

Corporate Governance

Changes in the Corporate Governance Structure

The Group promotes corporate governance with the aim of fulfilling our mission. We place emphasis on having a management structure capable of responding with speed and agility to changes in the business environment, and ensuring a corporate governance structure whereby we can secure legal compliance and management transparency, strengthen the oversight of management and how we conduct our operations, and respond to the trust of our shareholders and other stakeholders.

Since the merger of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. in 2007, Daiichi Sankyo has established the Nomination Committee and the Compensation Committee as voluntary committees.

A female director has been appointed as a Director in 2019. With the aim of promoting the separation of execution and

supervision and increasing the transparency and supervisory function of the Board of Directors, an Outside Director Outside Director has served as the Chairman of the Board of Directors since 2020.

Through these efforts, we are committed to establishing the corporate governance system for the Board of Directors to make important business decisions and oversee its management appropriately, establishing the internal control system that ensures proper transition of power from the Board of Directors, and making sure the Board of Directors to improve its function and effectiveness.

Going forward, Daiichi Sankyo will continue to work on enhancing its corporate governance systems, as well as securing and improving the functions and effectiveness of the Board of Directors.

Changes in the Corporate Governance Structure

	2007	2014	2016	2017	2018	2019	2020	2021
Chairman of the Board	Chairman	CEO				Chairman	Outside Directors	
Directors	Outside	4 persons				4 persons, including 1 female member		
	Inside	6 persons			5 persons			
Audit & Supervisory Board Members	Outside	2 persons	2 persons, including 1 female member		3 persons, including 2 female members			
	Inside	2 persons						
Nomination Committee	2 outside persons and 1 inside person	4 outside persons	4 outside persons, 1 Outside Audit & Supervisory Board Member (Observer)					
Compensation Committee	2 outside persons and 1 inside person	4 outside persons	4 outside persons, 1 Outside Audit & Supervisory Board Member (Observer)					
Compensation System (Incentive)	Short term: Annual performance-based bonus						Clawback provision	
	Long term: Share remuneration-type stock option		Long term: Restricted share-based compensation				Long term: Medium-term performance-based share compensation	
Corporate Governance Code		Explained about 3 items immediately after applying the Code	Complied with all the items	Explained about 1 item after revision	Complied with all the items*			

* Complied with all items of Corporate Governance Code including the revision in FY2021

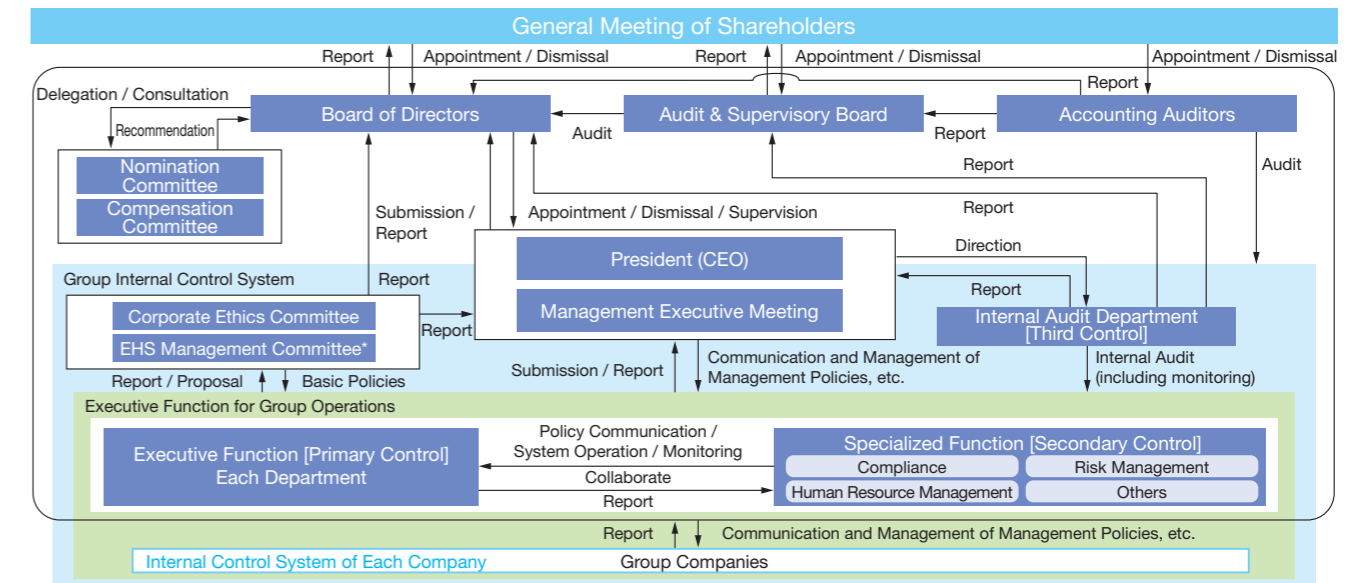
Overview of the Corporate Governance Structure

To clarify Directors' management responsibility and reinforce their oversight of management and the conduct of operations, their terms of office are set at one year, and four out of nine Directors are Outside Directors. Since June 2020, an Outside Director has served as the chairperson of the Board of Directors. To ensure management transparency, the Company establishes the Nomination Committee and the Compensation Committee as voluntary advisory committees to the Board of Directors. These Committees deliberate matters such as the nomination of candidates for Directors and Corporate Officers, successor plan of the CEO, and executive compensation system. These Committees consist of four Outside Directors, and one Outside Audit & Supervisory Board Member participates in each committee as the observer. The Company prescribes specific criteria on the judgment of independence of Outside Directors and Outside Audit & Supervisory Board

Members and basic matters regarding execution of duties by Directors and Audit & Supervisory Board Members.

With the aims of ensuring effectiveness and efficiency of operations, ensuring reliability of financial reporting, complying with applicable laws and regulations relevant to business activities, and safeguarding assets, the Company structures its internal control system to consist of self-monitoring carried out by respective organizations which execute its functions (primary controls), policy development and monitoring for respective organizations carried out by the corporate organization (secondary controls), and internal auditing and monitoring carried out by the Internal Audit Department (tertiary controls).

Overview of the Corporate Governance Structure



* EHS (Environment, Health, and Safety) Management Committee

Nomination Committee, Compensation Committee, and Audit & Supervisory Board

	Nomination Committee	Compensation Committee	Audit & Supervisory Board
Chairman / Chairperson	Outside Director	Outside Director	Audit & Supervisory Board Member
Composition	4 Outside Directors (Observer: Outside Audit & Supervisory Board Member)	4 Outside Directors (Observer: Outside Audit & Supervisory Board Member)	2 Audit & Supervisory Board Members 3 Outside Audit & Supervisory Board Member
Purpose	To make necessary deliberations on the nomination of Directors and Corporate Officers at the request of the Board of Directors and thereby contribute to the enhancement of transparency and supervisory function of management.	To make necessary deliberations on the policy on compensation of Directors and Corporate Officers at the request of the Board of Directors and thereby contribute to the enhancement of transparency and supervisory function of management.	To receive reports on important matters of audit and discuss the matter or make a resolution on it. (However, the Audit & Supervisory Board cannot prohibit an Audit & Supervisory Board Member from exercising their rights.)
Number of meetings held in FY2020	7 times	9 times	13 times

Other Committees

	Corporate Ethics Committee	EHS Management Committee
Chairperson	Compliance Officer (Head of the Corporate Affairs Division)	Chief Executive Officer of EHS Management (Head of the Corporate Affairs Division)
Composition	13 members including 12 internal representatives appointed by the Chairperson and an appointed external attorney, who ensures that the committee operates in a transparent and reliable manner Observer: Audit & Supervisory Board Members and the Vice President of the Internal Audit Department	14 members including corporate offices of the Group companies appointed by the chairperson Observer: Audit & Supervisory Board Members
Purpose	To comply with Japanese and other jurisdictions' laws and corporate ethics and to promote the management of corporate social responsibility.	To establish and operate a management system that continuously improves Environment, Health, and Safety with the aim of minimizing risks and contributing to a sustainable society, based on the recognition that protecting the environment and ensuring the health and safety of our employees throughout every aspect of the Group's corporate activities constitutes key management issues.
Number of meetings held in FY2020	2 times	2 times

Corporate Governance

Skill Matrix of the Board of Directors

In light of our mid- to long-term management direction and business strategy, we have identified the skills (knowledge, experience, and abilities) that Board of Directors of the Company should have in order to properly exercise its decision-making and management oversight function, aiming to realize the 2030 vision “Innovative Global Healthcare Company Contributing to the Sustainable Development of Society” as shown in the 5-year business plan. (the following table)

When appointing Directors, we consider the diversity and balance of these skills. Audit & Supervisory Board Members are appointed based on the requirements for candidates separately set by the Audit & Supervisory Board.

Requirements for Candidates for Directors

The candidates for Directors shall meet the requirement of being persons of excellent character and insight who contribute to maximizing the corporate value of the Group. The candidates for Directors shall meet the requirements with respect to the term of office and age, and of being suitably competent in

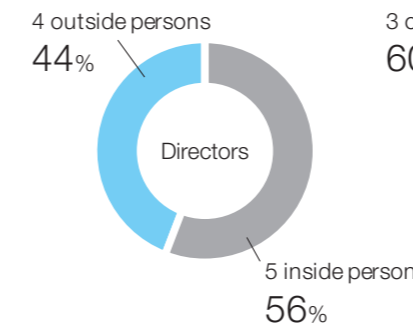
performing timely and accurate judgment, looking at the changes in the business environment while giving importance to the continuance of management policies. In addition, the candidates for Directors shall meet the requirements that there shall always be Outside Directors included to strengthen the decision-making functions based on perspectives to strengthen the function of supervising conduct of operations.

The candidates for Outside Directors shall meet the requirements that they are individuals with expertise, experience and insight in fields including corporate management, finance and accounting, science & technology, global business, sustainability and ESG. We shall confirm that the status of material concurrent positions of candidates for Outside Directors is within a range in which they are able to perform their duties as Directors of the Company appropriately.

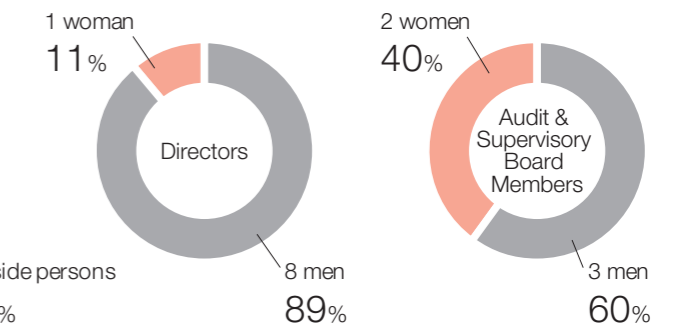
The Company recognizes that ensuring the diversity of Directors particularly in terms of gender, race and nationality as well as incorporating diverse opinions into management are important for strengthening the supervisory function and decision-making of Board of Directors. In furtherance of these principles, the Company will continue to discuss the selection of candidates for Directors based on these perspectives.

Composition of the Board of Directors and the Audit & Supervisory Board

▶ Percentage of Outside Directors



▶ Percentage of Female Members



▶ Overview of the Independence Standards

Our “Independence Standards for Outside Directors” are published on the Company’s website.

[Read more here](https://www.daiichisankyo.com/files/about_us/governance/index/pdf/DS_CG_20210622_EN.pdf) https://www.daiichisankyo.com/files/about_us/governance/index/pdf/DS_CG_20210622_EN.pdf

	Name	Age*	Outside Independent Director	Significant Past Positions	Term of office	Board of Directors	Nomination Committee	Compensation Committee	Skill Matrix									Qualification	
									Corporate Management/ Managerial Strategy	Finance/ Accounting	Science & Technology	Business Strategy/ Marketing	Global business	Human Resource/ Human Resource Development	Legal/Risk Management	Sustainability/ ESG	DX/IT		
Directors	Sunao Manabe	66			7 years	○			●		●	●	●	●	●			Veterinarian	
	Satoru Kimura	63			2 years	○			●		●							Pharmacist	
	Masahiko Ohtsuki	61			1 year	○					●		●			●		Pharmacist	
	Shoji Hirashima	60			1 year	○			●	●	●	●	●		●				
	Hiroyuki Okuzawa	58			—	○			●	●		●	●						
	Noritaka Uji	72	○	Former Representative Director, Senior Executive Vice President, Nippon Telegraph and Telephone Corporation (NTT)	7 years	⊙ Chairman	○	○	●	●	●	●	●	●	●	●	●		
	Tsuguya Fukui	69	○	Former President of St. Luke’s International University Former President of St. Luke’s International Hospital	6 years	○	⊙ Chairperson	○				●						Doctor	
	Kazuaki Kama	72	○	Former President, Chairman & Representative Director of IHI Corporation	2 years	○	○	⊙ Chairperson	●	●		●	●	●	●	●			
	Sawako Nohara	63	○	President, IPSe Marketing, Inc. (to present)	2 years	○	○	○	●		●	●		●	●	●			
Audit & Supervisory Board Member	Ryoichi Watanabe	62			2 years	○			●	●					●				
	Kenji Sato	58			2 years	○					●			●	●				
	Tateshi Higuchi	68	○	Former Superintendent General Former Ambassador Extraordinary and Plenipotentiary of Japan to the Republic of the Union of Myanmar	3 years	○	□ (Observer)					●	●	●					
	Yukiko Imazu	52	○	Partner Lawyer, Anderson Mori & Tomotsune (to present)	3 years	○		□ (Observer)					●	●				Lawyer	
	Masako Watanabe	59	○	Former Partner, Deloitte Touche Tohmatsu LLC Representative, Masako Watanabe Certified Public Accountant Office (to present)	—	○				●								Certified public accountant	

* The ages listed above are as of June 21, 2021 which is the date of the 16th Ordinary General Meeting of Shareholders

Concept of the New Executive Compensation System

The Company has reviewed its executive compensation system in order to set the compensation level that is at the upper level in the industrial sector, and increase the variable compensation ratio in order to strengthen the incentives that motivate further increase of the value for the Company. Key points of the new compensation system starting from FY2021 are as follows.

Level of compensation

The level of compensation to Directors is set with reference to the level of compensation at other companies in the higher end of the industry, based on surveys of external professional institutions. Specifically, the Company will primarily compare companies within the top 100 companies by market capitalization among the companies listed on the Tokyo Stock Exchange, and also refer to the levels of major domestic pharmaceutical companies.

Ratio of the composition of compensation

Prior to FY2020 the compensation of the Representative Director, President and CEO was designed to be 60% for basic compensation, 20% for annual performance-based bonus, and 20% for restricted share-based compensation when the performance goal is achieved 100%. We have introduced medium-term performance-based share compensation to increase the variable compensation ratio.

With the new system, the compensation of Representative Director, President and CEO is designed to be 40% for basic compensation, 30% for annual performance-based bonus, 15% for restricted share-based compensation, and 15% for the medium-term performance-based share compensation when the performance goal is achieved 100%. (See Table 1)

The ratio of the components of compensation to other Directors (excluding Outside Directors) is determined in

consideration of the responsibilities and the level of compensation according to that of Representative Director, President and CEO. Compensation to Outside Directors consists only of basic compensation and not bonuses/shares.

Medium-term performance-based share compensation (long-term incentive compensation)

Medium-term performance-based share compensation, which has been newly introduced as a long-term incentive compensation, is a trust-type share compensation system that has the property of a performance share (performance-based share compensation) for the Directors (excluding Outside Directors) and the Corporate Officers as compensation based on the achievement of the performance of the 5-year business plan in order to promote management with an emphasis on increasing shareholder value over the medium to long term.

The indicators for the achievement of mid-to-long-term (see Table 2) includes not only financial indicators but also non-financial indicators such as research and development progress and ESG indicators. The performance-based coefficient is determined within the range between 0% and 200% according to the degree of achievement of those targets.

Clawback provision

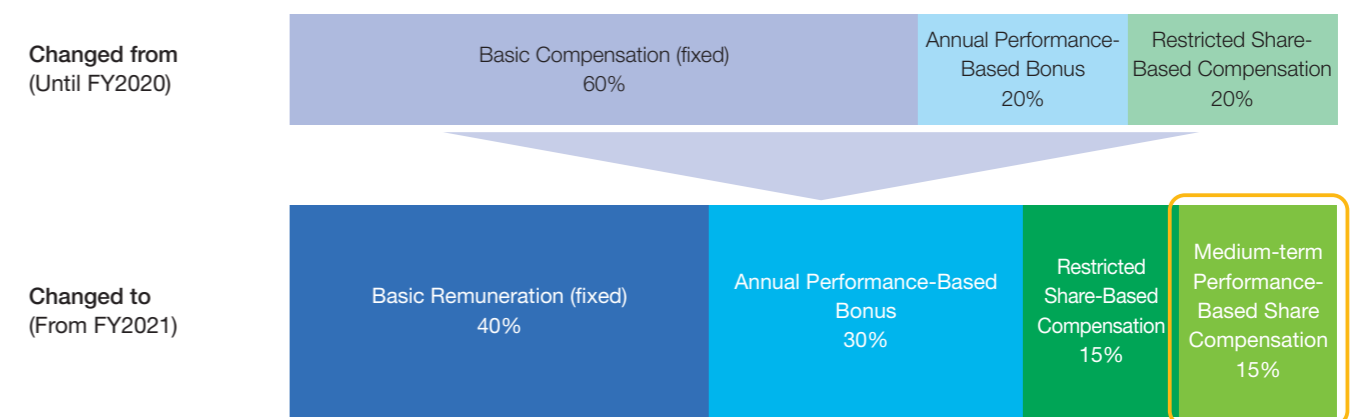
Daiichi Sankyo has established a clawback provision that can request a refund of part or all of the compensation received for annual performance-based bonuses and medium-term performance-based share compensation by the resolution of Board of Directors after consultation with the Compensation Committee in the event of a material accounting error, or fraud, or record of a significant impairment loss occurs.

This clause will be applied from FY2021 annual performance-based bonus and the medium-term performance-based share compensation and will be applied for all periods thereafter.

initiatives from short-term and mid-to-long-term perspectives, and appropriately reward them for their efforts. To do this, we have introduced a trust-type, medium-term performance-based share compensation system. In addition, we have established a clawback provision that can request for the refund of part or all of the compensation received for annual performance-based bonuses and the medium-term performance-based share compensation by the resolution of the Board of Directors.

In FY2021, the Compensation Committee intends to exchange views in a free and open-minded manner as before by focusing on follow-ups to ensure the smooth operation of the new compensation system. In addition, as increased disclosure about executive compensation is required, we continue to ensure sufficient accountability to our stakeholders.

► Table 1: Changes in the Ratio of the Composition of Compensation to Representative Director, President and CEO



► Table 2: Indicators for the Achievement of Targets of Medium-Term Performance-Based Share Compensation

Indicator for the achievement of targets	Evaluation ratio	Evaluation coefficient fluctuation range	Targets (set with the following as a guide)
Revenue	20%	0 – 200%	Upper limit: Target × 110% Target: Expected value announced about 5-year business plan Lower limit: Target × 90%
Core operating profit ratio before research and development expenses	20%	0 – 200%	Upper limit: Target × 120% Target: Expected value announced about 5-year business plan Lower limit: Target × 80%
ROE	20%	0 – 200%	Upper limit: Target × 140% Target: Expected value announced about 5-year business plan Lower limit: Target × 60%
Research and development progress	15%	0 – 200%	Research and development achievements (number of new indications for 3ADC on the market, pipeline value in the early and late stages)
ESG indicators	10%	0 – 200%	Evaluation based on Dow Jones Sustainability Indices, FTSE Russell or Access to Medicine
Relative TSR*	15%	0 – 200%	Upper limit: Comparison result with TOPIX including dividend × 150% Target: Comparison result with TOPIX including dividend × 100% Lower limit: Comparison result with TOPIX including dividend × 50%
Total	100%	0 – 200%	

* Abbreviation for Total Shareholder Returns

► Overview of the New Executive Compensation System

Read more here

https://www.daiichisankyo.com/files/about_us/governance/index/pdf/DS_CG_20210622_EN.pdf

Message from Chairperson of the Compensation Committee

Kazuaki Kama
Outside Director
(Independent Director)



The revision of the compensation system that we had discussed was approved at the General Meeting of Shareholders held in June 2021. Key points of the revision are: (1) Set the compensation level suitable for aiming at the high level in the industrial sector, and (2) Establish a compensation system that can encourage Inside Directors to work on

Policies and Procedures for Appointment of Directors, Audit & Supervisory Board Members, and CEO and Dismissal of Directors and CEO

The Company has defined policies and procedures for the appointment and dismissal of Directors and CEO as well as the appointment of Audit & Supervisory Board Members. For candidates for Directors, the Board of Directors appoints the candidates after they have been sufficiently verified by the Nomination Committee, which is composed of 4 Outside Directors. For candidates for Audit & Supervisory Board Members, the Board of Directors appoints the candidates after they have been sufficiently verified by the Nomination Committee and then agreed to by the Audit & Supervisory Board. An appointment of Directors and Audit & Supervisory Board Members is referred to the General Meeting of Shareholders. As for candidates for the CEO, they are appointed in accordance with the successor plan, qualification requirement definitions, etc. that have been discussed by the Nomination Committee, and an appointment (including reappointment) of the CEO is determined by the resolution of

the Board of Directors following the sufficient deliberation and the subsequent recommendation by the Nomination Committee.

If any Director is found not to meet eligibility requirements or requirements for execution of duties defined in the Companies Act or the Directors Regulations, following deliberation at the Nomination Committee and Board of Directors, the General Meeting of Shareholders shall deem that it meets criteria for dismissal of Directors, and resolve dismissal of such Director after the relevant proposal. Dismissal of CEO shall be called into account in light of the Companies Act, defined CEO eligibility requirements or requirements for execution of duties, and determined in the same manner as appointment, by resolution of Board of Directors over a recommendation from the Nomination Committee that the Committee submits after sufficient deliberation.

Message from Chairperson of the Nomination Committee

Tsuguya Fukui
Outside Director
(Independent Director)



Outside Directors, and one Outside Audit & Supervisory Board Member participates as the observer. In this way, we can ensure fairness, neutrality, and transparency when discussing the appointment of important executives who will take positions that determine the fate of Daiichi Sankyo, including CEO, CFO, Directors, and Audit & Supervisory Board Members. I intend to run the committee with that in mind.

I expect the Daiichi Sankyo's CEO not only to be good at managing of the Company for the coming years but also to continue to have a great dream for the future—to develop new ways to cure diseases of people around the world and improve the health of them even if it would take decades.

The Nomination Committee discusses matters including appointment of most executives and make recommendations to the Board of Directors. The committee consists of four

Status of Audit by Audit & Supervisory Board

Organization, personnel and procedures of the audit by Audit & Supervisory Board Members

The Company has an Audit & Supervisory Board which is comprised of five Audit & Supervisory Board Members (two Full-time Audit & Supervisory Board Members and three Outside Audit & Supervisory Board Members), which includes one certified public accountant.

To strengthen the audit functions of Members of the Audit & Supervisory Board, four full-time staffers, who are independent of the execution of operations, assist with the duties of Members of the Audit & Supervisory Board.

Activities of the Audit & Supervisory Board and its Members (FY2020)

The Company's Audit & Supervisory Board generally holds meetings one time per month.

Additionally, aside from Audit & Supervisory Board meetings, meetings to exchange views among Audit &

Supervisory Board Members are held after the Board of Directors' meetings.

Approximately 120 minutes were devoted to Audit & Supervisory Board meeting, and 15 proposals were on the agenda this fiscal year.

Key matters for sharing and consideration in Audit & Supervisory Board meetings

- Audit policy, audit plans, and segregation of duties
- Audit Reports by Audit & Supervisory Board
- Evaluation of Accounting Auditors
- Evaluation of the effectiveness of Audit & Supervisory Board
- Internal audit plans and the results
- Status of audits by Audit & Supervisory Board Members of domestic Group companies
- Status of execution of duties by Full-time Audit & Supervisory Board Member on a monthly basis

▶ Activities of Audit & Supervisory Board Members

	Activities	Relevant Members
Meetings with Representative Directors	Held twice a year	Full-time / Outside
Meetings with Directors	Held once a year	Full-time / Outside
Attendance at important meetings	Attendance at meetings such as those of Board of Directors, Management Executive Meeting	Full-time / Outside
	Corporate Ethics Committee and EHS Management Committee	Full-time
Attendance at important meetings of the domestic Group companies	Acting as Part-Time Audit & Supervisory Board Members of the principal domestic Group companies, attendance in meetings of bodies such as Board of Directors and Management Executive Meeting of such companies	Full-time
Perusal of important documents	Perusal of documentation that includes approval documents, materials and minutes of important meetings	Full-time
Audit by Audit & Supervisory Board Members	Interviews with Heads of Division, Vice Presidents (department), Vice Presidents (branch), Vice Presidents (research laboratory), Presidents of domestic Group companies, Heads of Internal Audit Departments of overseas Group companies, etc.	Full-time / Outside
Advice and requests at Board of Directors meetings		Full-time / Outside
Membership of voluntary advisory committees	Observer of Nomination Committee and Compensation Committee	Outside
Cooperation with Outside Directors	Engaging in opinion-exchange	Outside
Meetings with Audit & Supervisory Board Members of domestic Group companies	Held twice a year	Full-time
Cooperation with the Internal Audit Department	Reporting internal audit plans and results thereof and engaging in opinion-exchange, confirming audit points before internal audits, information-sharing and opinion-exchange at monthly meetings	Full-time
	Attendance of the Internal Audit Department at meetings between Audit & Supervisory Board Members and Accounting Auditors	Full-time / Outside
Cooperation with the Accounting Auditors	Receiving briefings and reports from the Accounting Auditor on matters that include the audit plan, audit/quarterly review results, results of internal control audit (J-SOX), and engaging in information-sharing and opinion exchange on recent topics on a monthly basis, consultation about Key Audit Matters (KAM) Deliberating on Key Audit Matters (KAM)	Full-time / Outside



Audit & Supervisory Board Evaluation

Audit & Supervisory Board conducted Audit & Supervisory Board evaluation for FY2020 to heighten its effectiveness of the Audit & Supervisory Board.

• Implementation method of the Audit & Supervisory Board evaluation

The Audit & Supervisory Board established a wide range of evaluation items associated Audit & Supervisory Board effectiveness. Each Audit & Supervisory Board Member conducted a self-evaluation of Audit & Supervisory Board, and then discussed those matters.

• Results of the evaluation of the Audit and Supervisory Board

The evaluation has concluded that although the Company's Audit & Supervisory Board largely carries out its activities appropriately, and the effectiveness of Audit & Supervisory Board has been ensured, there is room for improvement in terms of several areas including audits of overseas Group companies. Audit & Supervisory Board will draw on these results in terms of applying them to initiatives to be carried out for subsequent fiscal years.