We are focused on improving global management efficiency and enhancing profitability by bringing new Sumitomo Pharma products to market.

Focusing R&D investments on high-priority pipelines

As a financial strategy, the Mid-term Business Plan 2022 (the MTBP) calls for aggressive R&D investment and establishes a five-year strategic investment budget of ¥300-600 billion beginning in fiscal 2018 via financial leverage.

Under this strategy, we made roughly ¥330 billion in investments through a strategic alliance with Roivant Sciences Ltd. ("Roivant") in fiscal 2019, and thereafter made R&D investments centered on compounds in clinical late-stage, as well as acquiring 100% ownership of Urovant Sciences. This brought total investments to ¥510 billion as of the end of fiscal 2021. With these large-scale investments, we were able to map out a post-LATUDA growth trajectory.

While we are not currently considering any further large-scale investments, other initiatives include investing in acquiring development pipelines, and we will be in-licensing products that can achieve profitability quickly along with products that can be effectively utilized in our existing marketing infrastructure.

For R&D investment, our strategy calls for establishing an investment level of roughly ¥450 billion for the five-year period of the MTBP, which includes ¥94 billion in fiscal 2021 and ¥93 billion forecast for fiscal 2022. Major factors behind the increase in R&D investment have been R&D expenses for ORGOVYX®, MYFEMBREE®, and GEMTESA® by the Sumitovant Group. Now that these products have launched, we will be shifting investment toward segments that include regenerative medicines and cell therapies, as well as existing compounds in clinical late-stage such as ulotaront (SEP-363856) and SEP-4199.

In fiscal 2023 and beyond, after the loss of exclusivity (LOE) for LATUDA® in the U.S., we will need to scale back R&D investment from the current level. To more effectively utilize limited R&D funds, we will carefully assess what pipelines will facilitate Sumitomo Pharma Group growth and concentrate funds in high-priority pipelines. Our basic plan is to prioritize the development and launch of new drug candidates originating from the Sumitomo Pharma Group. We are also considering a reduction of R&D expenses through strategic partnering akin to our joint development efforts with Otsuka Pharmaceutical.

A focus on reducing interest-bearing liabilities and increasing net cash in order to maintain medium- to long-term financial soundness

Our policy on fund procurement is to raise funds giving due consideration to maintaining financial soundness based on funding costs and the impact on our credit ratings. For the strategic alliance with Roivant in fiscal 2019, we raised ¥270 billion through short-term borrowings in

Financial policy: Ensure strategic investment with financial leverage

- Ensure strategic investment of ¥300 billion to ¥600 billion over five years
- Approximately ¥360 billion in strategic investment implemented up to fiscal 2020

Cash on hand
+
Financial leverage

Strategic investment
¥300 - ¥600 billion

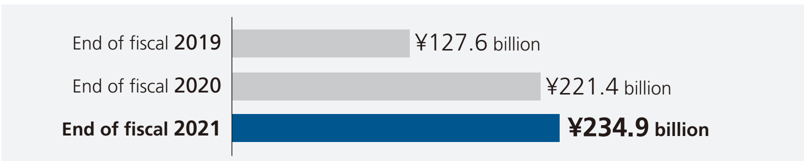
Strategic alliance with Roivant
Approx. ¥330 billion

Made Urovant Sciences into wholly-owned subsidiary
Approx. ¥30 billion

- Ensure at least ¥90 billion in annual R&D investment until fiscal 2022

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
¥82.9 billion	**¥92.6** billion	**¥97.1** billion	**¥94** billion	**¥93** billion (forecast)

Working capital at end of year



order to pay the consideration, and we refinanced ¥120 billion of that amount through the issuing of hybrid bonds aimed at raising capital. In fiscal 2020, we refinanced ¥125 billion of the ¥150 billion balance through long-term borrowings from financial institutions for the purpose of stabilizing our financial position.

In so doing, we believe we have maintained a high level of financial soundness in terms of cash flow.

Our policy is to reduce the Group's interest-bearing liabilities of ¥270.1 billion (as of March 31, 2022) in order to maintain financial soundness over the medium to long term. In fiscal 2022, the repayment of ¥20.1 billion in long-term borrowings will constitute the complete repayment of borrowings made in fiscal 2017, and remaining interest-bearing liabilities will be reduced to ¥250 billion, the amount procured in the strategic alliance with Roivant. As a further effort to improve financial soundness, we will focus on increasing net cash flows from working assets minus interest-bearing liabilities.

As a result of maximizing business earnings and achieving cash flows, through means such as the sale of investment securities, we increased net cash from (¥170 billion) in fiscal 2019 to (¥35 billion) in fiscal 2021. While net cash is projected to decline in fiscal 2022 due to decreased earnings, we aim to make ongoing improvements by continuing to promote cash flow-focused management throughout the Group.

Striving for an ROE of at least 10% for the second half of the 2020s

Sumitomo Pharma has incorporated ROIC and ROE targets into the financial goals of the MTBP in order to manage business, with a focus on capital efficiency.

ROIC and ROE are projected to decline to 0.7% and 3.6%, respectively, in fiscal 2022. The significant ROIC decline owes primarily to core operating profit falling by half as well as a meager decrease in corporate taxes due to loss situation for some of our North American subsidiaries, which is unable to benefit from a tax effect.

While difficult business conditions are likely to persist in fiscal 2023, after the LOE for LATUDA® in the U.S., we aim to achieve an ROE of at least 10% in the second half of the 2020s by strengthening profitability through the launch of new products from Sumitomo Pharma Group and by boosting global management efficiency.

Finally, with regard to our shareholder return policy, there has been no change to our dividend policy, which is that "a performance-linked dividend hike will be considered in addition to consistent dividend payments." During the period of the MTBP, our goal for the five-year average payout ratio is 20% or higher.

Based on these dividend policies, we plan to pay an interim and year-end dividend of ¥14 per share in fiscal 2022, the year ending March 21, 2023, for a total annual dividend of ¥28 (consolidated payout ratio of 50.6%), which is the same as the dividend in fiscal 2021.

Hiroshi Nomura

Representative Director, President and Chief Executive Officer