

Corporate Governance

In addition to creating a management structure that can respond speedily and flexibly to changes in the business environment, the Daiichi Sankyo Group is working to secure legal compliance and management transparency and to strengthen oversight of management and the conduct of operations. We place great importance on building up a corporate governance structure that is responsive to the trust of our stakeholders, especially our shareholders.

Changes in the Corporate Governance Structure

Since the merger of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. in 2007, Daiichi Sankyo has established the Nomination Committee and Compensation Committee as voluntary committees. A female Director has been appointed since 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 has served as the Chairperson 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, we will continue to work on enhancing our 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	2022	
Chairperson of the Board	Chairman	CEO				Chairman	Outside Director			
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 Directors and 1 Inside Director		4 Outside Directors		4 Outside Directors (Observer: 1 Outside Audit & Supervisory Board Member)					
Compensation Committee	2 Outside Directors and 1 Inside Director		4 Outside Directors		4 Outside Directors (Observer: 1 Outside Audit & Supervisory Board Member)					
Compensation System (Incentives)	Short term: Annual performance-based bonus									
	Long term: Share remuneration-type stock option					Long term: Restricted share-based compensation				Clawback provision Long term: Medium-term performance-based share compensation
Corporate Governance Code	Explained 3 items immediately after applying the Code		Complied with all the items		Explained 1 item after revision		Complied with all the items			

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 our nine Directors are Outside Directors. Since June 2020, an Outside director has been appointed chairperson of Board of Directors.

To ensure management transparency, nomination of candidates for Director and Corporate Officer, successor plan of CEO and compensation thereof are deliberated on by a Nomination Committee and a Compensation Committee, respectively, which are established as voluntary committees. The Committees above are comprised by four Outside Directors and one Outside Audit & Supervisory Board Member participates as the observer in each committee. For audits of legal compliance and soundness of management, the Company has adopted an Audit & Supervisory Board system and established the Audit & Supervisory Board comprising five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members.

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 the Directors and the Audit &

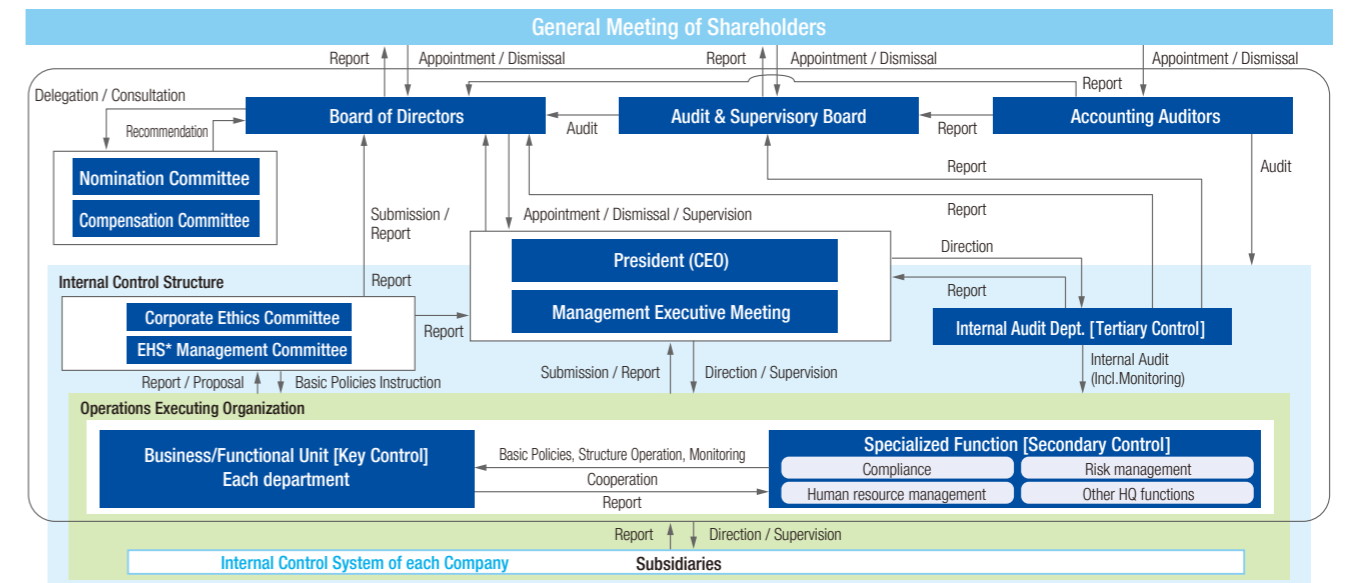
Supervisory Board Members.

Under the global management structure, the Management Executive Meeting with management unit heads as members is held as appropriate to deliberate on important matters related to the strategy, policy, and execution of group management, and to contribute to management decision-making.

The Company employs a Corporate Officer System which contributes to appropriate and swift management decision-making and the conduct of operations.

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 which consists 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 encompassing monitoring carried out by the Internal Audit Department (tertiary controls).

Overview of the Corporate Governance Structure



* Environment, Health, Safety

Nomination Committee, Compensation Committee, and Audit & Supervisory Board

	Nomination Committee	Compensation Committee	Audit & Supervisory Board
Chairperson	Outside Director	Outside Director	Audit & Supervisory Board Member
Composition	4 Outside Directors Observer: 1 Outside Audit & Supervisory Board Member	4 Outside Directors Observer: 1 Outside Audit & Supervisory Board Member	2 Audit & Supervisory Board Members 3 Outside Audit & Supervisory Board Members
Purpose	To deliberate matters required for the appointment, dismissal and reelection of the CEO, successor plan of the CEO, and nomination for Directors, Heads of Unit in the Global Management Structure and Corporate Officers at the request of Board of Directors, and contribute to the enhancement of management transparency and oversight functions	To deliberate matters required for a policy on compensation of Directors and Corporate Officers as well as the individual amounts of compensation at the request of Board of Directors and contribute to the enhancement of management transparency and oversight functions	To receive reports on important matters related to auditing, and then discuss said matters or make resolutions on them. (However, the Audit & Supervisory Board cannot prohibit an Audit & Supervisory Board Member from exercising their rights)
Number of meetings held in FY2021	10	11	15

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	15 members, including 13 internal representatives appointed by the Chairperson and an appointed external attorney who ensures that the committee operates in a transparent and reliable manner Observers: Audit & Supervisory Board Members and the Vice President of the Internal Audit Department	15 members, including Corporate Officers of the Group companies appointed by the Chairperson Observers: 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 constitute key management issues
Number of meetings held in FY2021	2	2

Interview

Message from the Chairperson of the Board



Noritaka Uji
Chairperson of the Board
(Outside Director)

To enhance corporate governance, it is important for the Board of Directors to fully exercise its oversight functions from the perspective of separating execution and supervision, and—to demonstrate these functions—we are striving to activate discussions by a balanced selection of Board of Directors members who possess the necessary skills. We consider the selection of timely and appropriate agenda items and the suitable time allocation, and take plenty of time for discussion, and we have Outside Directors participate in Management Executive Meetings as observers. With these efforts, we are achieving more comprehensive discussions among Inside and Outside Directors. This year—in an effort to achieve the Daiichi

Sankyo Group's 2030 Vision by growing to become a truly global healthcare company—we will thoroughly discuss key topics such as our long-term strategy for DX and ESG as well as globalization.

Furthermore, as the external environment is dramatically changing, we should adopt not only the defensive governance, but also *offensive governance* to improve corporate value in the mid-to-long-term while considering healthy risks. To achieve our Group's Purpose, I would like to contribute to maximizing corporate value by supervising execution from the perspective of a representative of our shareholders and investors and further enhancing the effectiveness of the Board of Directors.

Requirements for Candidates for Directors

Directors shall meet the requirement of being personnel of excellent character and insight who contribute to maximizing the corporate value of the Group. Directors shall meet the requirements of being appropriate persons with respect to term of office and age, and of being suitably competent of performing timely and accurate judgment, looking at the changes in the business environment while giving importance to the continuance of management policies, etc.

Directors shall meet the requirements that they are the individuals with expertise, experience, and insight in one or more of the following fields: corporate management and management strategy, finance and accounting, science and technology, business strategy and marketing, global business, human resources and HR development, legal and risk management, sustainability and ESG, and DX and IT.

Directors shall meet the requirements that there shall always be Outside Directors included to strengthen the decision-making and supervisory functions, based on various perspectives. It is required that

Outside Directors have, in principle, no more than three concurrent positions as officers of listed companies, excluding the Company. Outside Directors and Outside Audit & Supervisory Board Members shall be confirmed to have no problems according to specific criteria on the judgment of independence.

Directors should attend Board of Directors meetings unless there are unavoidable circumstances and maintain an attendance rate of at least 75% or more.

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

Skill Matrix of the Board of Directors

The Company has identified the skills (knowledge, experience, and abilities) that Board of Directors should possess to properly fulfill its decision-making and management oversight functions, and has set up Skill Matrix that organizes the possession status of such skills by Directors and Audit & Supervisory Board Members.

In light of our Purpose, Mission, mid-to-long-term management direction and business strategy, the Company has identified the nine (9) skills given the functions Board of Directors should have to fulfill, aiming to realize the 2030 Vision "Innovative Global Healthcare

Company Contributing to the Sustainable Development of Society" as shown in the current 5-year business plan. The following table shows the composition of Board of Directors and the skills possessed by each Director and Audit & Supervisory Board Member.

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

Skill Matrix

	Name	Outside Independent Director	Term of office	Board of Directors	Nomination Committee	Compensation Committee	Corporate Management/ Management Strategy	Finance/ Accounting	Science & Technology	Business Strategy/ Marketing	Global Business	Human Resources/ Human Resource Development	Legal/Risk Management	Sustainability/ ESG	DX/IT	Qualification	
Director	Sunao Manabe		8 years	○			●		●	●	●			●		Veterinarian	
	Shoji Hirashima		2 years	○			●	●	●	●	●		●				
	Masahiko Ohtsuki		2 years	○			●		●		●				●	Pharmacist	
	Hiroyuki Okuzawa		1 year	○			●			●	●						
	Takashi Fukuoka		—	○			●		●		●					Veterinarian	
	Noritaka Uji	○	8 years	○ Chairperson	○	○	●		●	●	●	●		●	●		
	Kazuaki Kama	○	3 years	○	○ Chairperson	○	●	●			●	●	●	●			
	Sawako Nohara	○	3 years	○	○	○ Chairperson	●		●	●				●	●		
	Yasuhiro Komatsu	○	—	○	○	○			●			●	●				Doctor
Audit & Supervisory Board Member	Ryoichi Watanabe		3 years	○			●	●					●				
	Kenji Sato		3 years	○					●				●				
	Yukiko Imazu	○	4 years	○								●	●			Lawyer	
	Masako Watanabe	○	1 year	○						●						Certified public accountant	
	Mitsuhiro Matsumoto	○	—	○	□ (Observer)							●	●				

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 the CEO, as well as the appointment of Audit & Supervisory Board Members. When selecting the candidates for Directors, Board of Directors shall appoint the candidates after they have been sufficiently deliberated by the Nomination Committee, of which Outside Directors form a majority. The selected candidates for Directors and Audit & Supervisory Board Members shall be proposed for appointments at the General Meeting of Shareholders. CEO candidates are appointed in accordance with the succession plan, qualification requirement definitions, etc. that have been discussed by the Nomination Committee, and the appointment (including reappointment) of the CEO is determined by resolution of the Board of Directors following sufficient deliberation and subsequent recommendation by the

Nomination Committee.

If any Director is found not meeting 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.

Interview

Message from the Chairperson of the Nomination Committee



Kazuaki Kama
Outside Director
(Independent Director)

The Company's Nomination Committee, which has four Outside Directors as members and one Outside Audit & Supervisory Board Member as an observer, fully deliberates on the appointment and dismissal of Directors and CEO, as well as the appointment of Audit & Supervisory Board Members, and submit recommendations to the Board of Directors.

As we run the Committee, we will continue to pay attention to fairness and neutrality and further improve

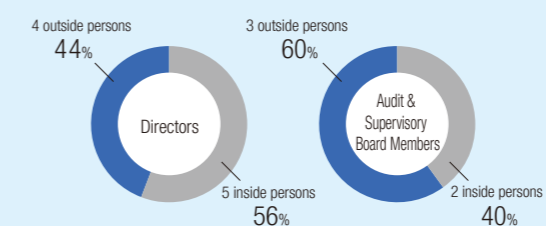
transparency.

We recognize our challenges this year are to deepen discussions on the CEO succession plan, the optimal number and compositions of Board members, and enhancement of diversity.

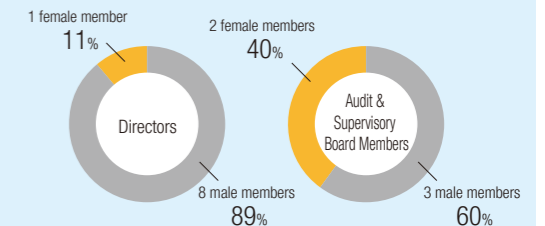
We would like to fulfill our Committee's role to realize the Company's Purpose, Mission, 2030 Vision, and current 5-year business plan.

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

Percentage of Outside Directors



Percentage of Female Board Members



Our *Independence Standards for Outside Directors* are published on the website. (Corporate Governance Report: P22, 23)

[Read more here](#)

https://www.daiichisankyo.com/files/about_us/governance/report/index/pdf/20220628_CG_Report_E.pdf



Approach to Director's Compensation

As of FY2021, the Company has reviewed its executive compensation system in order to set a 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.

Compensation Policy

Compensations to Directors are designed based on the following ideas.

- Compensation system with a compensation level that can secure and maintain excellent human resources
- Compensation system that motivates sustainable growth over the mid-to-long-term and contributes to the increase of the value of the

Company and shareholder value

- A transparent, fair and rational compensation system accountable to stakeholders

Level of Compensations

The level of compensations to Directors is set aiming to provide the high level compensations in the industrial circle, referring to the levels of other companies learned from the surveys of external specialist institutions. Specifically, the Company mainly compares 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.

Composition of Compensation for Directors (excluding Outside Directors)

It is designed to encourage management efforts from short-term and mid-to-long-term perspective and appropriately to be able to reward the results by the composition of four compensations such as basic, fixed compensation, annual performance-based bonuses, which is a variable compensation serving as short-term incentive, and restricted

share-based compensation and medium-term performance-based share compensation serving as long-term incentive. Retirement benefit system is not adopted.

Composition of Compensation for Outside Directors

Compensation to Outside Directors who are in charge of management oversight and are not in the position to take charge of business

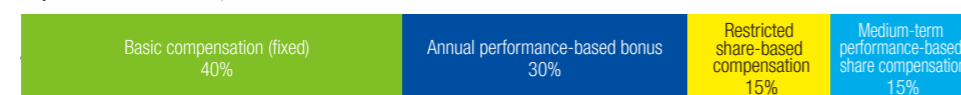
execution is only basic, fixed compensation. Incentive bonuses and retirement benefit system are not adopted.

Ratio of the Composition of Compensations

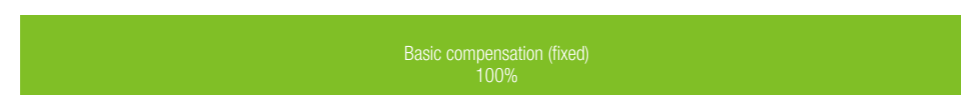
The composition of compensations to Representative Director, President and CEO is designed to have its ratio of 40% as basic compensation, 30% as annual performance-based bonuses, 15% as restricted share-based compensation and 15% as medium-term performance-based share compensation when achieving the performance target of 100%. The ratio of the composition of compensations of other Directors

(excluding Outside Directors) will be determined in consideration of the responsibilities and the level of compensation according to the ratio of composition of compensation of Representative Director, President and CEO. Compensation to Outside Directors is only basic, fixed compensation.

Representative Director, President and CEO



Outside Directors



Basic Compensation

Basic compensation to Directors shall be paid on one regular day of each month during their tenure, and the amount of individual

compensation is determined according to the compensations policy and the level of compensations.

Annual Performance-based Bonus (Short-term Incentive)

The amount of annual performance-based bonuses, which are short-term incentive remuneration, will be decided according to the degree of achievement of the earnings forecasts announced at the beginning of the fiscal year about revenue, core operating profit ratio*, and profit

attributable to owners of the Company, and the evaluation of goals and tasks which each Director set at the beginning of the fiscal year.

* Core operating profit ratio: an indicator of ordinary profitability calculated by excluding temporary income and expenses from operating profit.

The formula for calculating the amount of payment and mechanism of annual performance-based bonuses are as follows.

1. Calculation formula for annual performance-based bonus

$$\text{Bonus payment amount} = \text{Standard amount by position} * \text{Achievement of annual targets (revenue + core operating profit ratio + profit attributable to owners of the Company)} * \text{performance evaluation}$$

2. Performance evaluation

It will be converted into a coefficient and calculated according to the degree of achievement of each Director's goals and tasks set at the beginning of the fiscal year.

The performance evaluation of the Chairperson and the President will be determined after deliberation at the Nomination and Compensation Joint Committee.

For other Directors, the evaluation decided by the President after deliberation at the performance meeting shall be applied. The evaluation results of Directors will be reported to the Compensation Committee.

Restricted Share-based Compensation (Long-term Incentive)

The Company grants, every year in principle, shares with transfer restriction until the time immediately after resignation or retirement of a Director. The objective of the system is to give incentives to sustainably increase the value of the Company and to promote sharing the same value between shareholders and Directors for as long as possible by having the restricted shares. The total number of the ordinary shares

of the Company to be issued or disposed of is 240 thousand shares or less per year. When restricted share-based compensation is paid, monetary compensation receivables will be paid to Directors based on a resolution of Board of Directors of the Company. Directors will pay all of them as in-kind contribution assets, and they receive the Company's ordinary shares.



Message from the Chairperson of the Compensation Committee



Sawako Nohara
Outside Director
(Independent Director)

I am serving as the Compensation Committee Chairperson from this year. I believe the role of the Chairperson is to encourage free and open-minded discussion within the Committee, organize the discussion, make recommendations to the Board of Directors, and provide explanations to stakeholders.

This year, based on the current compensation system, we will verify the compensation system, compensation composition, and compensation level for Directors and Corporate Officers, and determine compensation amounts for CEO based on his performance evaluation. In particular, regarding the target achievement indicators for the medium-term performance-based share compensation system, which we introduced in order to promote

management that emphasizes the improvement of shareholder value in the mid-to-long-term, we will refer to the latest trends and benchmarks, especially related to non-financial indicators such as ESG indicators and research and development progress, and discuss, make decisions, and confirm results.

In addition, we would like to verify not only the compensation system for the Directors and Corporate Officers of the Company but also that of the top management of global organizations and major business companies, which can expand our discussions to how our Group-wide executives' compensation system, as well as human resource and compensation system for the entire Group should be.

Medium-term Performance-based Share Compensation(Long-term Incentives)

Medium-term performance-based share compensation, which is a long-term incentive compensation, will be a trust-type share compensation system that has the nature of performance share (performance-based share compensation) for 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 mid-to-long-term.

The indicators for the achievement of mid-term targets include 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 of 0% to 200% according to the degree of achievement of those targets.

Index 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 x 110%	Target: Expected value announced about 5-year business plan	Lower limit: Target x 90%
Core operating profit ratio before research and development expenses	20%	0~200%	Upper limit: Target x 120%	Target: Expected value announced about 5-year business plan	Lower limit: Target x 80%
ROE	20%	0~200%	Upper limit: Target x 140%	Target: Expected value announced about 5-year business plan	Lower limit: Target x 60%
Research and development progress	15%	0~200%	Research and development achievements (number of new indications for 3ADCs 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 x 150%	Target: Comparison result with TOPIX including dividend x 100%	Lower limit: Comparison result with TOPIX including dividend x 50%
Total	100%	0~200%			

* Abbreviation of Total Shareholder Returns

Clawback Provision

The Company will set forth a clawback clause that can request for the 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 that a

material accounting error or fraud, or record of a significant impairment loss occurs.

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

Compensation Governance and Decision-making Process

The Compensation Committee has been established as an advisory body to Board of Directors to ensure the appropriateness of compensation for Directors and the Corporate Officers and the transparency of the decision-making process. The Compensation Committee consists of only Outside Directors, with one Outside Audit & Supervisory Board Member participating as an observer, and the chairperson is appointed by mutual election of the members.

The Compensation Committee fully discusses the compensation system, the composition of the compensation, verification and review

of compensation levels for each position, target setting and result confirmation of annual performance-based bonuses and medium-term performance-based share compensation, and allocation of restricted share.

The amount of compensation for each individual Director of the Company is first deliberated by the Compensation Committee, and then based on the deliberation results, each type of the compensation will be determined by a resolution of Board of Directors within the total amount of compensation resolved at the General Meeting of Shareholders.

Our Approach to Audit & Supervisory Board Member Compensation

Given that Audit & Supervisory Board Members are in charge of the supervisory function and do not execute operations, their compensation, etc. consists only of basic compensation, which is fixed compensation.

The basic compensation level is set with reference to the level of compensation at the higher end of the industry, based on surveys of external professional institutions. Specifically, the Company primarily compares companies within the top 100 companies by market

capitalization among the companies listed on the Tokyo Stock Exchange and refers to the levels of major domestic pharmaceutical companies.

The compensation amount, etc. of individual Audit & Supervisory Board Members is determined based on the discussions by the Audit & Supervisory Board and with the unanimous consent of the Audit & Supervisory Board Members, within the total amount of remuneration decided on at the General Meeting of Shareholders.

Overview of the Compensation System

[Read more here](#)

https://www.daiichisankyo.com/about_us/governance/compensation/

Enhancing the Effectiveness and Functions of the Board of Directors

The Company utilizes the board evaluation in order for Board of Directors and Directors themselves to assess their current status and identify issues to be addressed, continuously making efforts to improve the functions and effectiveness of its Board of Directors.

The Company has conducted board evaluation of Board of Directors every fiscal year and addressed the issues identified for improvement

through the board evaluation. In the subsequent board evaluation, the Company assesses the latest status and confirms the status of improvement from the previous fiscal year.

In FY2021, the Company conducted a board evaluation by a third-party organization for the first time.

Implementation Method of the Board Evaluation for FY2021

A questionnaire targeting all Directors and Audit & Supervisory Board Members was conducted, and they were also interviewed by a third-party organization.

The analyses thereof and results of the evaluation have been reported to the Company by the third-party organization. The Board

of Directors has discussed the analyses and contents of evaluation by the third-party organization, status of improvement from the previous fiscal year, issues and matters for improvement for the functions and effectiveness of Board of Directors, and improvement measures.

Results of the Board Evaluation for FY2021

As the result of the Board Evaluation for FY2021, the third-party concluded that in terms of its roles, responsibilities, operation and composition, Board of Directors of the Company, as well as the Nomination Committee and the Compensation Committee, which are advisory bodies to Board of Directors, are functioning appropriately, and that the effectiveness of Board of Directors as a whole has been

ensured and is functioning at a high level.

In addition, the Company confirmed that improvements are being made in (1) through (4) below, which were identified as items that need further improvement in the evaluation of the previous fiscal year, with the following efforts.

Issues for Improvement (identified in FY2020)	Major Initiatives in FY2021
1 Increased efforts to aim to ensure corporate governance most suitable for the Company	<ul style="list-style-type: none"> The board evaluation by the third-party organization was conducted and considerations were made concerning analyses and evaluation, identifying of issues, and improvement measures for further improvement for the effectiveness of Board of Directors. The optimal structure of Board of Directors of the Company was discussed mainly by the Nomination Committee, factoring into the Skill Matrix, requirements for executive personnel, and revised Corporate Governance Code.
2 Enhancement of Board of Directors' oversight functions for the oncology business and international business	<ul style="list-style-type: none"> Deliberation and reports concerning the oncology business and international business, as well as management on a global scale, were made.
3 Further enhancement of discussions at Board of Directors	<ul style="list-style-type: none"> Regarding topics such as risk management, business investments and compliance activities, appropriate materials and explanations were given to Board of Directors members as needed for full discussions.
4 Further enhancement of providing information to Outside Directors and Outside Audit & Supervisory Board Members for enhancing their understandings	<ul style="list-style-type: none"> Forums for discussion other than meetings of Board of Directors were set up for multiple cases. Implementation of initiatives as follows for enhancing Outside Directors' understanding of the Company's business: Briefing to Outside Directors and Outside Audit & Supervisory Board Members on the agenda items of each Board of Directors meeting in advance, and Outside Directors' attendance to the Management Executive Committee as observers.

Priority Measures for the Board of Directors FY2022

Drawing on the evaluations of FY2021, the Company endeavors to ensure and improve the functions and effectiveness of its Board of Directors. To such end, the Company will implement the following priority measures in FY2022:

(1) Enhancement of discussions on key matters at Board of Directors	Long-term strategies (including digital transformation and ESG), globalization, etc.
(2) Enhancement of Board of Directors' oversight functions in terms of operation	Setting up forums for discussion, including occasions other than meetings of Board of Directors
(3) Considerations for optimizing Board of Directors composition	Discussions on Board of Directors composition and election process

Going forward, the Company plans to conduct a board evaluation every fiscal year and conduct evaluations by a third-party organization on a regular basis.

Status of Audits by the Audit & Supervisory Board Members for FY2021

Organization, Personnel and Procedures of Audit by the 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 the Audit & Supervisory Board Members, four full-time staffers, who are independent of the execution of operations, assist with the duties of the Audit & Supervisory Board Members.

Activities of the Audit & Supervisory Board and its Members

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

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

Members are held after the Board of Directors' meetings.

Approximately 120 minutes were devoted to the Audit & Supervisory Board meeting, and 16 proposals were on the agenda this fiscal year.

Key Matters for Sharing and Consideration in the Audit & Supervisory Board Meetings

- Audit policy, audit plans, and segregation of duties
- Audit Reports by the Audit & Supervisory Board
- Consent for "Election of the Audit & Supervisory Board Members" as proposals in General Meetings of Shareholders
- Revision of compensation for the Audit & Supervisory Board Members
- Evaluation of Accounting Auditors
- Evaluation of the effectiveness of the Audit & Supervisory Board
- Internal audit plans and the results
- Status of audits by the Audit & Supervisory Board Members of domestic Group companies
- Status of execution of duties by the Full-time Audit & Supervisory Board Member on a monthly basis

Activities of the Audit & Supervisory Board Members

Activities		Relevant Members
Meetings with Representative Directors	Held twice a year	Full-time / Outside
Meetings with Chairperson of Board of Directors	Held once a year	Full-time
Meetings with Directors	Held once a year	Full-time
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
Interviews by the Audit & Supervisory Board Members	Interviews with Heads of Unit, Heads of Division, Vice Presidents (department), Vice Presidents (branch), Vice Presidents (research laboratories), Directors in charge of internal control of domestic Group companies, Presidents and Heads of Internal Audit Department of overseas Group companies, etc.	Full-time / Outside
Advice and requests at the 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
	Individual interviews	Full-time
Meetings with the 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)	Full-time / Outside
	Deliberating on Key Audit Matters (KAM)	

Audit & Supervisory Board Evaluation for FY2021

The Audit & Supervisory Board conducted the Audit & Supervisory Board evaluation for FY2021 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 the 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 the Audit & Supervisory Board has been ensured, there is room for improvement in terms of several areas including audits of implementation status of the Global Management Structure and

audits of the operation status of risk management under the expanding international business. The Audit & Supervisory Board will draw on these results in terms of applying them to initiatives to be carried out for subsequent fiscal years.

Interview

Messages from Outside Audit & Supervisory Board Members

Questions

- 1 Reviewing the functions of our governance throughout the year, please tell us about the role you played in it.
- 2 Please tell us about future challenges for our governance and auditing structure.
- 3 Please tell us about your role based on your experience and expertise.
- 4 Please tell us your thoughts on how governance should be structured in order to improve transparency and fairness as well as your aspirations as a newly appointed Audit & Supervisory Board Member.



1 Sound, legal corporate management requires the effective functioning of internal autonomy and self-cleansing, always with an awareness of outside perspectives. The Company actively exchanges opinions at meetings of both the Board of Directors and the Audit & Supervisory Board, and our governance structure—one that sufficiently applies the opinions of Outside Directors—has enabled us to handle various management issues. I also believe that I have contributed to the sound, legal corporate management of the Company by expressing my opinions objectively from a third-party perspective and always from a neutral standpoint and with a legal mindset as an Outside Audit & Supervisory Board Member utilizing my experience as an attorney-at-law.

2 As our unprecedented and largely unpredictable situation continues, the Company is more required than ever to have a management structure that will enable us to agilely and flexibly respond to changes in the times. Changes always involve a degree of risk, however, I believe that avoiding unnecessary legal risks at the earliest possible stage and establishing a structure that prevents risks from materializing will contribute to reassure investors and increase corporate value. As an Outside Audit & Supervisory Board Member, I will continue striving to further improve our governance and auditing structure with this perspective in mind.



1 To achieve the current 5-year business plan and 2030 Vision, operating a transparent, effective governance structure is essential. By utilizing my experience and knowledge as a certified public accountant—including experience auditing the financial statements and internal control of many companies—I will continue my efforts to contribute to improve our governance functions by speaking up from the external perspectives such as investors from the viewpoint of the suitability and timeliness of our accounting, the sufficiency of our information disclosure, and the effectiveness of our internal control in the fields of financial and accounting. In addition, in conferences with Accounting Auditors, we will deepen discussions from an expert's perspective and contribute to further strengthening of cooperation.

2 Regarding our Group's globally established and globally run management structure, to ensure effective auditing, it is critical to develop a global auditing structure while collaborating more closely with internal audit functions/Accounting Auditors of our overseas sites as well as in Japan—and I also believe a structure is required that enables flexible auditing depending on the importance and urgency of various risks. The Audit & Supervisory Board, will strive to contribute to the further advancement of our governance.



3 I have honed my sensitivity to internal and external risk factors through my experiences in the fight against economic crime or anti-social groups, in the national security policies and in leading large organizations. On the occasion of the Great East Japan Earthquake, I was in charge of regional crisis management as Chief of Police of the Fukushima Prefecture. I see it as my role to use this experience to ensure legal compliance and effective internal controls, and to cultivate stakeholder trust.

4 Drug discovery is a business that paddles out into the ocean of risks, carrying the hope of humanity with it; hence it is essential to be transparent about how risks are taken in order to gain the trust of investors. The global world also does not tolerate corporate behaviour that is contrary to social justice. Constant efforts to eliminate external diseconomies that may be associated with the business are also necessary. A responsible system of governance is required to eliminate unnecessary risk factors and prepare for unforeseen risks in order to ensure that R&D, manufacturing, quality assurance, sales and marketing and all other business areas make a full contribution to society, earn the trust of the market and continue to increase shareholder value. I am committed to playing my part in this.