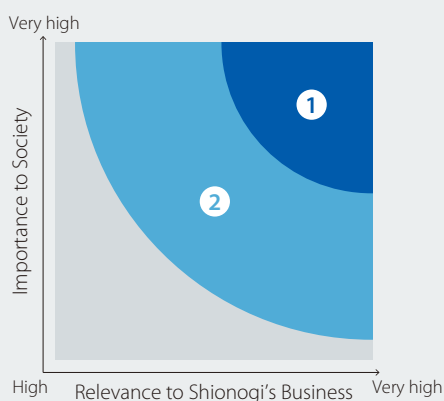


Materiality Map



We have identified:

- ① Material issues to create new value for customers and society
- ② Material issues to realize a sustainable society and support Shionogi's growth

| ① Material issues to create new value for customers and society | | |
|--|---|----------------------------------|
| Protect people worldwide from the threat of infectious diseases | Implementing new initiatives in infectious diseases Addressing the problem of antimicrobial resistance (AMR) Promoting proper use of anti-infectives Tackling the world's three major infectious diseases | p. 45 p. 47 p. 48 p. 49 |
| Improve social productivity and extend healthy lifespans | Addressing social issues related to developmental disorders Tackling social issues related to pain Responding to a super-aging society Using our assets to enable various therapeutic approaches in cancer treatment | p. 51 p. 53 p. 54 |
| Contribute to sustainable social security | Supplying products at prices commensurate with their value Providing medical care optimized for the individual Extending healthy life expectancy through total care for disease | p. 55 p. 56 |
| ② Material issues to realize a sustainable society and support Shionogi's growth | | |
| Improve access to healthcare | Compassionate use of investigational drugs Intellectual property and access to healthcare Improving access to healthcare in Africa Improving access to pharmaceutical information | p. 57 p. 58 |
| Secure human resources to support growth | Cultivating human resources to underpin competitiveness Promoting diversity and inclusion Health management Occupational health and safety | p. 59 p. 61 p. 63 |
| Respect human rights | Respecting human rights | p. 64 |
| Reinforce supply chain management | Reinforcing supply chain management | p. 64 |
| Supply socially responsible products and services | Initiatives for stable supply Responding to COVID-19: To supply drugs without delay Ensuring quality and safety in products and services | p. 65 p. 66 |
| Strengthening governance | Corporate governance structure Messages from Outside Director and Outside Auditor Stakeholder engagement Strengthening risk management | p. 67 p. 77 p. 78 p. 79 |
| Ensuring compliance | Strict compliance | p. 81 |
| Protecting the environment | Initiatives on AMR Responding to climate change Promoting resource conservation and circulation | p. 83 p. 84 |

SDGs that Shionogi can help to achieve



Protect People Worldwide from the Threat of Infectious Diseases

Implementing new initiatives in infectious diseases

Societies around the world still face numerous life-threatening problems, including the problem of antimicrobial resistance (AMR) to existing antibiotics, pandemics involving new strains of coronavirus and influenza virus that are fostered by globalization, the world’s three major infectious diseases that continue to cause suffering to humankind, and new and re-emerging infectious diseases and tropical diseases for which there are no effective treatments. The world needs new solutions to tackle these issues.

Shionogi is working to deliver total care for infectious diseases through STS2030, including preventive care, treatment, and control of disease severity, in order to respond to diversifying healthcare needs. Shionogi considers protecting people worldwide from the threat of infectious diseases to be an important social issue and the Company is expanding and stepping up its programs to address infectious diseases.

Entry into the vaccine business

Shionogi made UMN Pharma a wholly owned subsidiary in March 2020, marking the Company’s full-scale entry into the vaccine business. The coronavirus pandemic began just as Shionogi moved into vaccines. The demand for a domestically developed vaccine is an opportunity for Shionogi to demonstrate its true worth. The Company is making every effort to progress R&D and deliver a safe and reliable vaccine to societies around the world.



UMN Pharma factory

Hopes for vaccines as part of total care for infectious diseases

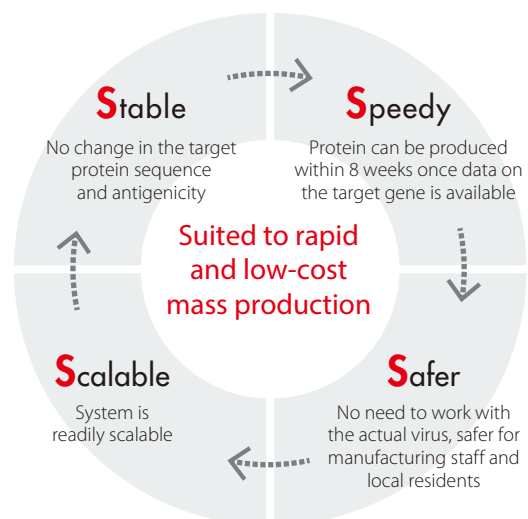
Vaccines prevent infections by activating a specific immune response through the administration of safe antigens that correspond to the source of the target infection. Ever since the first smallpox vaccine created by Edward Jenner, vaccines have been used against a number of infectious diseases and are a key part of modern healthcare. A move into the vaccine business has been one of Shionogi’s goals for many years, as part of the Company’s drive to deliver total healthcare, not just treatments, for infectious diseases. Shionogi took an important first step under STS2030 when it made UMN Pharma a wholly owned subsidiary.

Ideal vaccine profile and UMN’s proprietary technologies

Prophylactic vaccines are given to healthy people, so they need to have even better safety and efficacy profiles than therapeutic agents. On top of this, vaccine manufacturers need to be able to produce large quantities of vaccines in short periods of time for new infectious diseases like the highly infectious COVID-19.

UMN Pharma owns a recombinant protein vaccine manufacturing technology called BEVS that can be used to produce viral antigen proteins. Compared with conventional vaccines that use attenuated or inactivated virus, the BEVS technology makes production simple and very safe, and is expected to allow Japan to become a major manufacturer of

Advantages of BEVS



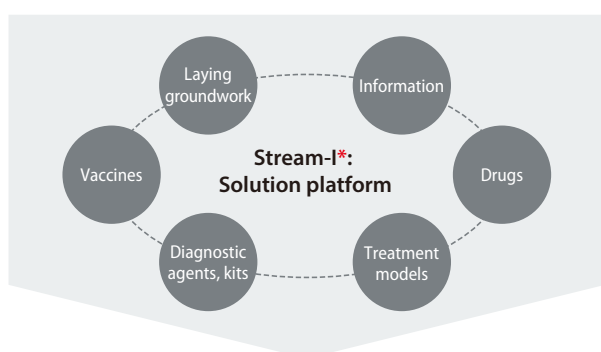
next-generation vaccines.

UMN Pharma has been working to develop more effective and convenient influenza vaccines, but the priority has now shifted to finding a vaccine against COVID-19, with no effort being spared in R&D to make the world a safer place and allow the resumption of economic activities.

Total care for infectious diseases —Initiatives to address influenza

The influenza virus is highly infectious and estimates for Japan alone suggest 10 million people catch influenza every year and

Schematic diagram of Stream-I solution platform



Solve a wide range of problems,
from prevention to treatment

| Prevention | Diagnosis | Treatment |
|--|--|---|
| <ul style="list-style-type: none"> Full-scale entry into the vaccine business | <ul style="list-style-type: none"> Brightpoc Flu Neo Invest in supporting technologies for diagnosis | <ul style="list-style-type: none"> Xofluza Rapiacta |

* Joint venture with M3, Inc. aimed at providing disease-related solutions, such as the provision of information using digital technologies

around 10,000 die as a result. Shionogi has already brought to market the antiviral medicines *Xofluza* and *Rapiacta*, and is now working on products to suppress influenza infection as part of a program of total care that includes prevention and diagnosis.

New initiatives for diagnosis

Infectious diseases spread through pathogen transmission, so early diagnosis and subsequent treatment is effective in stopping the spread of infections. Online healthcare has become increasingly important during the spread of the novel coronavirus, as it keeps patients and healthcare workers safe but still allows patients to access medical care.

Shionogi established the Biomarker R&D Department in April 2016 to work on the development of diagnostic reagents and technologies. In fiscal 2019, the Company formed new partnerships and started working in online healthcare.

Capital alliance with Aillis, Inc.:

New non-invasive method to support influenza diagnosis

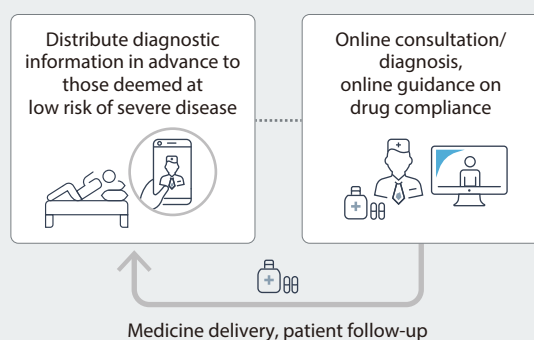
Shionogi has invested in Aillis which is developing medical equipment for accurate and early diagnoses using artificial intelligence (AI) technology in order to support the diagnosis of influenza. The alliance gives Shionogi priority rights in the negotiation of future licensing agreements for this technology.

Partnering to improve community healthcare: Developing an online healthcare platform for influenza

Shionogi has partnered with Yabu City in Hyogo Prefecture, a national strategic special zone, to collaborate on Yabu City's proposed system for online healthcare for influenza completed within the home.

Through this partnership, work has begun on the use of videoconferencing from the first medical consultation to deliver online healthcare for community residents deemed at low risk of severe influenza. The goal is to roll out a platform that can give patients access to the medicines needed to treat influenza without having to actually visit a physical medical facility, by shifting medical consultations for influenza and guidance on drug compliance to a fully online system.

Flow chart for online healthcare



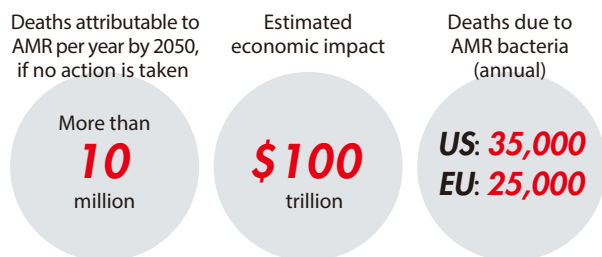
Addressing the problem of antimicrobial resistance (AMR)

Social issues related to AMR

If nothing is done to address AMR now, estimates suggest that over 10 million lives will be lost each year by 2050. This is an urgent issue that will have huge impacts, both direct and indirect, on society. Therefore, health organizations and governments have positioned AMR as a global priority. However, the antibiotic business is not necessarily profitable, so many large pharmaceutical companies have withdrawn from R&D and smaller companies marketing antibiotics have been forced to file for bankruptcy or look for buyers for their business. As this situation drags on, expertise in antibiotic research is gradually being lost.

Shionogi views infection control as part of the social infrastructure and has continued to invest in the infectious disease field. Leveraging expertise built up through many years' experience in antimicrobial drug discovery, Shionogi will continue to focus its energies on the development of new methods to prevent and treat infectious diseases.

Current status of AMR



Shionogi and Industry Efforts to Combat AMR

Shionogi also actively participates in various national and international programs* to address AMR and is taking the initiative in AMR countermeasures.

Participation in the AMR Action Fund

Because single-company initiatives to address AMR are high in risk, 22 major pharmaceutical companies from around the world came together in July 2020 to set up the AMR Action Fund, resolving to invest around US\$1 billion to respond to the AMR threat. The AMR Action Fund aims to bring two to four new antibiotics to market by 2030 through the initiatives outlined below.



- Investment in companies engaged in R&D into new antibiotics
- Provision of technological support by the investing pharmaceutical companies
- Engagement with governments around the world on the formation of a healthy market that is structured to allow the continued development of new antibiotics

Like-minded companies and foundations will work together on these new initiatives to tackle the threat posed by AMR.

* Davos Joint Declaration, AMR Industry Roadmap, AMR Industry Alliance, etc.: See online resources for more information

Cefiderocol launch

The rise of Gram-negative bacteria that have acquired resistance to existing treatments is a major issue for healthcare and mortality rates are rising due to the difficulty of treating such infections. Shionogi discovered cefiderocol, the first ever siderophore cephalosporin antibiotic, as a promising therapeutic option to tackle this issue, and launched this drug in the US in February 2020 under the brand name *Fetroja*. In Europe, cefiderocol was approved in April 2020 and preparations are underway for launch.

Cefiderocol has a novel mechanism of action in terms of how it enters the bacterial cell, making it effective against the three carbapenem-resistant pathogens positioned by the WHO as the highest priorities.

WHO Priority Pathogens List for R&D of New Antibiotics

| | |
|-------------------------|----------------------|
| Acinetobacter baumannii | Carbapenem-resistant |
| Pseudomonas aeruginosa | Carbapenem-resistant |
| Enterobacteriaceae | Carbapenem-resistant |

Cefiderocol is the only medicine seen to be effective against all of these pathogens

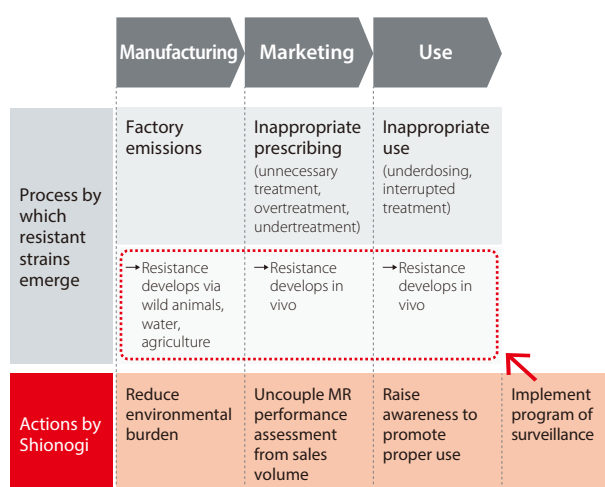
Shionogi has a policy governing the supply of unapproved drugs and has established a system that will give patients access to cefiderocol treatment, if they need it, but are in countries where the drug has not yet been launched despite already being approved (see page 57 for more details).

Cefiderocol has also been approved by the US Department of Health and Human Services for coverage under the New Technology Add-on Payment (NTAP) program, which is aimed at promoting the introduction of new medical technologies by reimbursing hospitals for in-hospital treatment costs. This is expected to promote access to cefiderocol for patients needing treatment with this drug. We will continue to work on initiatives to hasten the delivery of products and services to the patients that need them.

Promoting proper use of anti-infectives

Shionogi has a long history of anti-infective R&D, manufacture, marketing, distribution, and programs to ensure their proper use. As a manufacturer of anti-infectives, Shionogi considers it essential to take steps to curb the emergence of drug-resistant bacteria and viruses, and the Company is working on programs right across the value chain.

Mechanism by which resistant bacteria and viruses emerge and actions taken to control this



Manufacturing: Reduce environmental burden

The discharge of substances into the environment during antibiotic manufacturing has been strictly controlled for a long time. Shionogi has completed audits at all of the Company's plants and all domestic suppliers, and has also begun auditing overseas suppliers. At Shionogi antibiotics manufacturing sites, antibiotics contained in wastewater are subject to an inactivation process before being sent to an on-site wastewater treatment facility, where checks are made to ensure that any substances released into the natural environment are at a harmless level.

Marketing:

Uncouple performance assessment from sales volume

In our sales activities, Shionogi does not remunerate sales staff based on sales volume of antibiotics, in order to promote proper use of antibiotics. We expect this to support proper use over the long term, leading to better patient outcomes and reducing the development of antibiotic resistance.

Surveillance: Implement program of surveillance

Shionogi conducts a surveillance program for drug-resistant strains in clinical isolates in Japan and overseas in order to monitor trends in drug-resistant bacteria and viruses. Long-term surveillance of the emergence of resistant bacteria and viruses and epidemiological data on their sensitivity provides important

information to promote proper use of antibiotics. This surveillance program is a key strength that underpins Shionogi's R&D into drugs to treat infectious diseases.

We have also been running a program of surveillance for our influenza drug *Xofluza* to promote proper use, and are assiduously conducting further analyses on mutant viral strains and drug safety and making our findings public.

Use: Raise awareness and educate

Shionogi is actively engaged in programs to raise awareness and educate on the right way to prevent and control infection and disease. In 2019, Shionogi collaborated with an NGO on the web-based *Kodomo Kansensho Navi* (information on pediatric infectious disease, in Japanese only) to raise awareness, along with a program for elementary school students to communicate the importance of hand-washing to prevent infectious diseases.

We are also working on widespread awareness raising on infectious disease control at large international events and other mass gatherings, holding seminars for the general public as a collaborative initiative between industry, government, and academia (total of five meetings, 91–96% satisfaction rates, n=338) and providing an online information guide for infectious diseases at mass gatherings.

Shionogi is also sponsoring the broadcast of *Kansensho TODAY* on Radio NIKKEI that provides up-to-date information for healthcare workers in order to raise awareness and promote a better understanding of infectious diseases.

External assessment

Shionogi's efforts to combat AMR are also recognized externally. Shionogi was selected for inclusion in the latest Antimicrobial Resistance Benchmark 2020 survey, and the company's score was even higher than the last time the Company was included in 2018.



Main points for assessment

| | |
|----------------------|---|
| R&D | Recognized as having the highest annual ratio of investment in R&D for anti-infectives (based on investment as a proportion of revenue) |
| Manufacturing | Rated as a top company for its work to reduce antibiotic discharges |
| Stewardship | Recognized for systems to monitor drug-resistant bacteria through Shionogi's surveillance programs in Japan and overseas Ranked as the only global R&D-based company to fully decouple sales incentives from volumes |

Tackling the world's three major infectious diseases

The three major infectious diseases (HIV/AIDS, tuberculosis, and malaria) constitute a grave threat and massive challenge from the perspective of global health, due to the uncontrolled spread of these infections on a global scale and over a long timescale. Shionogi's work to address infectious diseases also helps to contribute to the achievement of the SDGs and

provides a source of business through which the Company can grow sustainably alongside society. We are broadening our research from a focus on HIV to encompass the three major infectious diseases, as well as collaborating with a diverse array of external partners to make progress in this area.

Shionogi initiatives in the three major infectious diseases

| | HIV | Tuberculosis | Malaria |
|---------------------------------|--|---|--|
| Three major infectious diseases | New infections: 1.8 million Deaths: 0.94 million | New infections: 10.4 million Deaths: 1.7 million | No. patients: 200 million Deaths: 0.44 million |
| | <ul style="list-style-type: none"> Challenge of maintaining treatment regimen for life (side effects, burden from multiple doses) | <ul style="list-style-type: none"> Rise in multidrug-resistant strains Difficulty of completing lengthy treatment regimen | <ul style="list-style-type: none"> Increasing resistance to antimalarials No effective vaccine |
| Initiatives | <ul style="list-style-type: none"> Development of two-drug combination, long-acting injectable Ongoing drug discovery to find a cure for HIV | <ul style="list-style-type: none"> Pursuing drug discovery through closer alliance with Hsiri Therapeutics | <ul style="list-style-type: none"> Pursuing drug discovery through partnership with Nagasaki University |

HIV

New drug dolutegravir making a real contribution: Also generates sustainable growth for Shionogi and society

Shionogi discovered the HIV integrase inhibitor *Tivicay* (generic name: dolutegravir), which exhibits superior efficacy and safety, and is associated with minimal risk of drug resistance. *Tivicay* has made a real contribution to both treatment of HIV infection and company growth.

It is now positioned as treatment of choice for HIV in therapeutic guidelines worldwide and is top of the WHO's list of recommended treatments. Many HIV-positive people are now being treated with this drug.

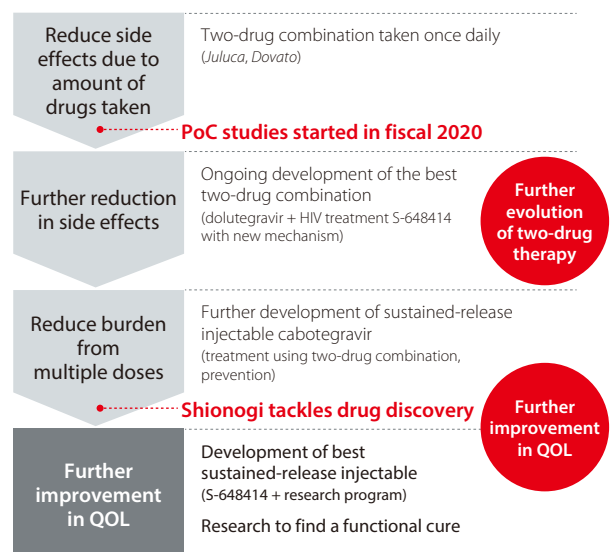
Until now, treatment for HIV infection involved a lifelong regimen of at least three different types of drugs. Therefore, the goal has been to improve patient QOL by reducing side effects and less frequent drug dosing, while also maintaining efficacy. *Tivicay* is highly efficacious and not susceptible to the emergence of resistant viral strains. Its use as the key drug in HIV therapy reduces side effects and has allowed patients to be treated with a two-drug combination. This has led to the launch of *Juluca* (*Tivicay* + rilpivirine) and *Dovato* (*Tivicay* + lamivudine). In December 2019, *Dovato* was added to the US guidelines on the management of HIV infection, leading to increased prescribing of this two-drug combination.



Dolutegravir family

Furthermore, through the Medicines Patent Pool, an organization backed by the UN that increases access to pharmaceutical patents for low- and middle-income countries, Shionogi has released the dolutegravir patent at no charge to improve access to this treatment.

Building on experience with HIV treatment that has a novel mechanism of action to develop a sustained-release injectable



Further contributions through long-acting injectable cabotegravir

To reduce the frequency of drug administration, Shionogi invented a long-acting formulation of the HIV integrase inhibitor cabotegravir. Approval was granted in March 2020 in Canada,

and approval filings have already been submitted in the US, EU, Switzerland, and Australia. Clinical studies on once monthly administration demonstrated viral suppression equivalent to current treatment methods, and many of the patients participating in the studies replied that this drug formulation was better than current treatments. Development is ongoing to formulate a product that can be administered once every two months. Shionogi expects that the significant reduction in the number of days on which patients need to take treatments will help to improve patient QOL and adherence to the drug regimen.



Advantages of cabotegravir



Preparing to submit approval filing for PrEP indication

Shionogi has responded to the social needs for HIV prophylaxis by developing cabotegravir as the first long-acting injectable formulation of a single agent that can be given once every two months. Clinical studies confirmed that injectable cabotegravir is more effective than current once daily oral pre-exposure prophylactic (PrEP) treatment. ViiV Healthcare is currently preparing to submit an approval filing for the PrEP indication.

Further drug discovery:

Working towards better QOL and a cure for HIV

Shionogi has discovered S-648414 that has a novel mechanism of action and is considered the best candidate for use in a two-drug combination with *Tivicay*. Clinical studies were started in fiscal 2019. The Company is also investigating a functional cure for HIV using the development candidate S-540956, discovered through work in the immuno-oncology field, as this compound exhibits high nodal transferability and immune-enhancing effects.

Tuberculosis (TB) and nontuberculous mycobacterial (NTM) diseases

Mycobacterial diseases are caused by infection with acid-fast bacteria (such as tubercle bacillus or nontuberculous mycobacterium). Recent data suggest that patient numbers are rising in advanced economies. Shionogi is collaborating with external partners on drug discovery for both TB and NTM.

Stepping up efforts through new partnership with Hsiri

Shionogi started collaborating with Hsiri Therapeutics in May 2018 on drug discovery research with the goal of discovering

drugs with new mechanisms of action to treat mycobacterial diseases. In October 2019, Hsiri and Shionogi expanded their joint research partnership, signing a new agreement on joint research into different novel mechanisms of action. Shionogi aims to strengthen this partnership with Hsiri while focusing efforts on research into treatments for mycobacterial diseases with new mechanisms of action in order to discover a series of treatments over the medium-to-long term.

Malaria

Every year, over 200 million people develop malaria and over 400,000 people die. This infectious disease occurs mostly in tropical regions and mortality rates are particularly high in children under five. Malaria hampers economic development. Estimates suggest that if malaria were eradicated, some 10 million lives would be saved and economies would be boosted by around \$4 trillion. Strains resistant to mainstay drugs have started to spread in recent years and there is a real need for therapeutic agents that are effective against these strains and with a good safety profile.

Drug discovery in partnership with Nagasaki University

Since March 2019, Shionogi has been conducting discovery research in partnership with Nagasaki University, which has a global presence in tropical diseases as well as emerging and re-emerging infectious diseases. Shionogi has established Shionogi Infectious Disease Division as a collaborative research division in multiple fields within Nagasaki University, where Shionogi researchers will work as lead investigators, deepening the partnership with the University. Full-scale drug discovery research began in fiscal 2019. Shionogi and Nagasaki University aim to further their partnership moving forward, working together with the goal of implementing world-class research into malaria.

Other: R&D into anti-fungal drugs

As well as the world's three major infectious diseases discussed above, Shionogi is also working on fungal infections. Cryptosporidiosis is a severe infectious disease where fungus such as *Aspergillus* or *Candida* species invade the body. In some cases, the infection occurs when the patient's immune system is depressed, for example due to immunosuppressant therapy or HIV infection. Due to the limited number of effective drugs, cryptosporidiosis is often intractable with poor clinical outcomes. Shionogi is working with Nissan Chemical Industries to discover novel anti-fungal drugs.

Initiatives to combat neglected tropical diseases (NTDs)

Please refer to the [Company website](#) for more information on Shionogi's efforts in NTDs, including leishmaniasis and Chagas disease.

Improve Social Productivity and Extend Healthy Lifespans

Shionogi sees much room for improvement in healthy life expectancies and social productivity, even though better public health and medical technology innovations have reduced death rates and resulted in a sharp rise in the global population.

WHO defines health as a state of complete physical, mental and social well-being. In line with this concept, Shionogi

is also working to expand healthcare services beyond just pharmaceuticals and improve social environments, with a focus on psychoneurological disease and pain that cause a substantial reduction in QOL, so that everyone can live longer, fulfilling, and active lives.

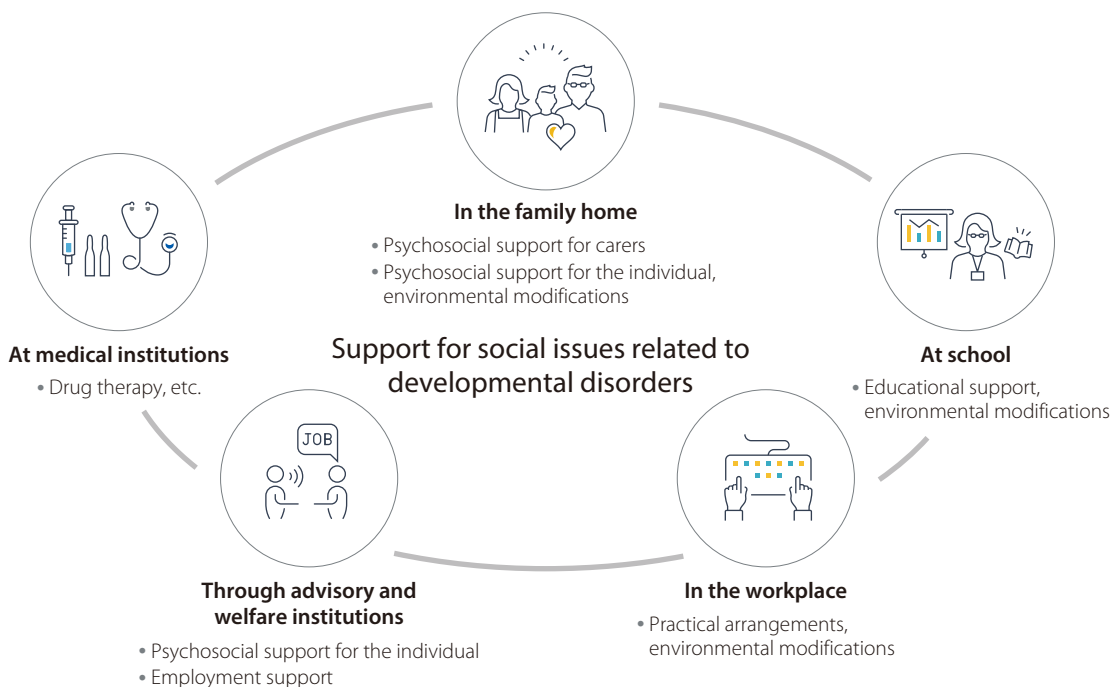
Addressing social issues related to developmental disorders

Developmental disorders manifest with characteristic symptoms caused by impaired cerebral functions and are treated through a combination of pharmacotherapy and psychosocial treatment and support. For example, ADHD is a developmental disorder that manifests with the three main symptoms of inattention, hyperactivity, and impulsivity. Estimates suggest that approx. 5% of children up to 18 years of age may have ADHD.

The symptoms present themselves in many different ways. Some people are troubled by the characteristic ADHD symptoms, while for many others, these symptoms are regarded as their individuality.

At Shionogi, we believe that it can be difficult to understand and support people with developmental disorders partly because their symptoms manifest in such different ways. Rather than just providing pharmaceuticals to improve the symptoms, we are raising awareness of developmental disorders in society to widen existing support networks, with the goal of creating an environment where individuals with developmental disorders and their families can lead healthy lives.

Example of support for people with development disorders



Initiatives to support children with developmental disorders

Shionogi set up the Office for Children's Bright Future in fiscal 2017 to work together with local governments and academia on various programs.

In fiscal 2019, we worked with local governments (in Osaka, Hiroshima, and Iwate Prefectures) to run educational seminars for local citizens to raise awareness of the characteristics of developmental disorders and the problems faced by those affected. These seminars were attended by a total of 604 participants including family members and those involved in education and welfare. In collaboration with Osaka Prefecture, based on our partnership agreement to support our children's bright future (signed in January 2017), we have



Childcare workshop, Osaka Prefecture



Educational seminar, Iwate Prefecture

Programs in fiscal 2019

| Activity | Objective | Target | Local government partner | No. participants |
|----------------------|---|--|--------------------------|------------------|
| Educational seminars | Develop a greater understanding of the characteristics of developmental disorders and the problems faced by those affected | Families of those affected, guardians raising children, education, welfare, healthcare workers | Osaka Pref. | 400 |
| | | | Hiroshima Pref. | 78 |
| | | | Iwate Pref. | 126 |
| Workshops | Develop skills to recognize the characteristics of developmental disorders at an early stage and provide appropriate support and practical arrangements (practical content) | Childcare workers, early childhood educators | Osaka Pref. | 333 |

provided workshops for early childhood educators and childcare workers with the objective of developing skills to recognize the characteristics of developmental disorders at an early stage and provide appropriate support and practical arrangements. We have continued to run this program under the auspices of Osaka Prefecture, with 1,415 people attending the workshops between fiscal 2017 and 2019.

In collaboration with academic institutions, we are also developing tools to help provide support and practical arrangements in the classroom that meet the educational needs of children and students, regardless of whether they have developmental disorders, as part of our contribution to more inclusive education.* Looking ahead, we aim to work with a range of partners to deliver a comprehensive program of support in the field of developmental disorders.

* An inclusive education system means persons with and without disabilities studying together with the purposes of strengthening respect for human diversity and enabling persons with disabilities to develop their mental and physical abilities to participate in a free society (source: Ministry of Education, Culture, Sports, Science and Technology website)

Expanding treatment options for ADHD

Intuniv is a drug for ADHD taken once daily. *Intuniv* was launched in May 2017 and has been used to treat many pediatric patients. The additional indication of ADHD in adult patients (18 years and older) was approved in June 2019, allowing Shionogi to help address the issues faced by even more patients.

Vyvanse is also a once daily medicine for ADHD that has a different mechanism of action to *Intuniv*. The use of *Vyvanse* is strictly controlled. The drug is only prescribed by doctors who have undergone specific training and who are expert in ADHD diagnosis and treatment. *Vyvanse* is only handled by medical institutions and pharmacies capable of managing the risks associated with this drug. *Vyvanse* was launched in December 2019, providing a new treatment option for patients whose symptoms are difficult to control with conventional drugs.

Delivering new therapeutic modalities

We have started a Japanese phase 2 trial on the digital therapeutic SDT-001 (AKL-T01) for ADHD patients. We expect SDT-001 to become a new treatment option for patients to replace or be used in combination with psychosocial treatment and environment modification, for patients looking for a non-pharmaceutical treatment option, for patients unable to continue with current medication due to side effects, and for patients needing further support and treatment.

S-874713 is a compound that was discovered in-house and is expected to have a superior profile, including high selectivity for dopamine D3 receptors, excellent efficacy, and no risk of dependency. We are accelerating research on S-874713 with a view to maximizing the drug's value and potentially developing it to improve symptoms in a wide range of mental health disorders, as well as ADHD.

Tackling social issues related to pain

In Japan, one in four adults experiences chronic pain, often in the shoulders or lower back. This is an important social issue and the economic losses from this chronic pain are estimated to top ¥1.9 trillion.

Chronic pain occurs through a wide range of different mechanisms and it can be extremely difficult to pinpoint the specific cause. On top of this, individuals experience the pain itself and pain severity in different ways, making objective evaluation difficult. It is therefore important to have various different therapeutic options available so that treatment can be tailored to suit individual patients.

With cancer pain, prescription narcotics can be used to control the pain, but they are not always used in sufficient quantities and many patients continue with their treatment despite still feeling pain. Shionogi is helping to improve QOL for patients experiencing pain, by disseminating appropriate information and providing the best treatment options for the various causes of pain, in order to provide pain relief for as many patients as possible.

Programs for chronic pain

Cymbalta is a once daily treatment for diabetic neuropathy, fibromyalgia, chronic low back pain, and pain accompanying osteoarthritis. *Cymbalta* is recommended in treatment guidelines on chronic pain and it helps to improve QOL for many patients.

The next generation of treatment options

Shionogi discovered S-600918 and S-637880, and both are expected to be effective against peripheral and CNS neuropathic pain. We are developing these compounds as next-generation analgesic candidates to follow on from *Cymbalta* and the *OxyContin* family of products. We hope to provide new treatment options that can address the complex mechanisms of pain.

Programs for cancer pain

Over the 30 years since the 1989 launch of controlled-release *MS Contin* tablets for cancer pain, Shionogi has worked to help patients manage their cancer pain with prescription narcotics (opioid analgesics). We have encouraged proper use of prescription narcotics to manage cancer pain through various initiatives, including the 2017 launch of tamper-resistant *OxyContin TR* tablets designed to prevent misuse and abuse.

Opioid-induced constipation (OIC) is one issue that occurs in patients being treated with prescription narcotics. Shionogi is delivering value to patients suffering from OIC through the launch of *Symproic* to ease OIC. Shionogi signed a licensing agreement with BioDelivery Sciences International in April 2019 for commercialization in the US and also entered into sales alliances with Sandoz, Molteni Farmaceutici, and

Ferrer for certain regions of Europe, such as a licensing agreement with Molteni in May 2019 covering Italy and Poland.

Initiatives to promote proper use of medicines

Shionogi seeks to create a society in which patients suffering from cancer pain are able to use prescription narcotics with peace of mind. The problem of drug abuse has grown to become a major issue in recent years, posing serious problems for societies around the world.

Shionogi has been running awareness-raising initiatives on the proper use of prescription narcotics for healthcare professionals and the general public in order to ensure that these social problems do not occur in Japan. Seminars were held in Aichi and Kyoto Prefectures in fiscal 2019, attended by around 150 participants. Educational programs were also provided online and through media seminars to help support patients suffering from cancer pain live more fulfilling and active lives.

Responding to a super-aging society

Alzheimer's disease and other forms of dementia are becoming more prevalent as life expectancies increase and estimates suggest that the number of people with some form of dementia worldwide may rise from over 50 million cases today to 130 million by 2050. Factoring in dementia patients plus their families and caregivers, this disease costs societies over \$1 trillion each year.

Dementia requires long-term care; places an enormous physical, emotional, and economic burden on the patient and their families; and is a pressing issue that society as a whole needs to tackle. Current drug therapies only improve some of the symptoms, and societies are in dire need of new agents to

slow progression and improve cognitive function.

As part of our efforts to tackle these issues, Shionogi has discovered a new β -secretase inhibitor S-872881 that is being developed with the goal of stopping disease progression in Alzheimer's disease. We have also acquired Tetra Therapeutics in the US as a wholly owned subsidiary, following the results from a US clinical study on Tetra's PDE4 inhibitor BPN14770. We also expect that Tetra's deep level of drug discovery know-how in the CNS area will strengthen our research and development efforts in this field. We now aim to accelerate development in Japan and overseas, applying Tetra's drug discovery expertise in our research into innovative new drugs.

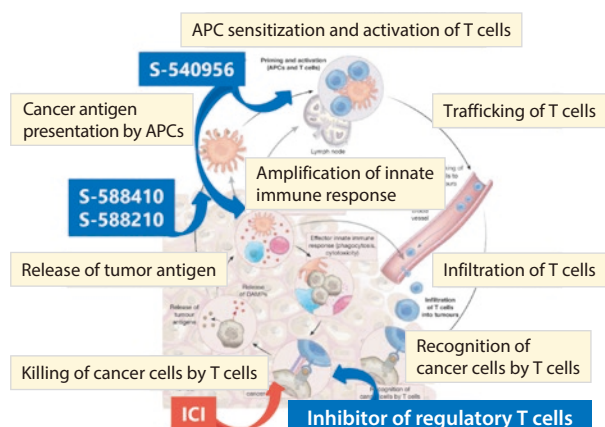
Using our assets to enable various therapeutic approaches in cancer treatment

Current estimates suggest that one in two Japanese have cancer and one in three will die. As well as surgical removal, chemotherapy, and radiotherapy, over the past few years there has been growing interest in cancer immunotherapy. This new method is mostly benefiting patients with advanced cancer, but only 20–30% of patients respond to immunotherapies, so there is a need for more effective drugs that will generate a response in more patients.

Shionogi has a unique line-up of cancer immunotherapy assets that are expected to enhance the immune response to

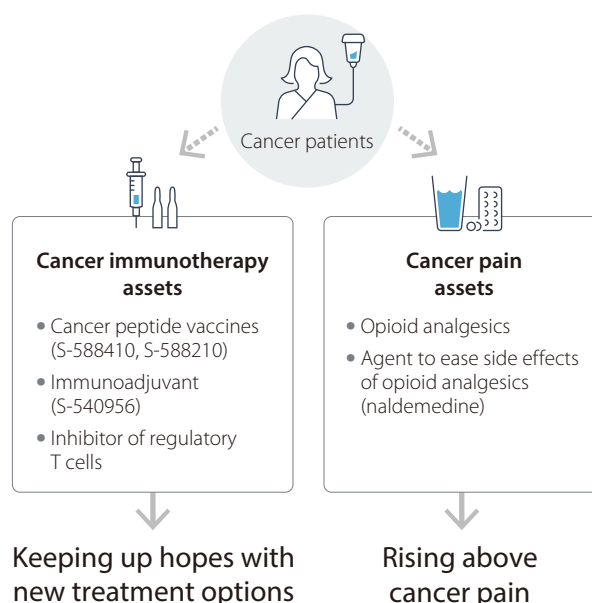
cancer at various different steps. These assets include the cancer peptide vaccines S-588410 and S-588210, the adjuvant S-540956 that exhibits high lymph node transfer and T-cell response, and an inhibitor of regulatory T cells discovered through joint research with Osaka University. We expect these assets, either alone or in combination, to provide new treatment options for patients not sufficiently responsive to existing drugs. Shionogi is also working to reduce the overall burden of cancer by combining these assets with those for cancer pain management.

Shionogi's unique cancer immunotherapy assets that act at various different steps of the immune response to cancer



Source: Nature, 2019 Oct; 574 (7776): 45-56

New therapeutic options for cancer treatment



Contribute to Sustainable Social Security

Rising social security costs are putting pressure on government finances all around the world, but particularly in industrialized nations, as birth rates decline and the average age of the population increases because people are living longer due to medical advances and better lifestyles. Social security systems are likely to be completely overhauled as a result.

If Shionogi is to continue growing alongside society for the next 10 or 20 years during these times of environmental change, the Company needs to keep supporting patient treatment and QOL by supplying innovative new drugs at prices commensurate with their value.

We need to build systems to deliver products and services at the right time to the right patients by constantly seeking out ways in which our R&D expertise, skills, and experience can be usefully applied to various healthcare services.

Shionogi aims to support longer healthy life expectancies by exploring the possibilities of therapeutic and preventative vaccines, digital treatment options such as healthcare apps, and information services, and by drilling down into the issues that people face from a total care perspective, covering pre-symptomatic and preventive care through diagnosis, treatment, and control of disease severity.

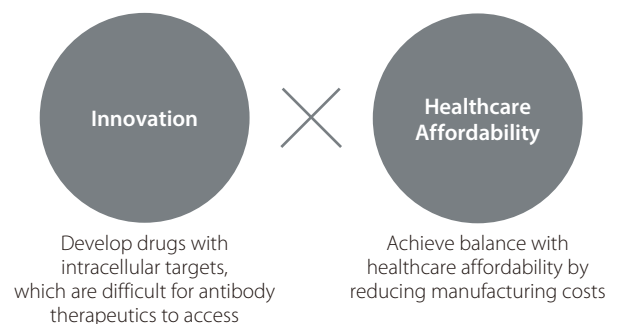
Supplying products at prices commensurate with their value

The need to balance innovation with sustainable social security has become a common issue worldwide, typified by recent problems with the affordability of high-priced regenerative medicine products and biologics. At Shionogi, we consider it our mission to provide innovative and affordable products and services that are priced commensurate with their value, in order to help create sustainable social security systems.

We therefore aim to provide products at fair prices, not only for small-molecule drugs where we have drug discovery expertise, but also for medium-sized molecule drugs like peptides and nucleic acids, through the application of our fundamental skills to other modalities.

Ensuring both innovation and healthcare affordability through small-molecule and nonstandard peptide drug discovery

| | Small-molecule drugs | Nonstandard peptide drugs | Antibody therapeutics |
|-----------------------|----------------------|---------------------------|-----------------------|
| Molecular weight | 500 or below | 500 to 2,000 | Around 150,000 |
| Specificity | Medium to high | High | High |
| Side effects | Few to moderate | Few | Few |
| Intracellular targets | Targetable | Targetable | Untargetable |
| Manufacturing costs | Low | Low | High |



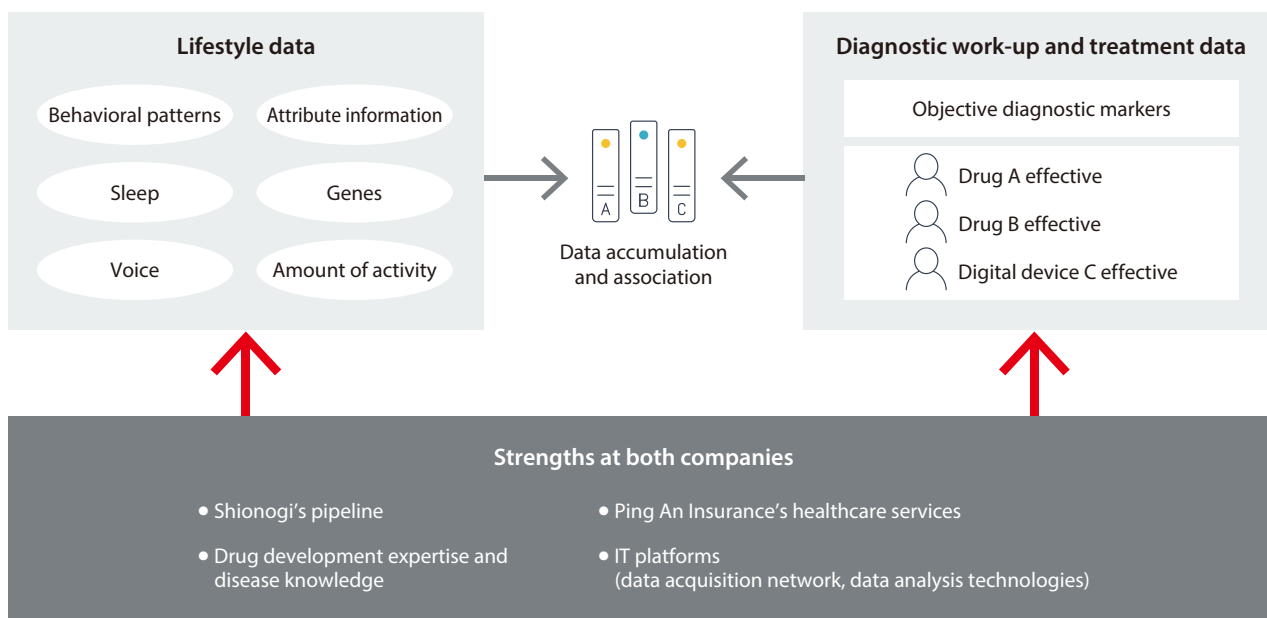
Providing medical care optimized for the individual

In some medical fields, such as psychiatry, diagnoses based on objective and quantitative indicators are still not possible and patients are not always completely satisfied with the medical care provided. Without objective and quantitative indicators, there are no simple and accurate methods to determine one's own health status and patients are at risk of an unexpected worsening of their condition if the window of opportunity to treat is missed. This is in complete contrast to lifestyle-related diseases, where disease progression can be measured through

blood tests, for example, and doctors can act to prevent a disease or treat at the very early stages before the condition becomes serious.

These issues with patient care result in higher social security expenditure. Shionogi's goal is to analyze medical and lifestyle data and use information on behavior and objective diagnostic markers to provide medical care optimized for the individual, which will also lead to greater economic efficiency in medical care.

Diagram of the delivery of medical care optimized for the individual (target offering from joint venture with Ping An Insurance)



Extending healthy life expectancy through total care for disease

We consider protecting people from illness as one of our important missions, and this also supports the establishment of a sustainable social security system. To this end, Shionogi aims to provide medical care optimized for the individual at socially acceptable prices. We are also educating society to better understand disease characteristics and how to prevent and manage disease, as well as delivering vaccines and other products for pre-symptomatic or preventive care. We can also support those who become ill by providing rapid, accurate diagnostics and optimized medical care to help them make a rapid recovery, improve their symptoms, or prevent their condition from worsening. We think that working to protect people from becoming sick or helping to diagnose a disease rapidly and support a quick recovery also leads to lower healthcare expenditure.

Shionogi is leading the way with these initiatives in infectious diseases (see page 17 for more details). We are working to provide total care for diseases, including for psycho-neurological diseases, one of our target disease areas. We are also helping to maintain the social security system, so that people can lead healthy lives and feel a sense of safety and security even as populations age and birth rates decline.

Improve Access to Healthcare

Due to social factors, such as healthcare systems, public health, and poverty, there are still many "restrictions to healthcare service access," which result in health services and medicines not reaching those who need them. Shionogi's primary mission is to provide healthcare services and medicines to as many patients as possible, and we will earnestly work to improve access to healthcare through collaboration with a wide range of partners.

To improve access to healthcare, the Company established the Shionogi Global Health Access Policy Statement. By promoting activities in line with this Policy, we are aiming to protect people worldwide from the threat of infectious diseases, improve social productivity and extend healthy lifespans, and contribute to sustainable social security.

Shionogi Global Health Access Policy Statement

- Developing innovative therapies for unmet medical needs
- Improving access for patients in need
- Strengthening healthcare systems



Shionogi Group's materiality

- Protecting people worldwide from the threat of infectious diseases
- Improving social productivity and extending healthy lifespans
- Contributing to sustainable social security



Shionogi Global Health Access Policy Statement

Compassionate use of investigational drugs

For patients with life-threatening illnesses and serious illnesses that seriously affect their daily lives, but only in cases where there is no fully effective treatment available, Compassionate Use is a system established mainly in Europe and the United States whereby investigational drugs can be used from a humanitarian standpoint.

Having established a Policy for the Supply of Investigational Drugs, Shionogi provides such drugs free of charge in accordance with an appropriate process when prescribed requirements are met. We also have in place a system for prompt supply, such as making a decision within five days of receiving a supply request.

In fiscal 2019, we provided drugs such as cefiderocol, a treatment for severe infections, and Eperitinib, an anticancer drug, to more than 72 cases in nine countries.

Although there are some risks involved, such as not being fully recognized as effective or safe in the country concerned, by preparing options that may enable the saving of many lives or even just one person's life in the future, we will be contributing to the health of people around the world.

Intellectual property and access to healthcare

Intellectual property (IP) is an extremely important business asset for pharmaceutical companies. Although we do not subscribe to the idea that systems to protect IP necessarily pose an obstacle to accessing healthcare, we do recognize instances when a certain level of latitude is required. Consequently, until access to healthcare has been improved, Shionogi will refrain from applying for or enforcing patents in all countries classified as least developed countries (LDCs) and other low-income countries (LICs) or in most of the low middle-income countries (LMICs).

In addition, the anti-HIV agent *Tivicay* (dolutegravir) licensed to ViiV Healthcare Ltd., its co-developer with Shionogi, is registered in the Medicines Patent Pool. Opening the patent for free has enabled the supply of dolutegravir to more than 130 LICs and LMICs through generic drug manufacturers.

Improving access to healthcare in Africa

Mother to Mother SHIONOGI Project

With the aim of achieving Universal Health Coverage (UHC), which has been adopted under Goal 3 of the SDGs, the Company is promoting the Mother to Mother SHIONOGI Project in Kenya. Lying to the south of the Sahara Desert, Sub-Saharan Africa is an area with extremely high mortality rates for pregnant women and children up to the age of five. In partnership with the international NGO World Vision, we are working on activities designed to protect the health of mothers and children by strengthening the community healthcare system.

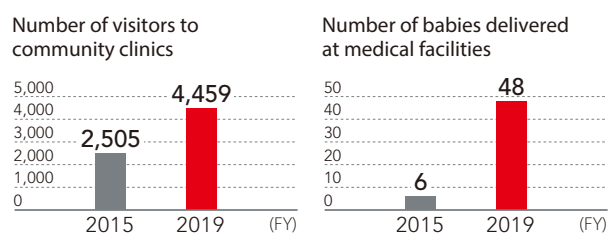


First Term Project (Narok County, Republic of Kenya, October 2015)

In this region, the system for providing medical services was inadequate, and the residents lacked knowledge about health and hygiene. In fiscal 2019, the fourth year of the program, we promoted health staff education, the maintenance of water supply facilities, healthcare education among local residents, and meetings with Narok County's Department of Health. By fiscal 2019, the education program had been conducted for more than 5,100 residents, and the numbers of health center visits and the number of babies delivered at medical facilities

had been steadily increasing. In fiscal 2020, the final year of the project, we will train human resources, strengthen the inventory management functions, for example for pharmaceuticals, and complete the handing over of clinics to the county, which will lead to the establishment of a healthcare system.

Results up to and including fiscal 2019



Second Term Project (Kilifi County, Republic of Kenya, April 2020)

In April 2020, we started a new project in Kilifi County, which is an arid region with many poor people and where access to medical services is limited. Using the experience gained in implementing the first term of the project, we will proceed with the strengthening of three community clinics across two districts with 77,500 inhabitants, with three key objectives.



Improved access to maternal and child health services for pregnant and lactating mothers as well as children under five



Establishment of mechanisms for improving community nutrition and water hygiene behavior



Strengthening of health system management

Improving access to pharmaceutical information

Seeking to eliminate communication barriers when people with hearing, visual or other disabilities receive medication instructions, Shionogi has instigated the Communication Barrier-free Project.

In fiscal 2019, we held awareness-raising seminars targeting medical professionals four times and on three occasions for people with hearing impairments and their helpers in each region. In addition, aiming for a "drug that is easy for people with visual impairments to use," Shionogi Healthcare and Shionogi Pharma worked to improve the packaging of the over-the-counter (OTC) *Sedes* series and, based on proposals from the Communication Barrier-free Project, launched the new packaging in April 2020.

Designed with an upper part that opens wide so that the outer box can be opened easily, the usage and dosages are shown in large letters on the underside of the lid, and an accessible code (QR code) has been added for compatibility with the multilingual reader functions on smartphones and other devices. As a result, we have realized a universal design that is easy to use not only for the visually impaired but also for the wide range of people who take this drug, including non-Japanese.



The new packaging for *Sedes*

Secure Human Resources to Support Growth

For Shionogi, the creation of value depends wholly on its human resources. Practicing diversity & inclusion (D&I) to respect and integrate different values and perspectives in a mutually motivating atmosphere will stimulate wide-ranging innovation. Securing human resources which can drive sustained growth by

providing our employees with opportunities to grow towards a future career path and providing them with a supportive work environment, we will leverage this rich individuality as an energizing force in realizing both personal growth and the growth of Shionogi as a company.

Cultivating human resources to underpin competitiveness

To put the Company Policy of Heritage into practice globally, our aim is to succeed against global competition by cultivating strong individuals to build our organization, based on the policy that people are the source of competitiveness for human resource development.

We have identified the "values" and "capabilities" necessary to achieve the vision set forth in STS2030 and redefined the "Shionogi Way," the global human resource vision that we are seeking. To provide new value to society, we are working on a corporate culture that develops a challenger mindset and on measures for employee capability development.

Vision for Shionogi's Human Resources: Shionogi Way

| Be the best you can be to take on new challenges | |
|--|---|
| Developing a challenger mindset <ul style="list-style-type: none"> • Self-investment support scheme • Personnel system that supports a challenger approach • Opportunities for overseas study and external postings • Career design support | Measures for capability development <ul style="list-style-type: none"> • Strengthening managers • Human resource training programs |

We also believe that management is essential to boost the growth of all employees and maximize the output of Shionogi as a whole, and that the success of STS2030 depends on strengthening our managers. To that end, we are embodying a new image of managers with a focus on managers' own growth, more sophisticated decision making, and commitment to employee and organizational growth, as well as working on manager strengthening programs at an unprecedented scale.

Domestic education and training expenses (SCD* education and training expenses + each division's education and training expenses)

| | Domestic education and training expenses |
|--------|--|
| FY2017 | 35,360 (Thousand yen) |
| FY2018 | 34,251 (Thousand yen) |
| FY2019 | 32,238 (Thousand yen) |

* Shionogi Career Development Center

Shionogi Education and Training Center "PORT"

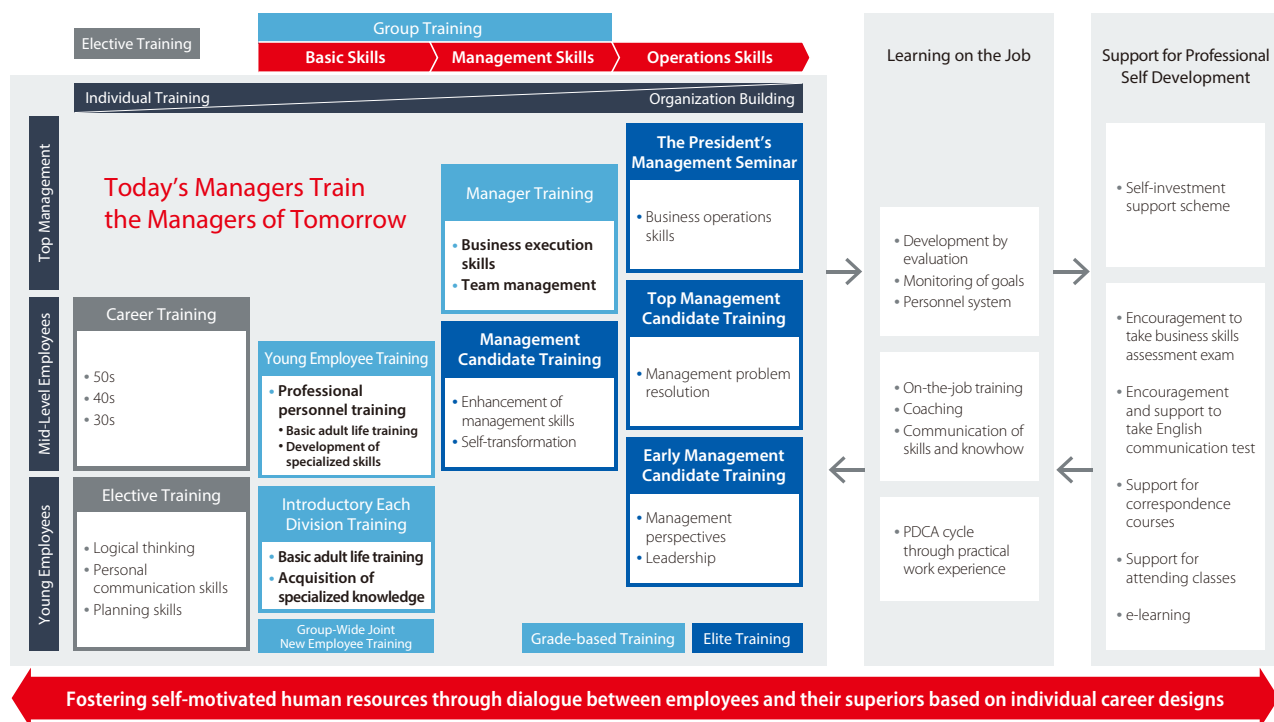
In December 2019, the Shionogi Education and Training Center was completed adjacent to the Shionogi Pharmaceutical Research Center (SPRC) as a new base for training and exchanges, including those from outside the Company. Consisting of training and accommodation buildings designed in the form of a ship, we named the center PORT because we would like employees to call at their home port during their career cycles.



Shionogi Education and Training Center "PORT"

Based on our human resources development policy, in addition to grade-based training and attendee elite training, we are planning training that combines on-the-job training (OJT) with workplace learning and skill development through self-development support.

Outline of Human Resources Development



Strengthening managers

In addition to programs for all domestic managers, to achieve STS2030 we are conducting training to strengthen multiple managers in accordance with the purpose of the training, such as programs for new managers and future manager candidates.

Development of innovating human resources

In fiscal 2019, we participated in V: DRIVE (Venture Drive), a human resource development and mobilization promotion project in Osaka geared toward those with high potential for bringing about innovation. For half a year, we dispatched employees who are future management candidates to matched venture companies to change their consciousness and behavior through work experience at a venture company completely different from Shionogi.

 V:DRIVE (Venture Drive) / Website in Japanese only

Support for career development

Future Career Projection (career design sheets)

While employees create their own future career projection sheets and utilize them within the context of everyday discussion and dialog, the Company is working to develop self-motivated human resources by having them communicate their wishes to their managers (proactively seizing opportunities themselves) and devise job assignments (creating environments that support growth) that allow managers to make best use of these employees' strengths.

Self-investment support scheme

To support the career development efforts for which employees themselves are aiming, as depicted in their future career projections, we provide support for expenses that do not limit the target of learning on the company side, up to a maximum of ¥250,000 per person per year.

Engagement survey

Shionogi conducts engagement surveys that target all employees and are designed to create a better working environment. As a result, it was found that the score for empathy with basic policy was high, but the score for challenges beyond roles was

relatively low. By reflecting these results in measures for improving the work environment and reforming the climate, we will implement a PDCA cycle for improvement.

Promoting diversity and inclusion

Diversity Vision (Establishment in December 2018)

Diversity Vision

Understand yourself and others, and
celebrate individual diversity.
Allow the wide variety of unique qualities
to inspire creativity and innovation.

We will

have an unbiased understanding of others,
knowing that everyone has a different perspective;
connect and resonate with diverse personalities to
foster an inclusive spirit and generate abundant ideas;
and, driven by such spirit and ideas, create new value
and grow with society for our collective future.



Shionogi is positioning the promotion of diversity & inclusion (D&I) as an important personnel strategy for the entire group. Naturally diverse, each person has different characteristics and values. New value is created by combining these different characteristics and values toward a common purpose. As the needs of society diversify and the roles required of healthcare companies expand, this vision cannot be achieved as an extension of the past. We believe that we can continue to generate the innovations required by society by having diverse human resources who possess keenly developed strengths (for more details see page 59) interact with each other and with people outside the Company, and by fusing and sublimating their ideas.

Shionogi has in place a Diversity Council, which consists of members from each organization, Group companies, and human resources departments, and is working to promote D&I. We will continue to promote D&I with the aim of including all the diverse human resources who will contribute to the propagation of the 2030 Vision.

Supporting work-life balance

To help our employees achieve an appropriate work-life balance, we have been taking steps to offer more convenient work solutions by actively introducing a discretionary work system and a flextime system. We have been implementing a work-at-home system since fiscal 2018, but using the COVID-19 pandemic as an opportunity, we are considering new ways of working and conducting a review of our work-at-home system.

In March 2020, we introduced a treatment-work balance support system, by which employees who would like to continue working while under treatment for an illness can now choose to work shorter hours.

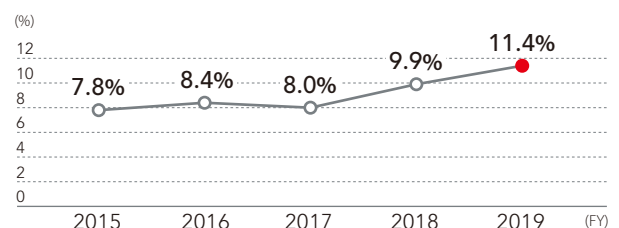
Gender equality initiatives

In its General Employer Action Plan, which is based on the Act on Promotion of Women's Advancement, Shionogi adopted the goal of increasing the percentage of women in executive positions to 10% or more by the end of fiscal 2020. As a result of our efforts so far, the ratio of female managers has steadily increased to 11.4% in the domestic group. In addition, there is no difference in average length of service between men and women, and the fact that women play an active role is firmly established in corporate activities.

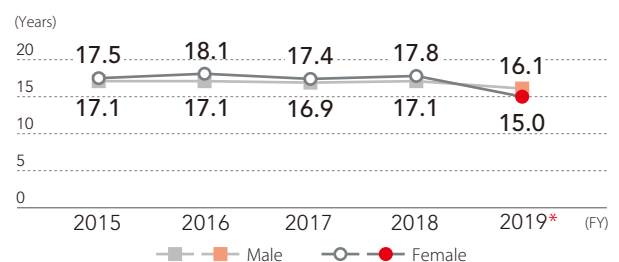
In the West Japan Diversity Study Group, which the Company joined in 2017, we are working with other companies to promote understanding of sexual minorities.

Going forward, we will promote efforts aimed at creating an environment in which all employees can play an active role regardless of gender.

Ratio of female managers



Average years of service



* Average years of service decreased due to Shionogi Pharma Co., Ltd. having been made a wholly-owned subsidiary.

Participation in The Valuable 500, an international initiative to promote inclusion of people with disabilities

In March 2020, Shionogi declared its support for and joined the international initiative “The Valuable 500” to promote inclusion of people with disabilities. The Valuable 500 is an international initiative launched at the World Economic Forum Annual Meeting (Davos Conference) held in January 2019.

By creating a work environment in which all employees, regardless of their disabilities, can fully demonstrate their abilities as members of the Shionogi Group, we are bringing about improvements in employee engagement (willingness to contribute to achieve our corporate philosophy and goals). By doing so, we will contribute to the creation of a society in which each and every individual can demonstrate his or her own value.



Major initiatives related to disability

- Initiatives aimed at freeing people from the difficulties of living with developmental disabilities
- Initiatives to remove medication barriers for visually and hearing-impaired people
- Creating a supportive workplace for people with disabilities

Diversity & inclusion-related training for employees

For the purpose of improving the understanding of the characteristics of diverse people among employees, we held a “training course for people with mental and developmental disabilities and their work supporters” and virtual reality (VR) training aimed at promoting the understanding of dementia and developmental disabilities as well as the LGBT community.

Many employees who participated in each training course commented that they had deepened their understanding of developmental disabilities and that there was a new awareness and change in their way of thinking with regard to D&I.

Going forward, we will continue to conduct in-house training and other initiatives with the aim of instilling D&I awareness within the Company.



Efforts to utilize human resource diversity

Building diverse careers through in-house and side businesses

Feeling that it was not enough to use processed data, such as market reports and papers, to understand the true needs of patients, in fiscal 2019, I experienced an in-house “side business” in the New Product Planning Department. By learning market analysis know-how, I became able to independently come up with new market segments and treatment delivery methods based on Real World Data. In addition, I am passing on my experience and learning to the members of the laboratory, which is leading to a change in awareness and expansion of skills. Going forward, I will continue to contribute to drug discovery that is close to the true problems of patients by combining the information obtained from Real World Data with our research and manufacturing capabilities.



Keiko Takasu
Laboratory for Drug Discovery and Disease Research, Pharmaceutical Research Division

Career development by secondment to another company

In 2018, I was seconded to Accenture, an IT consulting company, for one year. At the second location, I experienced an improvement in the quality and speed of work through appropriate division of labor and close communication within the team. In addition, I was able to acquire knowledge of a variety of IT technologies and experience project management by being involved in a wide range of activities, from service installation to troubleshooting with actual customers. In April 2020, following the declaration of a state of emergency due to the spread of COVID-19 infections, I undertook infrastructure building for working from home in a short period of time by drawing on the experience I gained through my secondment.



Maraki Nasu
Shionogi Digital Science Co., Ltd.

Health management

Formulation of Shionogi Health Policy

We believe that the most important requirement for us to achieve this mission, particularly in a drastically changing environment, is to support all Shionogi employees in sustaining and improving their physical, mental and social wellbeing, which in turn allows them to achieve their goals in work and in life.

Therefore, in furtherance of the above, Shionogi and its employees will strive, in their respective positions, to: Improve the health literacy of employees; support the maintenance and improvement of the mental and physical condition of employees and their families; and sustain and continuously improve a supportive and productive working environment, as well as the employees' home environment.

Accordingly, we established the Shionogi Health Policy in fiscal 2020.

By aligning the direction of Shionogi and its employees and promoting initiatives, Shionogi will continue to ensure its employees' wellbeing and provide meaningful and valuable advances in healthcare.

Shionogi Group Smoke-Free Declaration

In July 2018, a law to partially revise the Health Promotion Law was enacted (fully enforced in April 2020), and efforts to prevent unwanted second-hand smoke changed from manners to rules. The Shionogi Group Smoke-Free Declaration was issued to seize

the opportunity of an environment in which all companies were having to ramp up their smoking countermeasures.

Under this declaration, we will promote thorough smoking cessation measures to protect not only Shionogi Group employees and their families, but also all people related to Shionogi from the health hazards of active and second-hand smoke.

As one of the specific internal efforts, we have formed a smoking cessation promotion project by volunteer members. On the 22nd of every month, which has been declared non-smoking day, project members issue an e-mail newsletter to all Shionogi Group employees that provides useful information as well as messages from Board members including the president to smokers, non-smokers and former smokers alike.

In addition, we participate in a consortium of smoking cessation promotion companies and, while utilizing information on advanced companies regarding smoking cessation in our internal efforts, are promoting efforts aimed at achieving a zero smoking rate for employees.

Result and target of smoking cessation measures



Occupational health and safety

To ensure the safety and health of employees and create a comfortable working environment, we are continuously working to build an appropriate management system and improve the chemical substance management system, which poses a high risk for health and safety management.

We are proceeding with the acquisition of management system certifications to build an appropriate management system. We are in the process of switching over from OHSAS18001, under which the Settsu Plant and Kanegasaki Plant were certified, to ISO 45001 during fiscal 2020. The Tokushima Plant is also working toward new certification acquisitions.

Ways of working during COVID-19 pandemic

During the COVID-19 pandemic, we have applied leave with pay (which does not correspond to paid leave) for employees who have been infected with or suspected of being infected with the virus, and for employees who take leave, for example due to the temporary closure of children's schools.

We also strive to minimize the risk of infection by putting in place safety- and health-conscious work styles, such as work-at-home recommendations, staggered working hours, and private car commuting.

Respect Human Rights / Reinforce Supply Chain Management

Respecting human rights

In recent years, the severity of human rights issues and demands for responses to them have increased due to the globalization of business and the expansion of supply chains. Having clarified its stance on further expanding its business globally under the New Medium-Term Business Plan—Shionogi Transformation Strategy 2030 (STS2030)—Shionogi is promoting initiatives while recognizing that it is important to respect human rights, not only as a responsibility that a company must fulfill but also when implementing management strategies.

Thus far, along with taking into consideration the safety and human rights of participants in clinical trials, Shionogi has been participating in PSCI*¹ and the United Nations Global Compact while respecting the human rights of its various stakeholders. In fiscal 2019, we announced our Approach to Human Rights, which is based on the UN Guiding Principles on Business and Human Rights, and clarified Shionogi's stance. As part of its approach, Shionogi supports international human

rights standards—including the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up—and has clarified that the Company works with all its business partners to respect human rights.

To promote the prevention and reduction of human rights risk, in fiscal 2020 we will identify global human rights issues with the cooperation of an external expert on human rights,*² while advancing our efforts toward building a human rights due diligence system.

*¹ PSCI: Pharmaceutical Supply Chain Initiative (a non-profit organization formed by more than 40 pharmaceutical manufacturers worldwide to promote CSR-based procurement in the pharmaceutical industry)

*² Businessperson Caux Round Table Japan (Global network of business leaders working to realize a fair, free and transparent society through sustainable and socially responsible business)

 Please refer to page 56 for detail of participation in PSCI.

 Approach to Human Rights

Reinforcing supply chain management

To ensure that corporations fulfill their social responsibilities, it is important for them to build relationships of trust and to cooperate not only within their own companies but also with suppliers, who are important business partners. At Shionogi, we are collaborating with our suppliers based on the Group's Procurement Policy, which sets out a basic approach designed to ensure that procurement activity is founded on honesty, fairness, equity, and transparency, and strengthening supply chain management while working to realize a sustainable society.

Cooperation on PSCI Principles

The basic principles adopted under the PSCI cover a comprehensive range of fields, including not only environment and health and safety but also human rights and labor, ethics, and their associated management systems. In 2020, the principles were revised, and further items added. Shionogi will continue to support the revised principles and strongly urge all suppliers to endorse them.

Supplier risk management and audit performance

Our Suppliers' EHS/CSR Management Guidance sets out EHS risk categories and risk management procedures for suppliers and stipulates which conditions they must meet according to their assigned management level. For important investigational new drugs and pharmaceutical raw material suppliers, we carry out surveys using the PSCI's self-assessment questionnaire (SAQ)—to confirm the supplier's status in areas including ethics, human rights and labor, environment, health and safety, and their management systems—in conjunction with on-site audits. When conducting on-site audits, we also perform risk confirmation for each supplier, such as safety assessments of their manufacturing processes and assessments of locally applied laws and regulations.

So far, we have had 35 suppliers consent to the basic principles adopted for the PSCI and undergo SAQ-based written audits. Subsequently, visits were made to 20 of the suppliers, and on-site audits completed. We will continue working to strengthen relationships while building relationships of trust with suppliers and aiming to realize a sustainable society together with them.

Supply Socially Responsible Products and Services

Shionogi engages in corporate management having firmly recognizing the importance of the products that the Company supplies being directly linked to the health and lives of patients and our responsibilities as a pharmaceutical company. Reliably delivering the necessary drugs to patients, we work closely with Group companies around the world to ensure quality and safety while making every effort to ensure a stable supply of high-quality pharmaceutical products so that customers know they can rely on Shionogi medicines.

Initiatives for stable supply

Shionogi analyzes the risks in the procurement and manufacturing of raw materials and products while taking measures to ensure a stable supply. Specifically, we are multi-sourcing suppliers and product manufacturing plants that handle raw materials for high-volume products. We also secure a certain level of inventory for raw materials and products that can only be supplied by that business partner. On the other hand, we can quickly supply even in the event of an unforeseen situation, such as a pandemic or an earthquake, and we have stipulated the response procedures.

While expanding these efforts to various business partners in the supply chain and gaining their understanding of Shionogi's way of thinking, we are cooperating on and building a business continuity system so that the supply from each business partner will not be interrupted. We are working to improve the supply chain in collaboration with our business partners by ascertaining the procurement risk and taking preventive measures from the time a business partner is selected and, after the start of trading, by defining KPIs, which form a common language, and confirming the levels of their achievement.

Responding to COVID-19: To supply drugs without delay

Supply chain management

Due to the impact of the novel coronavirus (COVID-19), the supply chain has been disrupted on a global scale, and the risk of procurement and supply disruption has become apparent. Even under these circumstances having established in visual form the amount of inventory and the periods in which supplies will run out for all its products, Shionogi is fulfilling its responsibility to supply to the market without running out of stock of all Shionogi products by constantly sharing procurement and manufacturing status information with raw material suppliers and contract manufacturers.

Going forward, it will be essential to strengthen the supply chain management system in anticipation of the with/after COVID-19 periods. In addition to giving consideration to risk diversification through further multi-sourcing and promoting the automation of business processes by installing the systems, we will target the building of a more stable management system. We will also aim for a supply chain that is capable of responding swiftly to any changes in the environment, such as by shortening production lead times and securing multiple means of transportation.

Strengthening of production system

Since the early days of the COVID-19 outbreak, we have had in place a senior management-led Coronavirus Response Headquarters to ensure a stable supply system. We thoroughly prevented infections in plants by requiring all people who enter offices to wear masks, taking their temperatures, checking their physical condition, monitoring employees' health, and setting standards for their return to work. We also established countermeasure procedures to prevent secondary and tertiary



infections should people be infected and worked to prevent cluster outbreaks.

However, since suspending plant operational functions would be unavoidable were an infection to spread, we reduced any impact due to the halting of operations by securing more

inventory than usual. By taking multiple measures while ensuring the safety of employees, we are working to further strengthen our production system, which will lead to the maintenance of a stable supply.

MESSAGE

It has been months of thinking about what we should do to protect our employees from infection and to maintain a stable supply. Initially, information on COVID-19 itself was limited and, amid an unclear situation, we have been referring to a variety of academic papers and guidelines while putting in place infection prevention measures, set responses in the event of someone being infected, and a product quality assurance policy. I think that the major factors in overcoming the first wave included the speedy making and implementing of decisions through daily discussions with the members of the Coronavirus Response Headquarters secretariat and through the response meetings that were held every morning. Above all, I sensed the strength of the desire in the "supplies must not be interrupted" attitude of employees who adhered to the established rules with a high level of awareness.



Akihisa Uesugi
Shionogi Pharma Co., Ltd.

Ensuring quality and safety in products and services

Quality assurance and response to counterfeit drugs

To strive constantly to supply the best possible medicines to protect the health and wellbeing of the patients we serve, businesses must act efficiently with an approach to risk that takes preventive measures in advance rather than reacting after an issue has emerged. Through the Shionogi Group Quality Policy, which is subject to continuous improvement, Shionogi confirms that all products and data in Japan and overseas, from the development to the post-marketing stage, are covered by appropriate risk-preventive action of this kind. We have also built a system that complies with the laws and regulations of each country and carry out global quality assurance so that these activities can be carried out by the entire group, including overseas.

To reliably supply high-quality medicines to patients around the world, we are working to improve manufacturing quality and ensure quality through GMP* and developing activities to protect patients from counterfeit medicines. In addition to participating in industry activities related to the prevention of counterfeit medicines, we have set up a Global Anti-Counterfeit Committee centered on members from Japan, the United States, and Europe to work on product security measures.

* Good Manufacturing Practice (regulations for pharmaceutical manufacturing control and quality control)


Efforts toward pharmacovigilance

As set out in the Shionogi Group Drug Safety Policy, Shionogi gives utmost priority to the safety of patients and participants in clinical trials. Accordingly, we operate procedures for reliably gathering and evaluating safety information at all stages from development to post-marketing and have put in place a system so that the necessary safety measures can be rolled out rapidly through close coordination among safety management divisions in all Group regions, including overseas. Additionally, for drugs where it is considered particularly necessary, we have put in place a special pharmacovigilance system with specific procedures stipulated for the individual product.

We believe it to be vital for senior managers and employees to understand the importance of gathering and evaluating safety information in order to take correct safety measures, and we are working to raise awareness through initiatives such as in-house education.

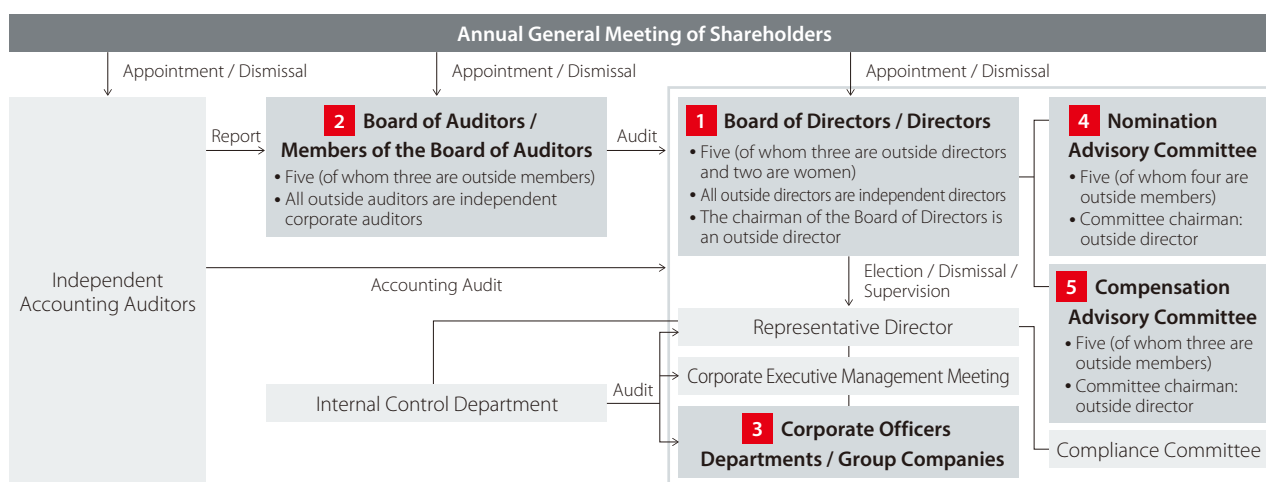
 [Shionogi Group Quality Policy](#)

 [Shionogi Group Drug Safety Policy](#)

 [Detailed information on "Initiatives to improve manufacturing quality," "Measures to stop counterfeit medicines," and "Raising awareness of safety"](#)

Strengthening Governance

Corporate governance structure



1 Board of Directors

In principle, the Board of Directors meets every month to make decisions on important matters that affect Shionogi's business and to oversee business execution. In addition, as a result of the chairman's retirement in June 2020, an outside director has become the chairman of the Board of Directors, a move designed to further improve the objectivity of the Board of Directors. The Board of Directors is advised by the Nomination Advisory Committee and the Compensation Advisory Committee, which are chaired by outside directors. To ensure that management decisions are equitable and well-informed, these committees carefully assess the aptitude of candidates for director positions, the impact directors have on business management, and the suitability of individuals for certain roles and their respective levels of remuneration.

2 Audit framework

To ensure that the directors and each organization in the Company conduct their duties in a legally compliant and appropriate manner, the Company has established systems to enable members of the Board of Auditors and the Internal Control Department, which is responsible for conducting internal audits, to carry out audits of business execution and exchange opinions with the representative directors as required.

The members of the Board of Auditors attend meetings of key management bodies, such as the Board of Directors and the Corporate Executive Management Meeting, providing their

opinions as necessary. Also, in accordance with corporate auditing standards, members of the Board of Auditors conduct business and accounting audits to verify the legality and validity of the duties carried out by the directors and corporate officers responsible for business execution.

3 Business execution framework

Shionogi has introduced an executive officer system to support dynamic and flexible business operations, enabling the Group to respond rapidly to significant changes in the operating environment. The Company has also established the Corporate Executive Management Meeting as a body to discuss business execution. It is composed of directors, auditors and the corporate officers responsible for business execution and meets every week in principle. The Corporate Executive Management Meeting is a forum for discussing issues related to business execution and important management matters.

4 Nomination Advisory Committee

The Nomination Advisory Committee holds a meeting at least once a year to discuss director, corporate auditor and corporate officer candidates proposed by the Company, and assesses each proposal individually based on comprehensive evaluation of each candidate's experience, knowledge, capabilities, and so forth, in order to verify the suitability of candidates in a fair and equitable manner. Its conclusions are then reported to the Board of Directors.

5 Compensation Advisory Committee

The Compensation Advisory Committee meets at least once a year and, with regard to base remuneration, performance-linked compensation, and stock compensation, verifies the

appropriateness of the compensation in terms of duties and business results. Its conclusions are then reported to the Board of Directors.

Features of Shionogi's Corporate Governance

Giving consideration to balancing the needs of four stakeholder groups

Shionogi recognizes that companies rely heavily on four main stakeholder groups: shareholders and investors, customers, society and employees. We believe that we can maximize corporate value by always giving consideration to the "optimal balance" of our stakeholders.

Diversity of the Board of Directors and Board of Auditors

We strive to ensure the diversity of the Board of Directors and the Board of Corporate Auditors, for example in terms of age, gender and skills, while taking into consideration the future direction of our business. In June 2020, Ms. Fumi Takatsuki, a lawyer in her 40s who has worked in China, was appointed as an outside member of the Board of Directors, and Mr. Shuichi Okuhara, who has excelled in venture capital business, was appointed as an outside member of the Board of Auditors.

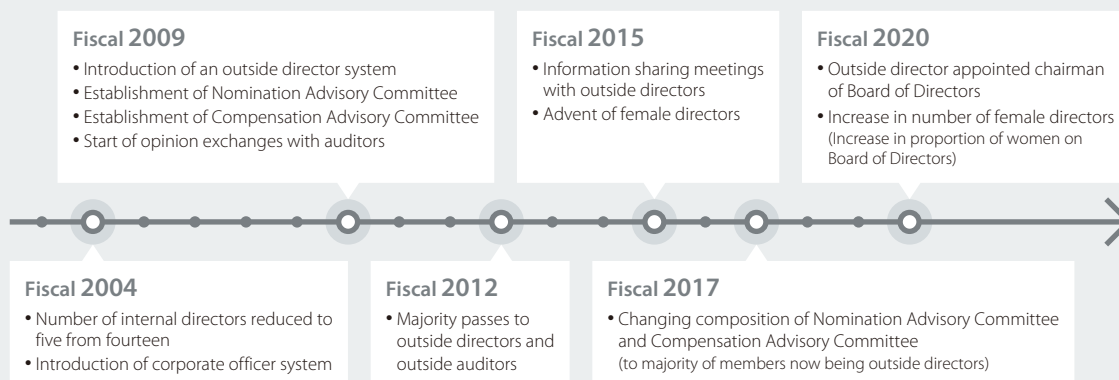
Emphasis not only on complying but also on explaining

Shionogi has no plans to mechanically comply with all the items contained in the Corporate Governance Code. It is important to clearly express our thoughts on points to which we will not comply, and to thoroughly discuss any differences of opinion with outsiders.

Management transparency

To improve management transparency and accountability to stakeholders, we have set up an advisory board chaired by an outside director and strive to actively disseminate information both inside and outside the Company. In addition, it is deeply rooted in Shionogi corporate culture to immediately report negative information to senior management and management.

Main system strengthening in recent years



Regarding the retirement of the chairman and his appointment as special advisor

Former Chairman of the Board, Motozo Shiono, was appointed as a special advisor after stepping down as chairman at the conclusion of the 155th Annual General Meeting of Shareholders. Not involved in business decision making or business execution, he is provided with compensation commensurate with his duties.

Outline of tasks

1. Providing advice based on his accumulated experience and expertise to the incumbent management team only upon request; having no access rights to information related to business management, including Board of Directors materials; and having no involvement in management judgement.
2. Passing on the established personal connections to the incumbent management team, thereby contributing the incumbent management team to promote stable business management and further growth.
3. Providing support and advice in instilling Company Policy.
4. Performing duties in the posts, which he assumed at external entities before retirement as a director of the Company, upon request of the Company or entities.

Principal activities for the year

No. of meetings held, other

(Times)

| | 2019 | | | | | | | | | 2020 | | |
|---|-------|-----|------|------|--------|-----------|---------|----------|----------|---------|----------|-------|
| | April | May | June | July | August | September | October | November | December | January | February | March |
| Board of Directors 1 | 1 | 1 | 1 | 1 | | 2 | 1 | 1 | 1 | | 2 | 2 |
| Board of Auditors | | 2 | 1 | 1 | | 1 | 1 | | | 1 | | 1 |
| Nomination Advisory Committee | | | | | | | | | | | 1 | |
| Compensation Advisory Committee | 1 | | | | | | | | 1 | | | |
| Outside officer/ president opinion exchange meetings 2 | | | | | | 1 | | 1 | | | | 1 |
| Outside officer information exchange/ study sessions 3 | | | | | | 1 | | | | | | 1 |
| Other | | | | | | | | | | * | | |

* Received Corporate Governance of the Year award

1 Deliberations at the Board of Directors

At the Company's Board of Directors' meetings, we receive valuable opinions and advice, proactively, from not only outside directors but from outside auditors as well. Based on their diverse experience and expertise, each corporate officer promotes our growth strategy and conducts management oversight from a position to realize profits for both the Company

and our shareholders. As one example of the lively debates that occur at the Company's Board of Directors' meetings, here we will introduce a portion of the intense discussions engaged upon with regard to deciding to move ahead with a strategic capital and business alliance with Ping An Insurance Company of China, Ltd.

Example of Deliberation Details:

Resolution on Strategic Capital and Business Alliance with Ping An Insurance Company of China, Ltd.

Both outside directors and outside auditors pointed out the necessity of conducting a capital alliance at this time, making comments such as "The timing is appropriate to carry out a capital alliance as the coronavirus pandemic has made for abnormal conditions in the stock market dragging down Shionogi's share price," "Contrast it with prioritizing only capital alliances," and "Explain the dilution of shares to our current shareholders."

These comments were engaged and discussed from a variety of perspectives, such as that we should quickly move to flesh out our business plans and hold discussions so that we can accelerate business transformation and the building of our overseas foundation for growth, as well as about the risks entailed with postponing contracts, such as causing negotiations to breakdown and delays to business growth, and the appropriateness of a capital alliance in consideration of our business in three years and the balance sheet. In addition, they also provided their advice that we should take care to explain to our current shareholders that this is a strategy that will lead to higher corporate value over the medium- to long-term. The result has been a keen awareness among Board of Directors' members of the appropriateness of our strategy and the significance of engaging in a capital and business alliance at this time, and on March 31, 2020, we reached a basic agreement with regard to a capital and business alliance with Ping An Insurance Company of China, Ltd.

Received Corporate Governance of the Year Award*

From about 2,000 companies listed with the first section of the Tokyo Stock Exchange, Shionogi was selected to receive the award of Grand Prize Company for the Corporate Governance of the Year 2019. A keen awareness of external stakeholders, such as institutional investors is one of the basics of corporate governance. Bearing this in mind, Shionogi has actively engaged in extensive, transparent, and traceable dialogues with internal and external stakeholders and operated the company with a strong sense of crisis. In so doing, we were highly evaluated in that the Company has accomplished management reforms and delivered great performance.

* This award, which began in 2015 by the Japan Association of Corporate Directors (JACD), recognizes companies that are pursuing healthy medium- and long-term growth through corporate governance.



Comment by Mr. Atsushi Saito, Chairman of the JACD Judging Committee

A strong management philosophy is required to ensure that corporate governance functions properly. Dr. Teshirogi has been conducting product selection and concentration and working hard to significantly improve profitability since he was made Vice President of the Corporate Planning Department. His thoroughgoing proactiveness is quite rare.

Comment by judging committee member Mr. Kunio Ito

Shionogi takes the stance of being open to anything that achieves sustainable growth, which embodies the spirit of putting governance into practice. This is a company that brings to life the essence of governance with its self-discipline. What I find extraordinary is President Teshirogi's high level of self-discipline, his objective insights that inform his position as president, and his willingness to listen to the voices of investors from a healthy sense of urgency, not to mention his efforts to facilitate the learning of employees. As governance reforms at Japanese companies step up from formality to substance, Shionogi's initiatives are an example of the importance of substance and its effect.

2 Outside officer/ president opinion exchange meetings

Meetings which serve as a venue for outside directors and the president to exchange their opinions are in principle held three times per year. This exchange of opinions takes place with the objective of enhancing the quality of discussions that cover items raised at the Board of Directors' meetings. Meetings to exchange opinions are convened with all of the corporate auditors, outside directors and the president in attendance, and topics for discussion include recent trends in the healthcare industry and Company business, as well as plans for executive training, and the status of that training. It is through this exchange of opinions that we gain a deeper understanding of the external environment and conditions within the Company, and ascertain a comprehensive birds-eye view, a three-dimensional perspective of the items that arise at the Board of Directors. In the limited amount of time available, this leads to high-quality advice and suggestions.

3 Outside officer information exchange/ study sessions

Having a greater understanding of Shionogi's business as one goal, outside officers' information exchange and study sessions organized by standing members were held on two occasions in fiscal 2019, September 2 (Mon.) and March 16 (Mon.), 2020. Attending were outside officers that make up the Company's standing members of the Board of Auditors and Shionogi's executives. At September's study session, the members toured the Settsu Plant of Shionogi Pharma Co., Ltd., the Group's manufacturing company, while also gaining a deeper understanding of the manufacture of pharmaceuticals, and in March's study session, members shared information on the direction that Shionogi is pursuing with regard to STS2030, our New Medium-Term Business Plan set to start in fiscal 2020. These meetings brought together outside officers and Shionogi's management executives.

Members of Boards

Directors



① Isao Teshirogi, Ph.D.

President and CEO

April 1982 Joined the Company
 January 1999 General Manager, Secretary Office and General Manager, Corporate Planning Department
 June 2002 Director of the Company
 October 2002 General Manager, Corporate Planning Department
 April 2004 Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division
 April 2006 Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division
 April 2007 Senior Executive Officer
 April 2008 Representative Director and President and CEO of the Company (incumbent)

② Takuko Sawada

Director and Executive Vice President and Senior Vice President of Integrated Disease Care Division

April 1977 Joined the Company
 April 2002 Executive General Manager, Pharmaceutical Development Division
 April 2007 Officer and Executive General Manager, Pharmaceutical Development Division
 April 2010 Executive Officer and Executive General Manager, Pharmaceutical Development Division
 April 2011 Senior Executive Officer and Executive General Manager, Global Development Office
 April 2013 Senior Executive Officer and Senior Vice President, Global Development and, Pharmaceutical Development Division
 April 2014 Senior Executive Officer and Senior Vice President, Global Pharmaceutical Development Division
 April 2015 Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 June 2015 Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 October 2015 Senior Executive Officer and Senior Vice President, Corporate Strategy Division, and General Manager, Corporate Planning Department
 April 2016 Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 April 2017 Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 April 2018 Director of the Company and Executive Vice President
 April 2020 Director and Executive Vice President and Senior Vice President of Integrated Disease Care Division (incumbent)

③ Keiichi Ando

Independent Outside Director

April 1976 Joined Sumitomo Bank Limited
 April 2003 Executive Officer, Sumitomo Mitsui Banking Corporation
 April 2006 Managing Executive Officer, Sumitomo Mitsui Banking Corporation
 April 2009 Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation
 April 2010 Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation
 April 2012 Representative Director and President, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD
 July 2012 Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD.
 June 2016 Director of the Company (incumbent)
 Representative Director and President, GINSEN CO., LTD. (incumbent)
 June 2017 Outside Director of Tsubakimoto Chain Co. (incumbent)
 June 2019 Outside Director of DAIHEN Corporation (incumbent)
 Major concurrent posts
 Outside Director, Tsubakimoto Chain Co.
 Outside Director of DAIHEN Corporation

④ Hiroshi Ozaki

Independent Outside Director

May 1972 Joined Osaka Gas Co., Ltd.
 June 2000 Director, Osaka Gas Co., Ltd.
 June 2002 Director and Tokyo Representative, Osaka Gas Co., Ltd., on loan to the Japan Gas Association
 June 2005 Managing Director and General Manager of LNG Terminal and Power Generation Business Unit, Osaka Gas Co., Ltd.
 June 2007 Managing Director and General Manager of Commercial & Industrial Energy Business Unit, Osaka Gas Co., Ltd.
 April 2008 Representative Director and President, Osaka Gas Co., Ltd.
 June 2008 Director, Osaka Gas Chemicals Co., Ltd. (incumbent)
 June 2009 Representative Director and President, Operating Executive Officer, Osaka Gas Co., Ltd.
 June 2009 Director of OGIS-RI Co., Ltd. (incumbent)
 June 2011 Outside Director of Asahi Broadcasting Corporation (incumbent)
 April 2015 Representative Director and Chairman, Osaka Gas Co., Ltd. (incumbent)
 June 2019 Director of the Company (incumbent)
 Major concurrent posts
 Representative Director and Chairman, Osaka Gas Co., Ltd.
 Outside Director, Asahi Broadcasting Corporation

⑤ Fumi Takatsuki

Independent Outside Director

October 2000 Registration of Attorney at Law
 October 2000 Joined Oike Law Offices
 December 2003 Joined Anderson Mori & Tomotsune Law Offices
 February 2004 Service at Beijing Office of Anderson Mori & Tomotsune Law Offices
 April 2006 Joined Oh-Ebashi LPC & Partners
 January 2009 Partner of Oh-Ebashi LPC & Partners
 June 2020 Director of the Company (incumbent)
 Major concurrent posts
 Partner of Oh-Ebashi LPC & Partners

Auditors



① Akira Okamoto

Standing Members of the Board of Auditors

April 1978 Joined the Company
 April 2006 General Manager, Business Support Center
 April 2007 General Manager, General Affairs & Personnel Department
 April 2008 General Manager, Human Resources Department
 April 2011 General Manager, Internal Control Department
 June 2015 Standing Member of the Board of Auditors of the Company (incumbent)

② Ikuo Kato

Standing Members of the Board of Auditors

October 1988 Joined the Company
 April 2007 General Manager, Development Research Laboratories
 April 2010 General Manager, Drug Development Research Laboratories
 April 2011 General Manager, Drug Development Research Laboratories and Representative Director and President, Shionogi TechnoAdvance Research & Co., Ltd.
 April 2013 General Manager, Drug Development Research Laboratories and Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd.
 April 2014 Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd.
 June 2016 Standing Member of the Board of Auditors of the Company (incumbent)

③ Takaoki Fujiwara

Independent Outside Auditor

April 1975 Joined Hanshin Electric Railway Co., Ltd.
 June 2005 Director, Hanshin Electric Railway Co., Ltd.
 June 2007 Managing Director, Hanshin Electric Railway Co., Ltd.
 April 2011 Representative Director and President, Hanshin Electric Railway Co., Ltd.
 June 2011 Director, Hankyu Hanshin Holdings, Inc.
 April 2017 Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd. (incumbent)
 June 2017 Representative Director, Hankyu Hanshin Holdings, Inc. Outside Director, Sanyo Electric Railway Co., Ltd. (incumbent)
 June 2018 Outside Member of the Board of Auditors of the Company (incumbent)
 Major concurrent posts
 Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd.
 Outside Director, Sanyo Electric Railway Co., Ltd.
 Director, Hanshin Hotel Systems Co., Ltd.

④ Shuichi Okuhara

Independent Outside Auditor

April 1994 Joined Andersen Consulting Co., Ltd. (now Accenture Japan Ltd.)
 January 1998 Joined Nippon Venture Capital Co., Ltd.
 June 2008 Director and Manager of Investment Department, Nippon Venture Capital Co., Ltd.
 April 2009 Representative Director and President of Nippon Venture Capital Co., Ltd.
 June 2019 Representative Director and Chairman of Nippon Venture Capital Co., Ltd. (incumbent)
 June 2020 Outside Member of the Board of Auditors of the Company (incumbent)
 Major concurrent posts
 Representative Director and Chairman of Nippon Venture Capital Co., Ltd. (incumbent)

⑤ Tsuguoki Fujinuma

Independent Outside Auditor

April 1969 Joined Horie Morita Accounting Firm
 June 1970 Joined Arthur & Young Accounting Firm
 May 1986 Partner and Representative Partner of Asahi Shinwa Accounting Firm (now KPMG AZSA LLC)
 July 1993 Managing Partner of Ota Showa & Co. (now Ernst & Young ShinNihon LLC) (Resignation in June 2007)
 May 2000 President of the International Federation of Accountants
 July 2004 Chairman and President of the Japanese Institute of Certified Public Accountants
 February 2005 Trustee and Vice Chairman of the IFRS Foundation Trustee
 July 2007 Advisor of the Japanese Institute of Certified Public Accountants (incumbent)
 August 2007 Outside Director of Tokyo Stock Exchange Group, Inc.
 October 2007 Governor of Tokyo Stock Exchange Regulation
 April 2008 Specially appointed Professor of Chuo Graduate School of Strategic Management
 June 2008 Outside Corporate Auditor of Sumitomo Corporation
 External Outside Corporate Auditor of Takeda Pharmaceutical Company Limited
 Outside Director of Nomura Holdings, Inc.
 Outside Director of Nomura Securities Co., Ltd.
 July 2008 Outside Director of Sumitomo Life Insurance Company
 April 2010 Visiting Professor at Kansai University
 May 2010 Outside Corporate Auditor of Seven & i Holdings Co., Ltd. (incumbent)
 April 2015 Fellow and Advisory Board Member at Chuo University Business School (incumbent)
 July 2017 Auditor, Chiba Gakuen (incumbent)
 June 2019 Outside Member of the Board of Auditors of the Company (incumbent)
 Major concurrent posts
 Auditor, Chiba Gakuen

Corporate Officers

Senior Executive Officers


Kohji Hanasaki, Ph.D.
Kazuhiro Hatanaka
Noriyuki Kishida

John Keller, Ph.D.
Toshinobu Iwasaki, Ph.D.
Ryuichi Kiyama, Ph.D.

Corporate Officers

Takeshi Shiota, Ph.D.
Yasuyoshi Isou, Ph.D.
Akira Kato, Ph.D.
Tatsumori Yoshida

Reasons for Appointment of Directors / Meeting attendance status, skills, etc. (as of June 30, 2020)

| Name | Reasons for appointment |
|---|---|
|  <p>Isao Teshirogi, Ph.D. (60 / Male) President and CEO</p> | <p>After assuming the post of Representative Director and President and CEO in 2008, Dr. Teshirogi was instrumental in bringing about the Company's globally competitive drug discovery capabilities and the evolution of the Company's royalty business model while securing a medium- to-long-term profit foundation. In the Medium-Term Business Plan Shionogi Growth Strategy 2020 (SGS2020), which was formulated in fiscal 2014, he strengthened and promoted efforts for Shionogi to "grow with society as a drug discovery-based pharmaceutical company."</p> |
|  <p>Takuko Sawada (65 / Female) Director and Executive Vice President of the Company, Senior Vice President of Integrated Disease Care Department</p> | <p>Following her appointment as a Director of the Company in 2015, Ms. Takuko Sawada played a central role in the progress made with SGS2020. Since assuming the post of Executive Vice President in 2018, she has managed a number of divisions and departments, including the Integrated Disease Care Department and has worked to further strengthen management and promote diversity.</p> |
|  <p>Keiichi Ando (68 / Male) Independent Outside Director</p> | <p>Mr. Keiichi Ando has practical experience as a corporate executive at a financial institution and broad insight into finance. Recognizing the corporate responsibility that Shionogi should fulfill, as a corporate manager without bias in favor of specific interested parties Mr. Ando makes management decisions from a higher perspective with an emphasis on objectivity and neutrality. In particular, he provides accurate advice about human resource development, budget planning and management and capital policies, including investments.</p> |
|  <p>Hiroshi Ozaki (70 / Male) Independent Outside Director</p> | <p>Mr. Hiroshi Ozaki has abundant practical experience and wide-ranging knowledge in corporate management and organizational management as a manager of a company based in the Kansai region. Also serving as chairman of the Osaka Chamber of Commerce and Industry, he is focusing on promoting the life science industry to strengthen the economic growth potential of Osaka and the Kansai region. At Board of Directors' meetings, Mr. Ozaki gives advice on business and marketing and makes clear suggestions with supporting statements concerning, for example, the issues raised regarding partnerships.</p> |
|  <p>Fumi Takatsuki (45 / Female) Independent Outside Director</p> | <p>We are expecting Ms. Takatsuki to prioritize the observance of social norms and compliance with laws and regulations and to make fair management decisions from a global perspective from her position as an attorney in international corporate law.</p> |

Reasons for Appointment of Auditors / Meeting attendance status (as of June 30, 2020)

| Name | Reasons for appointment |
|--|--|
|  <p>Akira Okamoto (65 / Male) Standing Member of the Board of Auditors</p> | <p>Mr. Akira Okamoto has served as General Manager of administrative units and is thus well-versed in corporate management. Leveraging his experience as General Manager of the Internal Control Department, he has been involved in enhancing the Company's corporate governance and upgrading and operating the internal control system. Mr. Okamoto provides appropriate advice on directors' management decisions and the execution of their duties from a point of view that emphasizes his independence as a corporate auditor.</p> |
|  <p>Ikuo Kato (66 / Male) Standing Member of the Board of Auditors</p> | <p>Mr. Ikuo Kato has served as General Manager of the Development Research Laboratories of the Company and as Representative Director, President and Chairman of a Group company. Thus not only is he well-versed in research and development, he also possesses insight into corporate management. Mr. Kato provides appropriate recommendations and advice on directors' management decisions and the execution of their duties from a point of view that emphasizes his independence as a corporate auditor.</p> |
|  <p>Takaoki Fujiwara (68 / Male) Independent Outside Auditor</p> | <p>Based on his extensive practical experience and broad insight as an executive of a group company of Hankyu Hanshin Holdings, Inc., Mr. Takaoki provides appropriate advice mainly on compliance, human resources and labor management at meetings of the Board of Directors and the Board of Auditors. He also makes appropriate recommendations related to directors in the performance of their duties from a broad perspective.</p> |
|  <p>Tsuguoki Fujinuma (75 / Male) Independent Outside Auditor</p> | <p>Mr. Tsuguoki Fujinuma has professional expertise in finance and accounting. Based on his experience as Chairman of the Japanese Institute of Certified Public Accountants and in important positions as a consultant and in a number of public offices—as well as his extensive experience and broad insight as an outside director and outside corporate auditor—Mr. Fujinuma provides accurate advice mainly on compliance and finance at meetings of the Board of Directors and the Board of Auditors. He also makes appropriate recommendations related to directors in the performance of their duties from a broad perspective.</p> |
|  <p>Shuichi Okuhara (52 / Male) Independent Outside Auditor</p> | <p>Mr. Shuichi Okuhara is qualified as a certified public accountant and has professional expertise in finance and accounting. We believe that he will be able to carry out audits suitable for the continually changing business environment based on his experience as Board member of Nippon Venture Capital Co., Ltd. in a social environment that places importance on peer or cross-industrial partnerships.</p> |

| | Number of years in post | FY2019 attendance | | | Skills | | | | | | | |
|--|-------------------------|--------------------|-------------------------------|---------------------------------|-----------------------|----------------------|-----|-----|-------------------|---------------|----------------------------|--------------------------|
| | | Board of Directors | Nomination Advisory Committee | Compensation Advisory Committee | Management experience | Financial accounting | Law | R&D | Sales & Marketing | Manufacturing | IT/ Information management | International experience |
| | 18 years | 13/13 (100%) | 1/1 (100%) | 2/2 (100%) | ● | | | ● | | ● | | ● |
| | 5 years | 13/13 (100%) | — | — | | | | ● | ● | | ● | ● |
| | 4 years | 13/13 (100%) | 1/1 (100%) | 2/2 (100%) | ● | ● | | | | | | ● |
| | 1 year | 10/11 (90.9%) | 1/1 (100%) | 1/1 (100%) | ● | | | ● | | ● | ● | ● |
| | New appointment | — | — | — | | | ● | | | | | ● |

| | Number of years in post | FY2019 attendance | |
|--|-------------------------|--------------------|-------------------|
| | | Board of Directors | Board of Auditors |
| | 5 years | 13/13 (100%) | 8/8 (100%) |
| | 4 years | 13/13 (100%) | 8/8 (100%) |
| | 2 years | 12/13 (92.3%) | 8/8 (100%) |
| | 1 year | 11/11 (100%) | 6/6 (100%) |
| | New appointment | — | — |



Analysis/evaluation of effectiveness

Shionogi is committed to improving the Board of Directors' effectiveness, and to that end the Board has been conducting a self-evaluation annually since fiscal 2016. With regard to the effectiveness of the entire Board of Directors in fiscal 2019, based on Shionogi's Basic Views and Guidelines on Corporate Governance we conducted questionnaires and interviews with each director and corporate auditor and analyzed and evaluated

them at Board of Directors' meetings. The focus was on the framework, roles and responsibilities, and operation of the directors and Board of Directors' meetings.

Based on the results, we evaluate that the Company's Board of Directors is operating properly and its effectiveness is ensured. Going forward, we will continue to make improvements to ensure the greater effectiveness of the Board of Directors.

Summary of Analysis and Evaluation Results for Fiscal 2019

Framework

We assess that the Board of Directors has currently secured the necessary framework from the standpoint of various attributes, including expertise and experience, and diversity.

From the perspectives of further diversity and succession, the need to appoint a foreign national as a director and candidates for the next successor was mentioned.

The Board of Directors will continue to consider ways to further strengthen the governance framework while taking into account the status of the Company's business development.

Roles and Responsibilities

With regard to reports on and the supervision of the status of management development, reports were made and opinions exchanged on an ongoing basis at meetings between outside directors and the president. Reports about the status of compliance activities are also made to the Board of Directors regularly twice a year.

Matters identified as issues included discussions regarding the medium-term business plan, detailed explanations and debate concerning the selection process and development progression from the viewpoint of the status of management

development, and enhancement of the content of ESG reporting. The Board of Directors will continue to consider ways to further flesh out its roles and responsibilities.

Operation

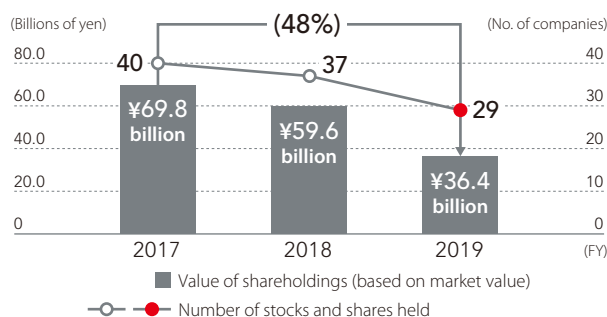
Regarding the further stimulation of discussion at Board of Directors' meetings, which had been flagged as an issue, basic information was provided and lectures held to give outside directors more of an understanding of pharmaceutical companies, and preliminary briefings on the agendas of Board of Directors' meetings were held on a regular basis. An observation tour of Shionogi Pharma Co., Ltd.'s Settsu Plant was also conducted. In addition, we revised the rules of the Board of Directors and established a system for implementing progress reports on resolutions.

Opinions were expressed suggesting that consideration be given to the conducting of observation tours at sites other than those visited and that time be secured for Board of Directors' meetings to further enhance discussions. We will continue to consider ways to enrich management of the Board of Directors.

Cross-shareholdings

After due consideration of the relationship with the cost of capital, cross-shareholdings are only held in cases where it is judged that they will increase Shionogi's corporate value and contribute to a sustainable improvement of corporate value. In other cases, we are proceeding with sequential sell-offs in consideration of stock prices and market trends. Since the end of fiscal 2017, the number of stocks and shares held and the value of shareholdings have been reduced by 28% and 48%, respectively. In addition, the economic rationale for continuing to hold individual cross-shareholdings is verified annually at a Board of Directors' meeting.

Trend of cross-shareholdings (Listed stock, market capitalization)



Remuneration for directors and corporate auditors

Process for determining remuneration

To serve as an advisory body to the Board of Directors, Shionogi has in place a Compensation Advisory Committee, which is chaired by an outside director, and outside directors constitute the majority of its members. The Committee conducts full deliberations on executive remuneration.

Remuneration framework

Determined within limits set by resolution of the General Meeting of Shareholders, total director remuneration encompasses base monthly remuneration, performance-linked bonuses determined by results for the fiscal year and other factors, and restricted stock compensation (medium-term, performance-linked and long-term) that was introduced in fiscal 2018. Outside directors and corporate auditors only receive base remuneration.

Base monthly remuneration is determined according to directors' positions and responsibilities, with due consideration given to the operating environment and global trends. Bonuses are short-term incentives based on a calculation matrix linked to performance, including the achievement of profit targets in each fiscal year. Stock compensation is awarded based on a similar matrix of directors' positions and roles. In particular, medium-term performance-linked compensation, from which outside directors are excluded, is aimed at encouraging directors to pursue continuous enhancement of corporate value by

further increasing the linkage between director compensation and medium- and long-term business performance, while at the same time further promoting value sharing with shareholders.

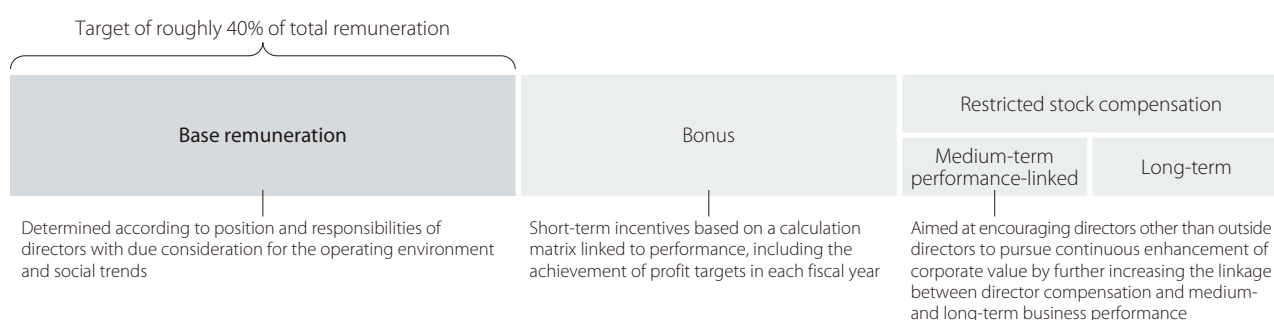
Performance targets include net sales and operating income, driven mostly by new products and core businesses, as well as return on equity (ROE) and the growth rate of total shareholders return (TSR) relative to competitor companies. These indicators were determined after a comprehensive evaluation of factors, such as quantitative targets in the medium-term business plan and operational issues, and are premised on the Company achieving the vision laid out in its medium-term business plan, which is to "grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare."

Remuneration track record

Base remuneration accounted for approximately 75% of total remuneration in fiscal 2013, but less than 50% in the previous fiscal year.

We established the remuneration system with the aim of increasing the ratio of basic remuneration to approximately 40%. In fiscal 2019, however, the ratio of basic remuneration exceeded 50% because performance-linked remuneration decreased from the previous fiscal year due to the failure to reach performance indicators.

Structure of directors' remuneration



Total amount of remuneration for directors and corporate auditors* (FY2019)

| Category | Persons remunerated | Amount of remuneration paid | | | | Total |
|--|---------------------|-----------------------------|-----------------|--------------------------------|-----------------|-----------------|
| | | Base remuneration | Bonuses | Restricted stock compensation | | |
| | | | | Medium-term performance-linked | Long-term | |
| | | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Directors (outside directors among directors) | 7 (4) | 256 (51) | 51 (—) | 47 (—) | 57 (—) | 412 (51) |
| Corporate Auditors (outside auditors among auditors) | 6 (4) | 117 (51) | — (—) | — (—) | — (—) | 117 (51) |
| Total | 13 | 374 | 51 | 47 | 57 | 529 |

* Included in remuneration amounts and personnel numbers are an outside director and an outside auditor who retired on June 18, 2019

Messages from Outside Director and Outside Auditor



Fumi Takatsuki
Independent Outside Director

Particularly since 2000, Shionogi has been continuing to grow at a spectacular rate. On the other hand, I believe that further efforts in overseas business, especially in Europe, the United States, and China/Asia, will be indispensable for the Company's development. Under such circumstances, I am very excited that the new business with Ping An in China will be a very important business for Shionogi in its transformation from a drug discovery-oriented company to a Healthcare As A Service (HaaS) company in the future.

Up to now, I have been focusing on international corporate legal affairs and dispute resolution in Greater China, such as Hong Kong and Taiwan but mainly in China as well as in Southeast Asia. I have also been providing support for the various legal issues and problems Japanese companies encounter when expanding globally and gaining experience in supporting the management of overseas subsidiaries. As Shionogi rapidly expands its overseas business, it is expected that there will be more opportunities to work on business alliances with local business partners, the building of local business frameworks, and managing overseas group companies by the head offices. For the very reason that I was based in Beijing and have been gaining experience in business related to China, I fully understand the possibilities for major advances and potential for risks in Chinese business from various standpoints. I also believe that I can utilize my knowledge of managing Chinese business with Ping An.

In addition, based on industry-specific risks and cases recognized from my experience thus far in supporting pharmaceutical companies, I would like to frankly give opinions and advice that make use of my knowledge as a lawyer, for example on social norms and legal compliance from a global perspective.



Shuichi Okuhara
Independent Outside Auditor

I have been investing in many startup companies as a venture capitalist. Also I have been managing an investment committee as a president of NVCC since April of 2009. Meeting up with thousands of startup companies made me aware of one simple principle of success. That is to understand what they should NOT do. All startup companies think about what they should do but what distinguishes successful companies from other companies is how clearly they think about what they should NOT do. Detecting and avoiding the risks could lead to high possibility of success, especially when they make a big decision for new challenges.

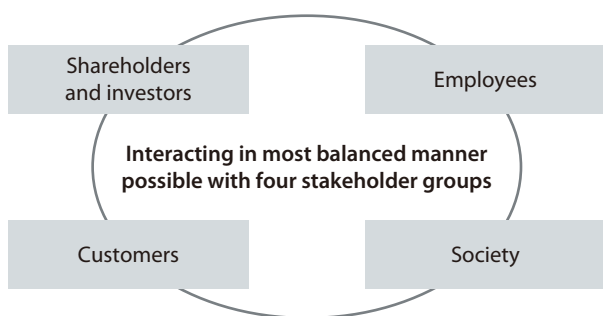
Shionogi is now transforming its business model from traditional pharmaceutical company to "HaaS" company. In that situation, it is necessary to focus on what hidden risks are and what we should NOT do. Engaging internal discussion or looking around competitors' cases are always helpful to find them. From what I have experienced, I could contribute not only on maintaining financial soundness but also on assessing partnerships with other institutions. Just as most of successful startup employees are energetic and have a management perspective, I would like to support Shionogi's successful transformation and business expansion by having its employees realize their connection with company's business with high motivation.

Stakeholder engagement

Creating corporate and social value through engagement

Shionogi aims to realize a sustainable society by creating corporate and social value through engagement with four stakeholders: shareholders and investors, customers, society, and employees.

Shionogi-style "engagement"



Engagement with shareholders and investors

Shionogi strives to ascertain the level of understanding of the other parties in discussions and the needs of investors through continuous dialogue with shareholders and investors. We also aim to expand disclosure and deepen dialogue to build relationships of trust.

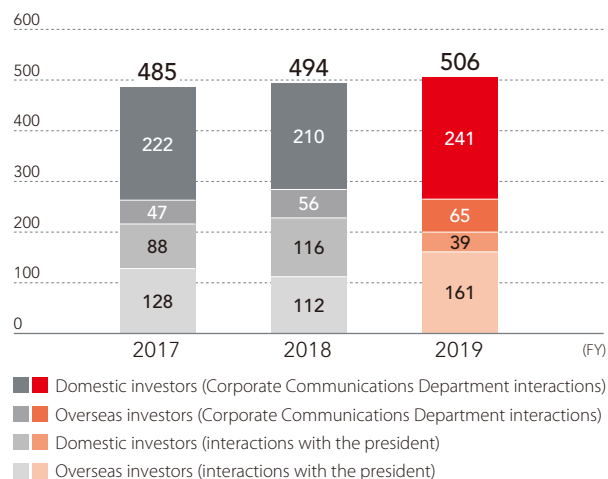
Including "sound criticism from a fair vantage point," valuable opinions and requests received from investors are promptly shared with management and the frontlines, leading to an increase in corporate value.

IR activities during the COVID-19 pandemic

Even though COVID-19 is restricting normal IR activities, Shionogi is working to maintain fulfilling dialogue with investors through a variety of measures. As a company that has adopted "protect people worldwide from the threat of infectious diseases" as one of its priority tasks (materialities), we are strengthening disclosure of our efforts against COVID-19.

- Holding of small meetings via remote for overseas investors in the respective time zones for the United States, Asia, and Europe
- Active participation in securities company conferences
- Posting of slides and videos shown at the General Meeting of Shareholders on the Company website for the benefit of shareholders who were unable to come to the venue

Numbers of dialogues with investors



Key IR activities in fiscal 2019

- Approximately 500 dialogues with institutional investors and securities analysts, of which approximately 200 were interactions with the president
- Briefings for institutional investors and securities analysts: Five
- Overseas IR: Eight events

Key external evaluations of IR activities in fiscal 2019

- Received "Award for Excellence in Corporate Disclosure" from the Securities Analysts Association of Japan: ranked first in the pharmaceuticals sector
- 2019 All-Japan Executive Team ranking
Pharmaceuticals category: Best Honored Company
Best IR Professional: 1st place
- Corporate Governance of the Year® 2019: Grand Prize Company

Comprehensive disclosure of information via our website

Commitment to Fight COVID-19



Key content

- R&D efforts
- Initiatives for business continuity
- Initiatives for stable supply of drugs
- Alignment with international societies (Video message from the president)
- Reference (press releases, links)

Strengthening risk management

Shionogi continues to build a groupwide internal management system based on the Shionogi Group Risk Management Policy, to deal with risks that affect business continuity, including natural disasters, fire, explosion and other accidents, outbreaks of infectious diseases, acts of terrorism, and other risks.

Response to COVID-19

Shionogi established its "Coronavirus Response Headquarter" before the Japanese government's declaration of a state of emergency and is working to ensure prompt decisions in line with Business Continuity Plans (BCPs). Moreover, all organizations, including Group companies, took steps to completely revise the content of existing BCPs adding measures to address pandemics as well as earthquakes during fiscal 2019. We also reviewed plans during the fiscal year in light of the COVID-19 pandemic. Due to prompt and appropriate responses in line with the BCPs, this did not affect the continuity of the company-wide business.

Under the state of emergency, we created a telecommuting environment that is supported by enhanced IT infrastructure, and many employees have smoothly transitioned to telecommuting. For employees who need to go to work in person, we have taken measures to reduce the risk of infection through private car commuting, staggering working hours, and implementing a temperature measurement system. By such means, we continued to fulfill our social responsibility as a pharmaceutical company, maintaining stable supplies of pharmaceuticals and undertaking research and development related to COVID-19. In addition, we worked closely with important manufacturers and suppliers in Japan and overseas to ensure a stable supply of pharmaceuticals.

Establishing a stronger system in light of COVID-19

Our goal is to be a drug discovery-based pharmaceutical company for which infectious diseases are a core therapeutic area, and which, while confronting infectious diseases, is resilient to all threats, including pandemics. In response to COVID-19, we are taking measures to tackle various issues that became clear in the course of continuing the business, and we have established robust systems for business continuity ready for a second and third wave of the spread of the virus. In doing so, we are determined to fulfill our responsibilities to our stakeholders while balancing the sustainability of social and economic activities.

Specifically, by taking a detailed look back at our response, we will be reviewing our BCPs so that we can flexibly respond to the re-expansion of COVID-19 or the occurrence of a new pandemic. Furthermore, we are building more-effective BCP systems through repeated BCP-based simulation training. In parallel, we are continuing to build a more robust IT system.

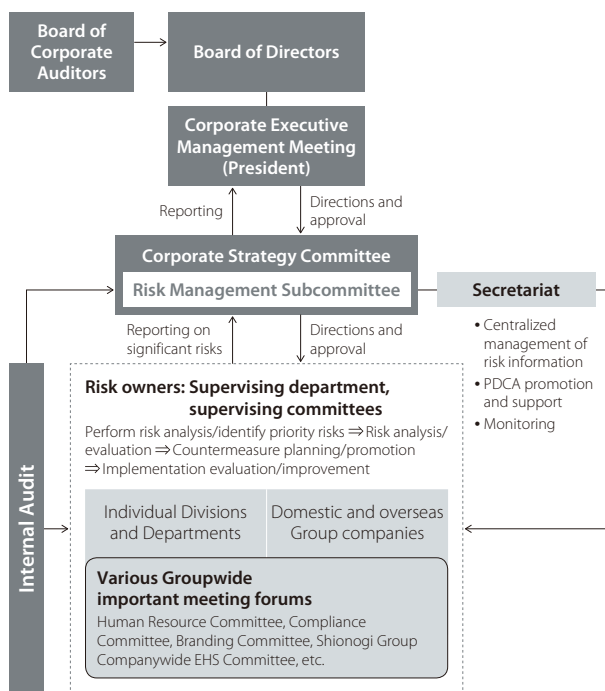
Risk Management Aiming to Achieve the Business Plan

Beginning in fiscal 2020, under Shionogi's New Medium-Term Business Plan, Shionogi Transformation Strategy 2030 (STS2030), we are aiming to transform the business model and build new healthcare platforms. Business uncertainty is expected to increase in the process of this transformation. If we cannot respond to sudden changes in the environment within and outside the company, we may fail to achieve the goals of STS2030. That would also affect business continuity, so we are focusing on identifying related risks. In addition, we are working to build systems and to foster a culture in which various information is reported to management promptly by departments and other business units.

As part of this, within the Corporate Strategy Committee, which is headed by a Senior Executive Officer and Senior Vice President of Corporate Strategy Division, we have established the Risk Management Subcommittee as a specialist meeting body to oversee the risk management of the Shionogi Group. In addition to the steps taken to consolidate and identify risks, efforts were also made to ensure that analysis and assessment was more transparent in fiscal 2019. In fiscal 2020, we will continue to identify risks, refine countermeasures, and strengthen the monitoring and review cycle for risks by management.

Moreover, since there are many risks that may impede the attainment of STS2030, we will review the Shionogi Group Risk Management Policy to make it appropriate for dealing with these risks.

Risk management structure



Business and other risks

| Risk category | Response |
|---|---|
| Systemic and Regulatory Risk <ul style="list-style-type: none"> There could be an impact from trends with government regulations including revisions to Japan's National Health Insurance (NHI) system, including the NHI drug price system Tougher Japanese and overseas regulations in areas such as the development and manufacturing of pharmaceuticals could present us with additional expenses or make it difficult for our products to comply with regulations | <ul style="list-style-type: none"> Provide innovative new drugs at an acceptable price to society Build evidence to show the value of the innovations created Promote the value of innovation through industry group activities Obtain the latest information and make appropriate changes to prevent delays in R&D and business opportunity loss due to non-compliance with regulations, etc. |
| Risk of Adverse Drug Reactions <ul style="list-style-type: none"> Pharmaceuticals entail the risk of unanticipated adverse drug reactions that could lead to the termination of sales, product recalls, and other outcomes | <ul style="list-style-type: none"> Construct systems to appropriately convey side effect and other information Educate all employees to limit the spread of side effects and control damage Obtain insurance for medical damage compensation based on side effects, etc. |
| Pharmaceutical R&D Risk <ul style="list-style-type: none"> Pharmaceutical R&D requires substantial commitment of resources and time. In addition, new drugs are subject to numerous uncertainties prior to the start of actual sales | <ul style="list-style-type: none"> Develop efficient drug discovery research; leverage strengths in disease fields and small-molecule drug discovery Maintain and improve productivity with global top-level R&D To foster new growth areas and improve drug discovery success rates, build drug discovery technology for medium-sized molecule drugs and non-small-molecule antibody drugs Clarify drug discovery programs and development compounds to ensure focused investment of management resources Secure management resources necessary for acquiring technologies such as peptide drugs and vaccines and collaborate with outside parties through alliances Undertake rigorous determination of development possibility based on R&D data, accelerate R&D through in-licensing and out-licensing of compounds |
| Intellectual Property Risk <ul style="list-style-type: none"> Concerns surrounding inadequate protection of the intellectual property of drugs discovered or infringement of the intellectual property of third parties Impact of the expiration of intellectual property rights of pharmaceuticals developed and the launch of generics | <ul style="list-style-type: none"> Strengthening the appropriate management system for intellectual property rights Strengthening the system for preventing infringement by investigating infringement prevention in business activities and conducting intellectual property due diligence on licensing |
| Risk of Dependence on Certain Products <ul style="list-style-type: none"> NHI drug price revisions and the appearance of competitors to main products, the extent of the uptake of those competitor products, expiration of intellectual property rights and accompanying launch of generic products, and a drop in or the discontinuation of sales of the products in question | <ul style="list-style-type: none"> Market launch of product groups and review contracts based on the latest information on drug price systems and competitive position Collaborate and express opinions in industry groups that promote the importance and value of innovation creation Promote business transformation from pharmaceuticals to provide general healthcare services, including pharmaceuticals |
| Risk of Partnerships with Other Companies <ul style="list-style-type: none"> Modification or cancellation of agreements, delays or stagnation of alliances with other companies for joint research, development, manufacturing and sales, including joint research, joint development, technology licensing and joint sales | <ul style="list-style-type: none"> Judge whether or not to cooperate by analyzing and evaluating from various perspectives Seek agreement to reduce assumed risk at the time of contract conclusion; consensus-building Establish a governance system with alliances, understanding the risks of alliances, and responding with measures to resolve them |
| Risk of Natural Disasters or Pandemics <ul style="list-style-type: none"> Closure of plants, laboratories or other business sites due to such natural disasters as storms and floods caused by major earthquakes and climate change and unexpected accidents or pandemics, as well as accompanying product supply delays and suspensions | <ul style="list-style-type: none"> BCP formulation and training, and plan reviews Confirm and request improvement for environmental and safety conditions in response to supplier audits Consider diversifying raw material suppliers to ensure the stable supply of products |
| Risks Related to Environmental Pollution <ul style="list-style-type: none"> Effects on the human body and ecosystems of substances used and generated in the research and manufacturing processes of pharmaceuticals Temporary closure of facilities, countermeasures and restoration as well as legal liability attributable to environmental pollution or other hazards | <ul style="list-style-type: none"> Establish integrated management system and management regulations for environment, safety and health Ensure compliance with laws and regulations, formulate stricter self-management standards and goals, implement responses and measures, and confirm their appropriateness |
| Capital Market and Foreign Exchange Risk <ul style="list-style-type: none"> Fluctuations in stock and foreign exchange markets could increase retirement benefit obligations and affect royalty income from overseas partners | <ul style="list-style-type: none"> Diversify investment of pension assets among multiple investment products Utilize forward exchange contracts with respect to foreign exchange fluctuation risk |
| Risks Related to Securing / Training Human Resources <ul style="list-style-type: none"> Impact of not being able to recruit and train enough people with the necessary expertise for each business activity, including human resources who have the flexibility and high level of operational ability to respond to changes in values and the necessary expertise that reflects the way of working in anticipation of the post-COVID-19 era, such as the employment situation and increasing demand for ESG management; and human resources who can seize environmental changes as an opportunity to promote Group management | <ul style="list-style-type: none"> Secure and train human resources with diverse values and expertise Practice diversity and inclusion Provide opportunities for self-growth and strengthen systems and mechanisms that help individuals realize their potential Implement human resource development and manager education that will contribute to the realization of our 2030 Vision Train prospective executives through attendance at The President's Management Seminar and sessions held by group company officers |
| Litigation Risk <ul style="list-style-type: none"> Possibility of litigation related to medication side effects, product liability, workplace disputes, fair trading and other issues | <ul style="list-style-type: none"> Strengthen internal systems as necessary to reduce risk Appropriately respond through consultation with experts such as lawyers and patent attorneys |

In addition to the above, there are various other risks to which the Shionogi Group is exposed; other potential risks include political and economic factors affecting business activities, as well as IT security and information management. The forward-looking statements with respect to risks contained herein are based on the Group's judgment as of the date of submission of its Securities Report. For more information on these risks, please refer to [our Securities Report](#) (available only in Japanese).

Ensuring Compliance

At Shionogi, compliance remains our No. 1 priority—in short, the basis for company survival. Compliance in Shionogi means compliance not only with laws, rules and regulations, but also with social standards, and it also includes ethical behavior. This approach underpins every aspect of our business. We have published the Shionogi Group Compliance Policy, under which all directors and employees are required to comply with laws and regulations as well as practice ethical behavior.

Our intention is for all employees to consistently hold themselves to the highest ethical standards in order to support sustained growth for Shionogi.

 Shionogi Group Compliance Policy

Concept Chart



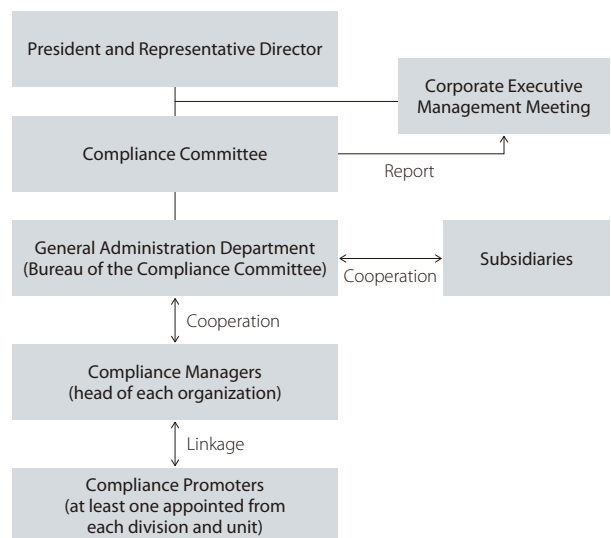
Strict compliance

Compliance promotion structure

Shionogi promotes compliance in all departments and units through a structure centered on the Compliance Committee, which is chaired by the President and Representative Director and includes among its participants members of the Corporate Executive Management Meeting. The Compliance Unit sits within the General Administration Department and provides support for compliance initiatives proposed by the Compliance Committee as well as undertaking a variety of activities including compliance training and surveys. In cooperation with the Compliance Unit, compliance managers (head of each organization) work together with compliance promoters (at least one appointed from each department) on devising compliance initiatives specific to each department or unit.

 Compliance promotion structure and activities

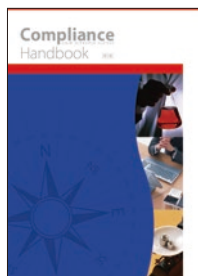
Compliance Promotion Structure (As of April 2020)



Company-wide instilling of compliance

Serving to once again remind all executives and employees of the importance of compliance and to increase their awareness, the Shionogi Compliance Handbook was produced to help them put compliance into practice.

We are working to instill awareness of compliance by posting “check” items related to initiatives and ideas that should be practiced on a daily basis in conjunction with the setting of “discussion points” for each item to encourage discussion in the workplace.



Compliance Handbook

 Shionogi Compliance Handbook

Contents

- How to use this handbook
- Shionogi's Purpose
- Code of Conduct
- Message from Top Management
- I. Workplace Environment
- II. Assets & Information of Shionogi
- III. Shionogi Business Activities
- IV. Business Relationships
- V. Relationship with shareholders / investors
- VI. Relationships with society
- VII. Dealing with a violation
- [List] Main relevant departments, relevant laws and internal rules, etc.

Compliance Risk Management (CRM)

In recent years, the importance of CRM has grown due to the increase in the number of Group companies. In fiscal 2019, we visited all Group companies as a committee to work toward identifying issues and thoroughly managing them.

Shionogi holds annual training sessions for compliance managers and promoters, and the attendance rate in fiscal 2019 was 100%. The Chairman of the Compliance Committee himself talks about its importance and strives to foster awareness and promote understanding of compliance.

Shionogi Global Compliance Week

In addition to the Japan Pharmaceutical Manufacturers Association (JPMA)'s Code of Practice Understanding Promotion Month every November, having agreed with the purpose of the Corporate Compliance & Ethics Week established by the Society of Corporate Compliance and Ethics (SCCE), we decided on

November 1, 2019 to implement this as an initiative to instill compliance not only in Japan but also globally. On November 1, 2019, the President and CEO delivered a message to employees around the world. From November 5–8, all employees were given the opportunity to once again think about what compliance means by having a member of the management team send a message every day.

Internal reporting system

Having established compliance reporting desks that can be used by employees and third parties, we are making every effort to detect at an early stage and thus prevent violations or prevent any recurrence. Users of the reporting system are increasing as a result of thorough training for all directors and employees as well as the distribution of emergency and helpline desk contact cards.

Ensuring high ethical standards and transparency in business activities

In addition to complying with laws and industry voluntary norms, Shionogi strives to earn the trust of society by establishing its own compliance policy based on higher ethical standards.

-  Ensuring high ethical standards and transparency in business activities
- Initiatives to improve transparency
 - Anti-corruption/anti-bribery initiatives
 - Responsible promotional activities
 - R&D ethics
 - Operation and management of public research expenses and initiatives against research improprieties

Protecting the Environment

At Shionogi, we have built up a company-wide management system based on the Shionogi Group EHS Policy, the environmental activities of which embrace not only the Group but also its supplier partners.*1

Contributing to society is essential for achieving our 2030 Vision, and we recognize global environmental protection is a material issue for the Shionogi Group. Having identified the environmental materialities—antimicrobial resistance (AMR), climate change, and resource conservation and circulation—toward the realization of a sustainable society, we formulated EHS action targets (2020–2024/2030/2050) also included under the medium- to long-term environmental goals in conjunction with STS2030 while advancing ongoing activities designed to reduce the environmental burden.

Medium- to Long-Term Targets

We have formulated medium- to long-term CO₂ emission reduction targets in response to global efforts to reduce CO₂ emissions aimed at “net-zero CO₂ emissions by 2050.”

In the years to come, we will work toward the approval of the Science-Based Targets (SBT)*2 initiative relating to medium- to long-term targets.

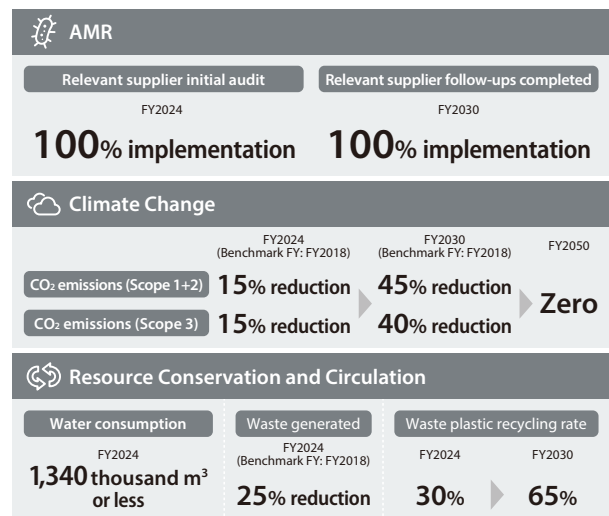
*1 For fiscal 2019 environmental data please refer to Non-financial Data on page 97 and Third-Party Assurance of Environmental Data on pages 95–96.

*2 Emission reduction targets based on Science Based Targets

*3 Please refer to the website below for details on CDP



Shionogi Group EHS Activity Targets (Environmental Category)



CDP: Rated “A-” in Climate Change Category and A (Highest Evaluation) in Water Security Category

In the Climate Change Report 2019 issued by international non-profit organization CDP*3—which engages in the disclosure of environmental information, including on climate change and water security—Shionogi was rated “A-” as a company that excels in climate change countermeasures and information disclosure. In Water Security 2019, Shionogi was rated “A” (the highest evaluation) in recognition of its contributions to sustainable water resource management based on its water security measures and information disclosure.



Initiatives on AMR

Shionogi regularly conducts audits of its antimicrobial release control and management. We have already completed audits of all of our antimicrobial-manufacturing plants, as well as all of our suppliers in Japan, in compliance

with the guidelines for antimicrobial release control published by the AMR Industry Alliance. We commenced audits of overseas suppliers in fiscal 2019.

Responding to climate change

There are concerns that climate change could have a catastrophic impact on economic and social systems on a global scale, and a rapid transition to a non-carbon society has become an urgent social issue worldwide. Climate-related risks and the transition to a non-carbon society are issues that impact almost every industry, and Shionogi evaluates its risks and works to reduce them.

In addition to assessing and responding to the impact of climate change, to meet the social demands for the disclosure of the relevant information, we are expanding the disclosure of climate change-related information with reference to the Task Force on Climate-related Financial Disclosures (TCFD) framework.

CO₂ emissions



Governance

The Shionogi Group Companywide EHS Committee was established to serve as a deliberation and approval body for important items such as environmental policies, medium- to long-term goals, performance reviews, identifying environmental issues, and assessing environmental risks. We have also put in place the more specialized Energy Conservation Committee for matters specializing in climate change and energy conservation. The Shionogi Group Companywide EHS Committee discusses

climate change risks and opportunities at Corporate Executive Management Meeting, and the decisions on such matters are made at Board of Directors' meetings.

Strategies

Shionogi recognizes global warming and other climate change issues as themes to be addressed by management and reflects climate change-related risks and opportunities in the formulation of management strategies. In addition, Shionogi's resilience in consideration of any financial impact relating to climate change is assessed with reference to the IPCC,^{*4} Fifth Assessment Report, and the RCP 2.6, and 8.5 scenarios.^{*5}

^{*4} Intergovernmental Panel on International Climate Change

^{*5} Representative concentration pathway scenarios

Risk Management

The Shionogi Group Companywide EHS Committee and the Energy Conservation Committee evaluate the timing, probability, and financial impact regarding climate change risks to formulate and implement countermeasures according to set priorities. In addition, we are building a system by which the Risk Management Subcommittee within the Corporate Strategy Committee makes assessments in an integrated manner with other corporate risks and decisions are made at Board of Directors' meetings following deliberations at Corporate Executive Management Meeting.

Promoting resource conservation and circulation

There are concerns over water shortages and water pollution due to population growth and economic development worldwide, and it is being pointed out that this situation could be further exacerbated by climate change. Against this backdrop, Shionogi is working to evaluate and reduce business risks with an awareness that water shortages and worsening water quality are issues that impact all business activities, including pharmaceutical manufacturing.

In addition, resource conservation and resource circulation have become global environmental issues due to the environmental pollution caused by marine plastics and other factors. For its part, Shionogi is striving to suppress waste generation and promote the reuse and recycling of resources, as the Group uses and disposes of numerous resources as raw materials for pharmaceutical products and research materials. With regard to plastics, Shionogi is promoting appropriate disposal and reduction in the amount of plastics used for its products.

As a new initiative launched in fiscal 2019, we made changes to the packaging materials used when delivering products through Shionogi Health Mail-order Service. Specifically, we are switching away from plastic to all-paper packaging materials, which is not only environmentally friendly but also eliminates the need for separating garbage.

Water consumption



Waste generated



Note: Please refer to the Environment Report for detailed environmental data.

 Environment Report