Further improvement of the quality of deliberations by the Board of Directors.

The Board of Directors of the Company is determined to further enhance its functions, while addressing these agendas.

[Supplementary Principle 4-14-2]

The Company's policies for the training for Directors and Audit & Supervisory Board Members are presented under 10 of the Basic Policy.

<Basic Policy> (excerpt)

- 10-1 The Company shall provide opportunities for newly elected Directors and Audit & Supervisory Board Members to deepen their understanding of the Corporate Mission and the Management Mission of the Company, to obtain the necessary knowledge regarding the Company's business such as corporate strategies, finance and organizations, and to fully understand the roles and responsibilities that they are required to fulfill.
- 10-2 The Company shall continuously provide and arrange training opportunities that suit each of the Directors and Audit & Supervisory Board Members so that they can obtain and renew the knowledge necessary for performing their respective duties. The Company shall bear the expenses incurred for training opportunities.
- 10-3 The Company shall report to the Board of Directors about the implementation status of the training provided to the Directors and Audit & Supervisory Board Members on an annual basis.

[Principle 5-1]

The Company's policies and system for promoting constructive dialogues with shareholders are described in Exhibit 3 "Basic Policy for Promoting Constructive Dialogues with Shareholders, Investors, etc." of the Basic Policy.

The Company has made efforts to disclose information in a timely, appropriate and fair manner pursuant to the Information Disclosure Code. The Company has appropriately managed insider information pursuant to the Rules on the Management of Internal Information.

## 2. Capital Structure

**Percentage of Shares Held by Foreign Shareholders:** 10% or more and less than 20%

### [Major Shareholders]

Name	Number of Shares Held (Share)	Ratio (%)
Sumitomo Chemical Co., Ltd.	205,634,000	51.76
The Master Trust Bank of Japan, Ltd. (Trust account)	29,364,100	7.39
Inabata & Co., Ltd.	18,555,300	4.67
Japan Trustee Services Bank, Ltd. (Trust account)	11,742,000	2.96
Nippon Life Insurance Company	7,581,756	1.91
SMBC Trust Bank Ltd. (Trust account for Sumitomo Mitsui Banking Corporation's retirement benefits)	7,000,000	1.76
Sumitomo Life Insurance Company	5,776,000	1.45
BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE	4,907,309	1.24
Japan Trustee Services Bank, Ltd. (Trust account 7)	3,676,000	0.93
Aioi Nissay Dowa Insurance Co., Ltd.	3,104,930	0.78

### Existence of a Parent Company

Sumitomo Chemical Co., Ltd. (Listed on the Tokyo Stock Exchange) (Code: 4005)

### Supplementary Information Related to the Relevant Item

1. The 7,000,000 shares of the Company, which are held by SMBC Trust Bank Ltd. (Trust account for Sumitomo Mitsui Banking Corporation's retirement benefits) and which were contributed by Sumitomo Mitsui Banking Corporation, were placed in a retirement benefit trust account. After deducting the aforementioned shares that were contributed, Sumitomo Mitsui Banking Corporation holds 1,125,000 shares of the Company (shareholding ratio: 0.28%).
2. The shareholding ratios were calculated after deducting the treasury stocks (605,038 shares).

## 3. Business Attributes

Stock exchange and section	Tokyo 1st Section
End of fiscal year	End of March
Line of business	Pharmaceuticals
Number of employees (consolidated)	1,000 or more
Sales (consolidated)	¥100 billion or more and less than ¥1,000 billion
Number of consolidated subsidiaries	50 or more and less than 100

## 4. Guidelines for Measures to Protect Minority Shareholders When Transacting with Controlling Shareholders, etc.

Sumitomo Chemical Co., Ltd. is the parent company holding 51.78% (as of March 31, 2020) 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. With respect to the Company's significant transactions, etc. with its parent company or any subsidiary of the parent company (excluding the Company and its subsidiaries) (the "Parent Company's Group"), deliberations are conducted from the viewpoint of protecting the interest of minority shareholders at the Supervisory Committee for Conflict of Interests in Transactions between Group Companies which was set up as a consultative body to the Board of Directors and consists of all the Independent Outside Directors.

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.

## **5. Other Particular Conditions That May Materially Affect Corporate Governance**

Sumitomo Chemical Co., Ltd. is the parent company of the Company. However, the Company secures a certain level of independence from the parent company, and engages in business activities based on its own management judgments without any restrictions from the parent company (such as prior approval by the parent company).

## **II. Corporate Governance System of Management Organization, etc. for Managerial Decision-Making, Execution and Supervision**

### **1. Matters Related to Organizational Structure and Operations, etc.**

Organizational Form: Company with Audit & Supervisory Board Members

#### **[Directors]**

Number of Directors Stipulated in the Articles of Incorporation	The maximum number is not stipulated.
Term of Office for Directors Stipulated in the Articles of Incorporation	One year
Chairperson of the Board of Directors	Chairman
Number of Directors	Eight
Election of Outside Directors	Elected
Number of Outside Directors	Three
Number of Outside Directors Designated as Independent Directors	Three

## Relationship with the Company (1)

Name	Attribution	Relationship with the Company										
		a	b	c	d	e	f	g	h	i	j	k
Yutaka Atomi	Academic								x*		x*	
Saeko Arai	From another company											
Nobuhiro Endo	From another company								x*			

(\*The item h was applicable to the status of Dr. Atomi and Mr. Endo in the past. The item j is applicable to the current status of Dr. Atomi)

- a. A person executing the business operations at the Company or its subsidiary
- b. A person executing the business operations at the Company's parent company or a non-executive director of the Company's parent company
- c. A person executing the business operations at a fellow subsidiary of the Company
- d. A person (or its person executing the business operations) who engages in business transaction with the Company as its major business partner
- e. A person (or its person executing the business operations) who is a major business partner of the Company
- f. A consultant or an accounting or legal professional who receives a large amount of monetary considerations or other properties (other than remuneration for officers) from the Company
- g. A major shareholder (or its person executing the business operations, if such shareholder is a corporation) of the Company
- h. A person executing the business operations at a business partner of the Company (other than those to which item d, e or f applies) (this applies to such individual only)
- i. A person executing the business operations at an entity which has an outside director or an outside audit & supervisory board member from the Company (this applies to such individual only)
- j. A person executing the business operations at an entity to which the Company makes donations (this applies to such individual only)
- k. Others

## Relationship with the Company (2)

Name	Supplementary Information Related to the Applicable Item	Reason for Election as Outside Director
Yutaka Atomi	<p>Independent Director</p> <p>Dr. Atomi serves as the president emeritus of Kyorin University, with which the Company has had transactions such as commission of post-marketing surveillance and to which the Company has made donations. However, the annual amounts of such transactions and donations are respectively less than the amounts specified in the Independence Criteria stipulated by the Company. Dr. Atomi also serves as the president of the Pancreas Research Foundation of Japan, to which the Company has made donations. However, the amount</p>	<p>Dr. Atomi has extensive experience and expertise as a medical doctor. He has been appointed as an Outside Director in the hope that he will be able to contribute to the management of the Company's group consisting of the Company and its subsidiaries (the "Group") using his experience and expertise.</p> <p>As the Company has determined that he meets the Independence Criteria stipulated by the Company and is unlikely to have conflicts of interest with general shareholders, he has been designated as an Independent Director.</p>



	of such donations is less than the amount specified in the Independence Criteria stipulated by the Company.	
Saeko Arai	Independent Director  None.	Ms. Arai has extensive experience as a corporate executive, having engaged in management at multiple companies, and expertise as a certified public accountant. She has been appointed as an Outside Director in the hope that she will be able to contribute to the management of the Group using her experience and expertise. As the Company has determined that she meets the Independence Criteria stipulated by the Company and is unlikely to have conflicts of interest with general shareholders, she has been designated as an Independent Director.
Nobuhiro Endo	Independent Director  Mr. Endo is the chairman of the board of NEC Corporation, and the Company has transactions with NEC for services regarding system development, maintenance and operation, among others. However, the annual amount of such transactions is less than the amount specified in the Independence Criteria stipulated by the Company.	Mr. Endo has a wide range of knowledge and extensive experience which he has acquired in the course of his long career as a corporate executive at a company conducting ICT business, etc. at a global level. He has been appointed as an Outside Director in the hope that he will be able to contribute to the management of the Group using his knowledge and experience. As the Company has determined that he meets the Independence Criteria stipulated by the Company and is unlikely to have conflicts of interest with general shareholders, he has been designated as an Independent Director.

Existence of an Optional Committee Comparable to the Nomination Committee or Remuneration Committee	Yes
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Status of the Optional Committee, Members of the Committee and Attribution of the Committee Chair (Chairperson)	Total Number of Members: 4 - Number of Inside Directors: 1 - Number of Outside Directors: 3 Committee Chair (Chairperson): Outside Director
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### Supplementary Information

The Company has the Nomination and Compensation Committee 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 the Directors and the Audit & Supervisory Board Members, and decisions on the compensation of the Directors. The Nomination and Compensation Committee consists of the following four members, the majority (three members) of which being Independent Outside Directors, and the chairperson being appointed from the Independent Outside Directors.

(Composition of the Nomination and Compensation Committee)

Chairperson: Yutaka Atomi (Outside Director)  
 Member: Masayo Tada (Representative Director and Chairman)  
 Saeko Arai (Outside Director)  
 Nobuhiro Endo (Outside Director)

In FY2019, the Nomination and Compensation Committee held seven meetings and deliberated candidates for Directors, Representative Directors and Directors with special titles, revision of the Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members, method to determine compensation for Directors, individual compensation and bonuses for Directors, as well as candidates for Executive Officers. The attendance rate of the members was 96.4%.

#### [Audit & Supervisory Board Members]

Existence of the Audit & Supervisory Board	Yes
Number of Audit & Supervisory Board Members Stipulated in the Articles of Incorporation	The maximum number is not stipulated.
Number of Audit & Supervisory Board Members	Five

#### Cooperation among the Audit & Supervisory Board, Accounting Auditor and Internal Auditing Department

The Audit & Supervisory Board Members cooperate and collaborate closely with the Internal Auditing department by holding a meeting once a month, in principle, among others, to hear reports on the audit system, the audit plans and the audit implementation status as well as to exchange opinions. In addition, the Audit & Supervisory Board Members and the Audit & Supervisory Board actively set up opportunities for the exchange of information and opinions with the Accounting Auditor, such as holding regular meetings at the beginning of the fiscal year and the closing of the quarterly accounting period and other meetings as necessary.

Election of Outside Audit & Supervisory Board Members	Elected
Number of Outside Audit & Supervisory Board	Three
Number of Outside Audit & Supervisory Board Members Designated as Independent Audit & Supervisory Board Members	Two

#### Relationship with the Company (1)

Name	Attribution	Relationship with the Company												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kazuto Nishikawa	Other													
Junsuke Fujii	From another company							x*						
Yoshio Iteya	Attorney at Law													

(\*The item g was applicable to the status of Mr. Fujii in the past.)

- a. A person executing the business operations at the Company or its subsidiary
- b. A non-executive director or accounting advisor of the Company or its subsidiary
- c. A person executing the business operations at the Company's parent company or who is a non-executive director of the Company's parent company
- d. An audit & supervisory board member of the Company's parent company

- e. A person executing the business operations at a fellow subsidiary of the Company
- f. A person (or its person executing the business operations) who engage in business transactions with the Company as a major business partner
- g. A person (or its person executing the business operations) who is a major business partner of the Company
- h. A consultant, accounting or legal professional who receives a large amount of monetary considerations or other properties (other than remuneration for officers) from the Company
- i. A major shareholder (or its person executing the business operations, if such shareholder is a corporation) of the Company
- j. A person executing the business operations at a business partner of the Company (other than those to which item f, g or h applies) (this applies to such individual only)
- k. A person executing the business operations at an entity who has an outside director or an outside audit & supervisory board member from the Company (this applies to such individual only)
- l. A person executing the business operations at an entity to which the Company makes donations (this applies to such individual only)
- m. Others

## Relationship with the Company (2)

Name	Supplementary Information Related to the Applicable Item	Reason for Election as Outside Audit & Supervisory Board Member
Kazuto Nishikawa	Independent Audit & Supervisory Board Member  None.	Mr. Nishikawa has extensive experience and expertise as an expert in the fields of tax affairs and finance, having served as the regional commissioner of the Tokyo Regional Taxation Bureau and the director-general of the Inspection Bureau of the Financial Services Agency. He has been appointed as an Outside Audit & Supervisory Board Member in the hope that he will be able to contribute to the auditing of the Company using his experience and expertise. As the Company has determined that he meets the Independence Criteria stipulated by the Company and is unlikely to have conflicts of interest with general shareholders, he has been designated as an Independent Audit & Supervisory Board Member.

Junsuke Fujii	Independent Audit & Supervisory Board Member  Mr. Fujii served as a director of Sumitomo Mitsui Banking Corporation which is the Company's main bank, but he retired from the office of the director in June 2011.	Mr. Fujii has extensive experience and a wide range of knowledge as a corporate executive, having served as an officer at Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Financial Group, Inc. and The Japan Research Institute, Limited. He has been appointed as an Outside Audit & Supervisory Board Member in the hope that he will be able to contribute to the auditing of the Company using his experience and knowledge. As the Company has determined that he meets the Independence Criteria stipulated by the Company and is unlikely to have conflicts of interest with general shareholders, he has been designated as an Independent Audit & Supervisory Board Member.
Yoshio Iteya	None.	Mr. Iteya has extensive experience and expertise as an attorney. He has been appointed as an Outside Audit & Supervisory Board Member in the hope that he will be able to contribute to the auditing of the Company using his experience and expertise.

#### **[Independent Directors and Independent Audit & Supervisory Board Members]**

Number of Independent Directors and Independent Audit & Supervisory Board Members	Five
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Other matters related to Independent Directors and Independent Audit & Supervisory Board Members: The Company has defined the Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members as described below, and considers Outside Directors and Outside Audit & Supervisory Board Members who meet such criteria to be independent.

#### **[Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members]**

The Company considers persons who do not fall under any of the following to be independent; provided, however, that this does not preclude the Company from making judgment that such persons who meet these independence criteria are virtually not independent given specific circumstances:

- (1) Persons who have the Company as their major business partner (meaning persons who received payments from the Company for products or services in an amount that exceeds, in any of their last three (3) fiscal years, two percent (2%) of their consolidated annual revenue or consolidated annual net sales), or persons executing the business operations thereof (meaning an "Executive" as defined in Article 2, paragraph 3, item (vi) of the Ordinance for Enforcement of the Companies Act; the same shall apply hereinafter in these independence criteria);
- (2) Persons who are the Company's major business partners (meaning persons who made payments to the Company for products or services in an amount that exceeds, in any of the

Company's last three (3) fiscal years, two percent (2%) of the Company's consolidated annual revenue), or persons executing the business operations thereof;

(3) Consultants, accounting or legal professionals who received from the Company monetary consideration or other properties of ten (10) million yen or more, except for the compensation of the Directors or the Audit & Supervisory Board Members, in any of their last three (3) fiscal years (or those persons who belong to corporations, associations or any other entity, which received from the Company monetary consideration or other properties of one hundred (100) million yen or more in any of their last three (3) fiscal years);

(4) Persons who received from the Company any donation or grant of ten (10) million yen or more in any of their last three (3) fiscal years (or those persons who belong to corporations, associations or any other entity, which received from the Company any donation or grant of one hundred (100) million yen or more in any of their last three (3) fiscal years);

(5) Persons who fall under either of (i) and (ii) below in any of the past ten (10) years;

(i) Persons executing the business operations of the parent company of the Company (including directors who are not persons executing the business operations, and including audit & supervisory board members in cases where it must be determined whether Outside Audit & Supervisory Board Members meet these independence criteria); or

(ii) Persons executing the business operations of any subsidiary of the parent company of the Company (excluding the Company and its subsidiaries; the same shall apply hereinafter); or

(6) Close relatives (Note 1) of persons who fall under any of (i) to (iii) below (excluding persons other than persons with important positions (Note 2));

(i) Persons who fall under any of (1) to (5) above;

(ii) Persons executing the business operations of any subsidiary of the Company (including directors who are not persons executing the business operations in cases where it must be determined whether Outside Audit & Supervisory Board Members meet these independence criteria), persons executing the business operations of the parent company of the Company (including directors who are not persons executing the business operations, and including audit & supervisory board members in cases where it must be determined whether Outside Audit & Supervisory Board Members meet these independence criteria), or persons executing the business operations of any subsidiary of the parent company; or

(iii) Persons who were persons executing the business operations of the Company or any subsidiary of the Company in any of the past three (3) years (including directors who are not persons executing the business operations in cases where it must be determined whether Outside Audit & Supervisory Board Members meet these independence criteria).

(Note 1) Close relatives mean the spouse and relatives within the second degree of kinship.

(Note 2) Persons with important positions mean the directors (excluding outside directors), executive officers, department leaders, certified public accountants who belong to audit corporations or accounting firms, lawyers who belong to law firms and any other person who is objectively and reasonably found to have a similar importance.

## [Incentives]

Status of Implementation of Measures to Offer Incentives to Directors	Introduction of performance-linked compensation system
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## Supplementary Information Related to the Relevant Item

Please see the section titled "Disclosed Details of the Policy for Determining the Compensation Amount and the Calculation Method" below.

## [Directors' Compensation]

Disclosure Status (of Compensation for Individual Directors)	Not individually disclosed except for one Director
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### Supplementary Information Related to the Relevant Item

The total amount of compensation and the like paid to the Directors in FY2019 is 378 million yen. The amount represents compensation and the like for the Directors who were in office during FY2019. The amount includes 28 million yen paid to the Directors as bonuses. The Company has disclosed compensation of one Director in the annual securities report pursuant to applicable laws and regulations.

Existence of a Policy for Determining the Compensation Amount and the Calculation Method	Yes
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### Disclosed Details of the Policy for Determining the Compensation Amount and the Calculation Method

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 FY2018, the Nomination and Compensation Committee deliberated decisions on the compensation for the Directors and made recommendations to the Board of Directors. The Nomination and Compensation Committee also deliberated evaluation regarding the performance of the previous fiscal year and target setting for FY2019 with respect to the performance-linked elements and individual performance. In addition, the Nomination and Compensation Committee deliberated the appropriateness of the level and composition of the compensation for the Directors, using sources such as survey data of outside specialized agencies. These deliberations were conducted four times in total in FY2019.

(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 sustainable growth and enhancing the corporate value of the Group. 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. Through such measures, the Directors' willingness to contribute to the increase of corporate value in the medium- to long-term is enhanced and value sharing with shareholders is promoted. The performance-linked compensation (bonuses) is calculated by the method described in (c) below, and the ratio of such compensation is approximately 10% of the total of compensation and the like.

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 185<sup>th</sup> Annual Shareholders' Meeting held on June 29, 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 by the Representative Director and President based on the standards deliberated at the Nomination and Compensation Committee, upon delegation of such decision to the Representative Director and President in accordance with the procedures described in the above (a) at a meeting of the Board of Directors. 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 multiplying performance-linked elements and individual performance, to the base amount which is set according to each position, such as Representative Director, and is determined to be within the scope of zero to 200% of the base amount.

The Group has set an original performance management indicator for its recurring profitability in the form of "core operating profit." In FY2019, the performance-linked elements were evaluated by the Nomination and Compensation Committee based on the degree of achievement of targets, using this "core operating profit" as an indicator. As for the individual performance, the degree of achievement of performance targets of each Director was evaluated by the Nomination and Compensation Committee. The "core operating profit" forecast publicized in the announcement of the consolidated financial results for the previous fiscal year (77 billion yen) was used as a target, and the result was 72 billion yen.

#### **[Support System for Outside Directors (Outside Audit & Supervisory Board Members)]**

The Corporate Governance department provides support for the Outside Directors and Outside Audit & Supervisory Board Members.

The secretariat of the Board of Directors provides explanations to the Outside Directors in advance, on matters to be submitted to the Board of Directors.

Also, the Company has assigned a full-time staff member who assists the Audit & Supervisory Board Members including the Outside Audit & Supervisory Board Members for performing their audit duties effectively and efficiently. The staff plays a role as the secretariat of the Audit & Supervisory Board, engages in matters specially assigned by the Audit & Supervisory Board Members, and provides the Outside Audit & Supervisory Board Members with relevant information necessary for performing their duties effectively and efficiently.

#### **[Status of Persons Who Retired from the Office of the Representative Director and President, etc.]**

Name and Other Information of the Senior Advisor, Advisor, etc. Who Are the Former Representative Director and President, etc.: -

Total Number of the Senior Advisor, Advisor, etc. Who Are the Former Representative Director and President, etc.: Zero

Other Matters:

The Company has advisory systems such as the Senior Executive Advisors and Corporate Executive Advisors, but currently there is no person who serves as Senior Executive Advisor or

Corporate Executive Advisor after having retired from the office of the Representative Director and President or the like.

## **2. Matters Related to Functions of Execution of Business Operations, Audits and Supervision, Nomination, and Decisions on Compensation, etc. (Outline of the Current Corporate Governance System)**

The Company has adopted an executive officer system under the Board of Directors to separate management supervision from business execution.

The Board of Directors consists of eight members (including one female Director), 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 (20 meetings were held in FY2019). The attendance rate of the Outside Directors was 96.4%.

The Audit & Supervisory Board consists of five members (currently, no female Audit & Supervisory Board Member is elected), including three Outside Audit & Supervisory Board Members. The Audit & Supervisory Board holds a meeting once a month, in principle, discusses and resolves material matters relating to auditing, and also examines in advance matters to be submitted to the Board of Directors for discussion (13 meetings were held in FY2019). The attendance rate of the Outside Audit & Supervisory Board Members was 97.4%.

Meetings of the Nomination and Compensation Committee, which is a consultative body to the Board of Directors, are held as necessary to review matters such as those related to the nomination of the candidates for the Directors and Audit & Supervisory Board Members and the compensation of the Directors, and the Nomination and Compensation Committee provides the recommendations to the Board of Directors. The Nomination and Compensation Committee consists of four members, the majority (three members) of which being Independent Outside Directors, and the chairperson being appointed from the Independent Outside Directors.

The Company has set up the Supervisory Committee for Conflict of Interests in Transactions between Group Companies (as of April 1, 2020) as a consultative body to the Board of Directors in order to ensure that the Company's significant transactions, etc. with the Parent Company's Group are fair and reasonable and help protect the interest of minority shareholders of the Company. The meetings are held as necessary. The Supervisory Committee for Conflict of Interests in Transactions between Group Companies consists of all the Independent Outside Directors, and the chairperson is appointed from among the members by mutual vote of the members.

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.

The Audit & Supervisory Board consists of five members, including three Outside Audit & Supervisory Board Members.

In accordance with the audit policies, audit plans, allocation of duties among members and other relevant matters determined by the Audit & Supervisory Board, each member strives to enhance the effectiveness of audit practices by holding meetings with the Representative Directors on a regular basis, proactively seeking reporting from the Directors and employees as necessary and having opportunities on a regular basis for collaboration with the Accounting Auditor and the Internal Auditing department, and for collaboration in a three-party auditing structure. 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 audit the implementation status of the internal control system by such means as receiving reports from the Directors, employees and other relevant persons on the execution of their



duties, requesting additional explanations as necessary, as well as conducting field audits at major offices and reviewing important approval documents. The implementation status of the internal control system of subsidiaries of the Company is audited through field audits at overseas subsidiaries, holding meetings with the representative directors and other relevant persons of the subsidiaries located in Japan and abroad, holding meetings with audit & supervisory board members of the subsidiaries in Japan as necessary and seeking to obtain relevant information.

Accounting audits are conducted by KPMG AZSA LLC, under the audit agreement. The certified public accountants who engaged in the accounting audits for FY2019 are Mr. Daisuke Harada, Mr. Koji Narumoto and Mr. Masato Tateishi. Mr. Daisuke Harada has been in charge of audit of the Company for two years, Mr. Koji Narumoto for seven years, and Mr. Masato Tateishi for two years, respectively. A total of 34 persons, including, in addition to the above three certified public accountants, eight certified public accountants and 23 accountants who work as assistants, engage in audit work.

The Company has established the Internal Auditing department, which reports directly to the Representative Director, President and CEO of the Company (10 persons as of March 31, 2020). The Internal Auditing department conducts internal audits for not only the Company but also its subsidiaries to check the basic elements necessary for achieving the objectives of internal 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.

Pursuant to Paragraph 1 of Article 427 of the Companies Act, the Company has entered an agreement regarding liability for damages (the “Limited Liability Agreement”) with the three Outside Directors and the three Outside Audit & Supervisory Board Members to limit their liability for damages under circumstances where they acted in good faith and were not grossly negligent in performing their respective duties. The Limited Liability Agreement provides for a total maximum liability of ten million yen or any amount stipulated by the relevant laws and regulations, whichever is higher.

### **Reason for Selecting the Current Corporate Governance System**

The Company has elected the organizational structure of a “Company with an Audit & Supervisory Board” and has appointed Independent Outside Directors 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 Independent Outside Directors strive to fulfill their expected roles in decision making at the meeting of the Board of Directors and supervision of conflicts of interest and other matters. The Independent Outside Directors strive to collect information necessary to perform their duties effectively and efficiently through efforts such as attending important meetings at the Company, including meetings of the Board of Directors, and appropriately cooperating and collaborating with the Audit & Supervisory Board Members. The Outside Directors appropriately cooperate and collaborate with the other Outside Directors, the Outside Audit & Supervisory Board Members, the Accounting Auditor and the Internal Auditing department, as necessary.

## **III. Status of Implementation of Measures Regarding Shareholders and Other Stakeholders**

### **1. Efforts to Vitalize the Shareholders’ Meeting and Facilitate the Exercise of Voting Rights**

	Supplementary explanation
Early Sending of the Notice of Convocation of the Shareholders' Meeting	The Company sends the notice approximately one week earlier than the statutory time limit, which is two weeks prior to the date of the Shareholder's Meeting. Date of the Most Recent Shareholders' Meeting: June 23, 2020 Date of Sending the Notice of Convocation: June 1, 2020 Date of the Disclosure of the Notice of Convocation on the Company's website: May 27, 2020
Setting the Date for the Shareholders' Meeting Avoiding the Day on Which Shareholders' Meetings Are Expected to be Most Concentrated	The Company schedules the Shareholder's Meeting to avoid the date on which shareholders' meetings are expected to be most concentrated.
Exercise of Voting Rights by Electromagnetic Means	Since the Annual Shareholders' Meeting held in 2009, the Company has adopted electromagnetic means as methods to exercise voting rights, including the utilization of the electronic voting platform operated by ICJ Inc., which is funded by the Tokyo Stock Exchange and others.
Participation in the Electronic Voting Platform and Other Efforts to Improve the Environment for Exercise of Voting Rights by Institutional Investors	Since the Annual Shareholders' Meeting held in 2009, the Company has adopted electromagnetic means as methods to exercise voting rights, including the utilization of the electronic voting platform operated by ICJ Inc., which is funded by the Tokyo Stock Exchange and others.
Provision of the Notice of Convocation (or Its Summary) in English	The Company posts an English translation of the notice of convocation on the Company's website together with the Japanese version five days prior to the day on which the notice is sent.
Others	The Company has made sincere efforts to vitalize the Shareholders' Meeting, such as providing video presentations and narration of the business report and other reports during the meeting. Details of the results of resolutions on proposals at the Shareholders' Meeting are submitted in an extraordinary report and disclosed on the Company's website.

## 2. Status of Investor Relations Activities

	Supplementary explanation	Explanation by the Representative
Preparation and Publication of the Disclosure Policy	The Company has prescribed its Basic Stance on Information Disclosure (disclosure policy) in the Information Disclosure Code, which has been posted on the Company's website. URL: <a href="https://www.ds-pharma.com/ir/d_policy/">https://www.ds-pharma.com/ir/d_policy/</a>	-
Holding Regular Meetings for Individual Investors	The Company held seven meetings for individual investors in FY2019.	Not available

Holding Regular Meetings for Analysts and Institutional Investors	The Company held biannual meetings, each following the close of the six-month and full-year operation periods, where the Company presented the financial results and R&D status updates, among others. At the time of the announcement of the first and third quarter financial results, the Company held conference calls. The Company also held the Mid-term Business Plan Presentation, ESG (environmental, social and governance) Meeting and R&D Meeting in FY2019.	Available
Holding Regular Meetings for Foreign Investors	The Company undertakes regular visits to foreign shareholders. The Company also dubs the meetings and conference calls held in Japan into English (including the Q&As) and makes them available on its website. The Company also takes part in small meetings arranged by securities firms in Japan for foreign investors.	Available
Posting of IR Materials on the Company's Website	The Company posts financial results summaries and supplementary materials, materials from investor meetings (including video streaming), press releases, Integrated Reports, Fact Books, notices of convocation for the Shareholders' Meeting, and notices of resolutions among others. URL: <a href="https://www.ds-pharma.com/ir/index.html">https://www.ds-pharma.com/ir/index.html</a>	-
Establishment of Investor Relations Department (Responsible Person)	The Public & Investor Relations Group of Corporate Communications is in charge.	-

### 3. Efforts to Respect the Positions of Stakeholders

	Supplementary explanation
Establishment of Provisions in the Internal Regulations, etc. Relating Respect for the Positions of the Stakeholders	<p>The Management Mission of the Company prescribes as follows:</p> <ul style="list-style-type: none"> <li>- To contribute to healthcare and people's well-being based upon the principles of patient-oriented management and innovative research</li> <li>- To continuously strive to maximize corporate value through constant business development and to fulfill shareholder expectations</li> <li>- To create an environment in which employees can fulfill their potential and increase their creativity</li> <li>- To maintain the trust of society and to contribute to the realization of a better global environment</li> </ul>
Implementation of Environmental Conservation Activities and CSR Activities, etc.	<p>The Company considers the pursuit of its Corporate Mission as "CSR-Based Management." In promoting this CSR-Based Management, the Company has determined its material issues (materiality) which also take into account SDGs (Sustainable Development Goals) and has strived to create innovative pharmaceuticals and medical solutions. As social contribution activities, the Company has engaged in the contribution to global health and improvement of access to medicines, support for patients and advocacy, as well as support for education of the next generation and other activities to contribute to local communities. As environmental conservation activities, the Company has made efforts for the reduction of environmental burdens in every possible field in its business activities.</p> <p>Information regarding specific examples of such measures is available in the Integrated Report issued every year as well as on the Company's website (CSR site).</p> <p>URL: (Integrated Report)  <a href="https://www.ds-pharma.com/ir/library/annual/">https://www.ds-pharma.com/ir/library/annual/</a>          (CSR site)  <a href="https://www.ds-pharma.com/csr/">https://www.ds-pharma.com/csr/</a></p>
Establishment of Policy Concerning Information Provision to Stakeholders, etc.	<p>The Company has prescribed its Basic Stance on Information Disclosure in the Information Disclosure Code as described below: "In accordance with the policy stated in our Declaration of Conduct, we at Sumitomo Dainippon Pharma proactively disclose information to the public and, under the recognition of the importance of transparency in earning society's trust, we work to disclose our corporate information in a timely, appropriate, and fair manner to our stakeholders." In addition, the Company has prescribed such matters as standards and procedures for disclosing information and handling of important information in the Information Disclosure Code, and has posted these on its website as the Stance on Information Disclosure.</p> <p>URL: <a href="https://www.ds-pharma.com/ir/d_policy/">https://www.ds-pharma.com/ir/d_policy/</a></p>

Others	<p>The Company has taken active measures to promote participation and career advancement of female employees as part of its efforts towards diversity and inclusion. The Company held a target to increase the percentage of women in management positions of the Company to be 10% by December 2020. In April 2019, the percentage exceeded 10%, and the Company achieved its target set in 2016 ahead of schedule (12.2% as of April 2020).</p> <p>The Company has developed an extensive system that surpasses the statutory requirements as necessary, in terms of length of terms that the employees may obtain as childcare leave and family care leave as well as the operation of various shorter work-hour systems. The Company has also introduced the following various systems to support employees to successfully balance their work and life beyond their work:</p> <ul style="list-style-type: none"> <li>- Paternity leave (dubbed “good daddy leave”) aiming to help fathers to play more active roles in rearing children, deepen understanding for employees who are rearing children, and further realize more diversified lifestyles of male employees (started in October 2015)</li> <li>- MR region selecting system under which MRs are transferred upon their marriage to enable them to live with their spouse, or the region in which they work is limited during the child-caring period (started in April 2016)</li> <li>- Work-at-home system that employees can use without restriction on reason for use and location of work (started in October 2017)</li> </ul> <p>As a result of such efforts, the Company received a 3-star “Eruboshi” (highest rank) certification for the excellent status of implementation of its efforts, etc. in encouraging participation and career advancement of women, and “Platinum Kurumin” certification for the excellence of its efforts to promote support for child rearing.</p>
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#### **IV. Basic Concept on the Internal Control System and the Status of Development Thereof**

##### **1. Basic Concept on the Internal Control System and the Status of Development Thereof**

The Company passed a resolution for and has been implementing the basic policy for establishment of a system to ensure the appropriateness of the business operations.

##### **1. System to Ensure Compliance by the Directors and Employees of the Company with Laws and Regulations and the Articles of Incorporation in the Execution of Their Duties**

i) The Company shall establish the Compliance Standard and shall take measures to fully disseminate its corporate ethics in order to further ensure daily compliance pursuant to the Declaration of Conduct.

ii) As a system to promote compliance, the Company shall establish the Compliance Committee, in which the Executive Officer for Compliance will serve as the chairperson, and the Compliance Committee Secretariat, and shall appoint department leaders as compliance promotion leaders.

iii) The Company shall periodically hold meetings of the Compliance Committee, and shall keep track of the status of promoting compliance. The Compliance Committee shall appropriately provide a summary of the status to the Board of Directors.

iv) The Compliance Committee shall formulate and carry out the annual policy of education and training for the Directors and employees.

v) The Company shall establish a compliance hotline inside and outside the Company that will serve as a window for reporting and consulting matters related to compliance. The Company shall not adversely treat persons who have reported or consulted such matters on the basis that they made such reports or consultation.

vi) The Company shall establish a department that is in charge of internal audit. The department shall audit the status of compliance, and shall appropriately report to the President and the Executive Officer for Compliance.

##### **2. System for the Maintenance and Management of Information Concerning the Execution of Duties by the Directors of the Company**

The Company shall establish internal regulations with respect to the handling of records and information, and shall appropriately maintain and manage information in connection with the execution of duties by the Directors.

##### **3. Rules and Other Systems Regarding the Management of the Risk of Loss of the Company**

i) The Company shall establish the DSP Group Risk Management Policy that provides for basic thoughts of the Group with respect to risk management and shall conduct appropriate risk management.

ii) The Company shall establish the Risk Management Rules under which it is clarified that the President oversees risk management and shall develop systems to promote risk management for respective risks classified on the basis of risk characteristics. The status of operations in each system to promote risk management is periodically reported to the Board of Directors.

iii) In order to minimize any effects of an emergency, which is likely to materially affect the management or business activities of the Company, the Company shall establish the Rules for Emergency Response and secure the continuity of management and business.

##### **4. System to Ensure Efficient Execution of Duties by the Directors of the Company**

i) The Company shall establish internal regulations such as the Regulations of the Board of Directors, the Regulations of Duties and Authority, the Regulations on Organization and the Rules for Division of Duties, and shall clarify the rules regarding duties and authority, division of duties and decision making.

- ii) The Company shall aim to realize speedy and efficient management by introducing an executive officer system.
- iii) The Company shall aim to promote speedy and efficient decision making by introducing an electronic approval system.

5. System to Ensure the Appropriateness of the Operations of the Corporate Group (consisting of the Company, its Parent Company and Subsidiaries)

(1) System to Ensure the Efficient Execution of Duties by Directors, etc. of Subsidiaries

The subsidiaries shall clarify the rules regarding duties and authority, division of duties and decision making.

(2) System Regarding the Report to the Company of Matters Related to the Execution of Duties by Directors, etc. of Subsidiaries

The Company shall establish internal regulations that provide for basic matters to promote appropriate group operations, and through commitment by the subsidiaries to comply with such regulations, shall receive from the subsidiaries, reports regarding material matters on management.

(3) Rules and Other Systems Regarding the Management of the Risk of Loss of Subsidiaries i)

The subsidiaries shall develop systems to promote risk management in accordance with the types of their business and the characteristics of risks and shall conduct appropriate risk management.

ii) The Company shall govern risk management of the subsidiaries in general, and shall take necessary measures such as giving advice and instructions.

iii) The Company shall develop necessary systems to promote risk management for risks the Group should cross-functionally address and shall enhance the Group's risk management.

(4) System to Ensure Compliance by Directors, etc. and Employees of Subsidiaries with Laws and Regulations and the Articles of Incorporation in the Execution of Their Duties

i) The subsidiaries shall develop an appropriate system to promote compliance.

ii) The Company shall enhance compliance by the subsidiaries by periodically holding meetings, such as committee meetings, related to compliance, which the subsidiaries participate in.

iii) The department that is in charge of the internal audit of the Company shall audit the status of compliance by the subsidiaries, and shall appropriately report to the President and the Executive Officer for Compliance of the Company.

(5) Other Systems to Ensure the Appropriateness of the Operations of the Corporate Group (consisting of the Company, its Parent Company and Subsidiaries)

i) The Company shall ensure its independence and shall develop an autonomous internal control system, while respecting the group operation policy of Sumitomo Chemical Co., Ltd., the parent company.

ii) The Company shall appropriately conduct transactions with the parent company by ensuring the fairness and rationality of transactions.

6. System to Ensure Effective Implementation of Audits by the Audit & Supervisory Board Members

(1) Matters Concerning Employees Assigned to Assist the Audit & Supervisory Board Members in the Execution of Their Duties, Matters Concerning the Independence of Such Employees from the Directors of the Company and Matters for Ensuring the Effectiveness of Instructions Given to Such Employees

The Company shall assign one or more employees, who are not under the line of command of the department that executes operations of the Company, to assist the duties of the Audit & Supervisory Board Members and serve in the secretariat of the Audit & Supervisory Board. Decisions on transfer and evaluation of such employees will be made upon consultation with the Audit & Supervisory Board Members and by respecting their opinions.

(2) System for the Directors and Employees to Report to the Audit & Supervisory Board Members

The Company shall establish procedures or the like with respect to reports by the Directors and employees of the Company to the Audit & Supervisory Board Members, and shall provide information needed by the Audit & Supervisory Board Members in a timely and appropriate manner.

(3) System for the Directors, Audit & Supervisory Board Members, Members Who Execute Operations and Employees of Subsidiaries, or Persons Who Receive Report from the Same, to Report to the Audit & Supervisory Board Members of the Company

The Company shall establish procedures or the like with respect to reports by the directors or the like of its subsidiaries to the Audit & Supervisory Board Members, and shall provide information needed by the Audit & Supervisory Board Members in a timely and appropriate manner.

(4) System to Ensure That Persons Who Have Made Reports As Provided in the Immediately Preceding Two Paragraphs Will Not Receive Any Adverse Treatment for Having Made Such Reports

The Company shall not adversely treat persons who have made reports as provided in the immediately preceding two paragraphs on the basis that they made such reports.

(5) Matters Concerning the Procedures for Advance Payment or the Reimbursement of Expenses Incurred in Relation to the Execution of the Duties by the Audit & Supervisory Board Members and Any Other Policy for Processing of Costs and Obligations Incurred in Relation to the Execution of Their Duties

The Company shall process the costs and obligations incurred in relation to the execution of duties by the Audit & Supervisory Board Members in a timely and appropriate manner by respecting their opinions.

(6) Other Systems to Ensure Effective Implementation of Audits by the Audit & Supervisory Board Members

i) The Company shall periodically hold meetings between the Audit & Supervisory Board Members and the Representative Directors, between the Audit & Supervisory Board Members and the department which is in charge of the internal audit, and among the three parties of the Audit & Supervisory Board Members, the department which is in charge of the internal audit and the Accounting Auditor.

ii) If there is any request from the Audit & Supervisory Board Members regarding their duties, the Company shall respect such request and shall respond to such request in a timely and appropriate manner.

## 7. Elimination of Anti-Social Forces

The Company shall keep its Directors and employees thoroughly informed to take decisive actions against anti-social forces, and shall promote efforts aimed at cutting off any and all relationships with such forces.

## 2. Basic Concept on Elimination of Anti-Social Forces and Status of Implementation

The Company's basic policy is to "take decisive actions against anti-social forces and groups that threaten the order and safety of civil society." The Company specifies in its "Declaration of Conduct (Guidebook for Daily Application)" and "Compliance Standard" that it cuts off any and all relationships with anti-social forces, and promotes the elimination of such forces through measures including working to raise the awareness of employees through in-house seminars and other activities and concluding a memorandum of agreement regarding the elimination of anti-social forces with its business partners.

With the Corporate Governance as the department in charge of the Company's response, the Company strives to improve its ability for response by strengthening cooperation with corporate defense councils and the National Center for the Elimination of Boryokudan.



## V. Others

### 1. Matters Related to Takeover Defense

Introduction of Takeover Defense Measures	Not introduced
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#### Supplementary Information

As the Company has the parent company, no special measure is currently taken.

### 2. Other Matters Related to the Corporate Governance Systems, etc.

#### Overview of System for Timely Disclosure

Pursuant to the Information Disclosure Code that prescribes such matters as standards and procedures for disclosing information, the Company discloses corporate information in a timely, appropriate and fair manner. The system for timely disclosure of information is prescribed as follows:

##### (1) Disclosure of Decisions

The decisions, set forth in the rules of the Tokyo Stock Exchange for timely disclosure (the "Timely Disclosure Rules"), are immediately disclosed as soon as such decisions are made by the Board of Directors or other decision making bodies (including decision making bodies of subsidiaries). The details of the matters to be disclosed are determined by the Director of the Corporate Communications department upon discussion with leaders of other relevant departments.

##### (2) Disclosure of Facts Which Occurred

The facts which occurred, set forth in the Timely Disclosure Rules, are promptly disclosed after the occurrence of the said facts. The details of the matters to be disclosed are determined by the Director of the Corporate Communications department upon discussion with leaders of other relevant departments.

##### (3) Disclosure of Account Settlement Information

The account settlement information, set forth in the Timely Disclosure Rules, is immediately disclosed after the resolution of the Board of Directors. The details of the matters to be disclosed are discussed by the Director of the Corporate Communications department, the Director of the Global Corporate Strategy department, and the Director of the Finance & Accounting department. The details of the matters to be disclosed relating to financial result summaries and other related matters are determined by the Director of the Finance & Accounting department and revision of financial forecasts and dividend forecasts and other related matters are determined by the Director of the Global Corporate Strategy department, respectively.

##### (4) Information Other Than Information to be Timely Disclosed

The Company discloses information necessary for stakeholders to correctly understand the Company in principle. The necessity of disclosure and the details and time of disclosure are determined by the Director of the Corporate Communications department upon discussion with leaders of other relevant departments.

[Framework of the Corporate Governance System]

