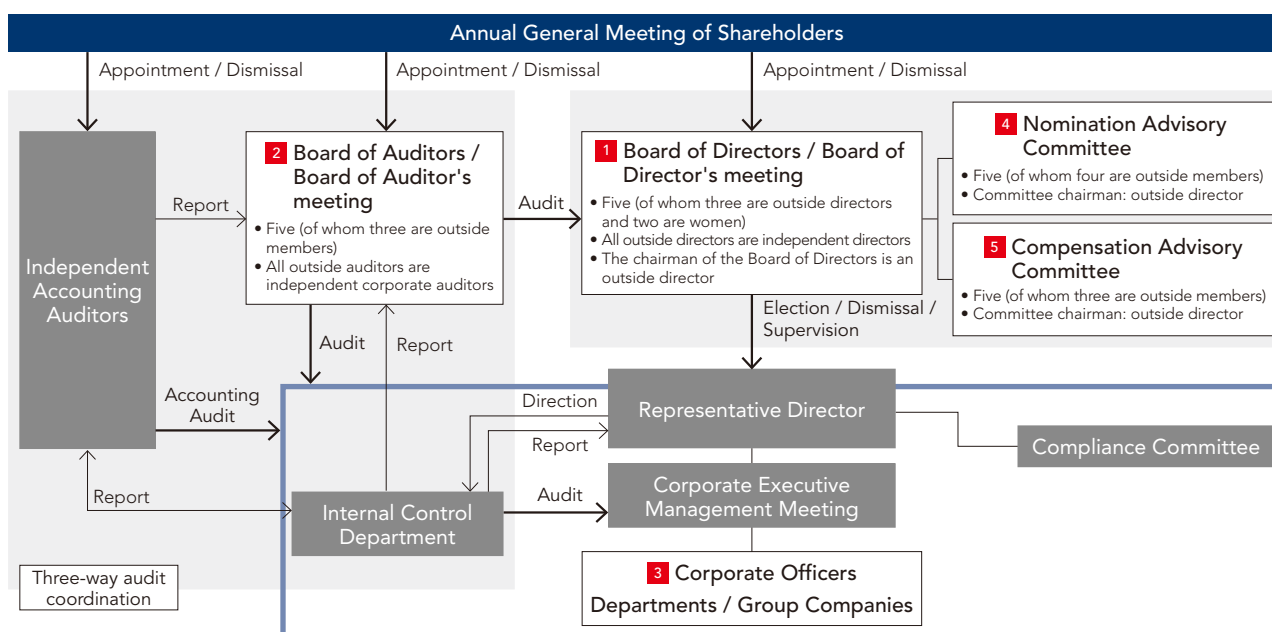


Corporate Governance

Shionogi has chosen to establish a company with a board of corporate auditors because it will enable the smooth functioning of the management monitoring system by enhancing the auditing function of the corporate auditors and the monitoring function of the Internal Control Department, which is an internal auditing function, and by promoting cooperation between them in order to promote business execution based on appropriate management judgment. In addition, we will separate management and business execution through the Board of Directors, which supervises management and makes decisions based on medium- to long-term management plans, and the business execution framework, which is led by Executive Officers who execute business operations through swift and flexible decision-making. The auditing system consists of the Board of Corporate Auditors, which supervises management and audits business execution, and the Accounting Auditor, which fulfills its roles and responsibilities from an independent standpoint.

Corporate governance structure



1 Board of Directors / Board of Director's meeting

The Board of Directors is chaired by an outside director and in principle meets once per month. To strengthen the Board's oversight of business execution and to promote highly transparent and equitable management by drawing on perspectives from outside the Company, the Board currently consists of five members. Moreover, more than half are outside directors and two are women, which allows the Company to maintain a system that ensures fair and efficient management.

Also, all three outside directors are independent appointments who understand the Company's corporate responsibility, and they are contributing to increasing transparency in management.

2 Board of Auditors /Board of Auditor's meeting

To ensure that the directors and each organization in the Com-

pany 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 and exchange opinions with the representative directors to take necessary measures. The Board of Auditors consists of two standing members and three outside auditors. 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. They also receive reports from the Internal Control Department and the independent accounting auditors and exchange opinions.

Principal activities for the year

■ No. of meetings held, other

(Times)

		2020									2021		
		April	May	June	July	August	September	October	November	December	January	February	March
Board of Director's meeting	1	1	2	1	2	1	1	1	1	1		2	1
Board of Auditor's meeting	2		2	1	1	1		1	1	1	1		1
Nomination Advisory Committee	4											1	
Compensation Advisory Committee	5	1					1					1	
Outside officer/president opinion exchange meetings	6					1			1				1
Outside officer information exchange/study sessions	7					1							1

3 Business execution framework

The Company 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, and it has also established the Corporate Executive Management Meeting as a body to discuss business execution. It is composed of directors, standing members of the Board of Auditors, and the corporate officers responsible for business execution, and it meets every week in principle. The business execution framework consists of nine divisions responsible for research, development, manufacturing technology development, marketing, global business, corporate strategy, healthcare strategy, administration and DX, and the quality assurance organization.

4 Nomination Advisory Committee

The Nomination Advisory Committee consists of the President and Representative Director, three Outside Directors, and one Outside Corporate Auditor, and is chaired by an Outside Director. Topics discussed included the balance of expertise among the members of the Board of Directors, including outside directors, and corporate officer nominations. The committee also delivers reports and makes proposals at Board of Directors meetings and conducts in-house inspections that give outside officers the opportunity to review our human resources by talking with division heads and heads of our major organizations. It was held once in fiscal 2020.

5 Compensation Advisory Committee

The Compensation Advisory Committee consists of the President and Representative Director, three Outside Directors, and one Standing Auditor, and is chaired by an Outside Director. Topics discussed included the performance evaluation of Directors and Executive Officers in fiscal 2019, performance evaluation indicators for fiscal 2020, the release rate of medium-term performance-linked stock compensation, and the ideal form of the executive compensation system, etc. It was held three times in fiscal 2020.

6 Outside officer/president opinion exchange meetings

Meetings that serve as a venue for outside directors and the president to exchange opinions are in principle held three times per year. These opinion exchanges take place with the objective of enhancing the quality of discussions at the Board of Directors' meetings. Opinion exchange meetings are convened with outside directors, all of the corporate auditors, 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.

At the fiscal 2020 meetings, there was a proposal from an external officer to check the development status of senior management by having opportunities for dialogue with the management level below the executive officers. In response to this proposal, starting in fiscal 2021, we will set up opportunities for outside directors to engage in dialogue with future executive officer candidates and advisors who will perform functions equivalent to executive officers.

7 Outside officer information exchange/study sessions

In order to deepen understanding of Shionogi's business, the Standing Corporate Auditor hosts the outside officer information exchange and study sessions, which are attended by outside officers and senior management of Shionogi. In fiscal 2020, there were two events on August 31, 2020, and March 22, 2021. At the August study session, members toured the Shionogi Education and Training Center, which is our training and exchange facility, to deepen their understanding of human resource development at Shionogi. The March study session focused on our China business and shared information about the business environment in China (politics, healthcare system, etc.) and related topics, with a view to future business expansion opportunities following the establishment of Ping An-Shionogi.

■ Approach to Succession

At Shionogi, appointments to the executive team are among the most important decisions made by the Board of Directors, and these are thoroughly deliberated under the strong leadership of the President. In an era of fast-moving change in the external environment, the criteria for assessing candidates are changing, and the Company recognizes the need to groom successors from various aspects, based on our vision of the Shionogi of

the future. As mentioned above, we have created opportunities for early dialogue between the advisors who will be candidates for future executive officers and outside officers. In addition to the Nomination Advisory Committee, discussions are also held at the outside officer/president opinion exchange meeting, where outside directors provide a great deal of advice. Also, through the president's management seminar, where the President himself does the teaching, we are implementing human resources training that aligns with our qualifications for a successor.

Deliberations at Board of Directors' Meetings

The Company's Board of Directors engages in lively discussions that incorporate a variety of opinions and advice from outside directors and outside auditors alike. Based on their diverse experience and expertise, each director takes a broad view toward promoting our growth strategy and maximizing value for all our stakeholders while engaging in managerial decision-making and oversight.

The Board of Directors' meetings in fiscal 2020 engaged in lively discussions on a broad variety of topics, including formulation of the new medium-term business plan, establishing a commercial manufacturing

facility for the COVID-19 vaccine, announcement of the year-end dividend and earnings forecast for fiscal 2021, making Tetra Therapeutics a wholly owned subsidiary, and our greenhouse gas reduction target application to the Science Based Targets (SBT) initiative.

As an example of the animated discussions at our Board of Directors' meeting, this section has thumbnail descriptions of the two topics of establishing a commercial manufacturing facility for the COVID-19 vaccine and announcement of the year-end dividend and earnings forecast for fiscal 2021.

The skills matrix on p. 78 illustrates the diverse experience and expertise of our directors, including our outside auditors.

■ Example of Deliberation Details 1 : Establishing a Commercial Manufacturing Facility for the COVID-19 Vaccine

The business execution side made a proposal to invest in a facility for the commercial manufacturing of a COVID-19 vaccine before Phase 1 clinical trials begin and to beef up human resources in the R&D area, even though there is risk of failure at the R&D stage and mass manufacturing planning usually does not begin until both Phase 1 and Phase 2 clinical trials are completed and the commercialization decision has been made.

This proposal elicited discussion from the outside directors and outside auditors regarding the terms for using such aid, the facility's operating costs, the potential impact on non-COVID-19 business activities from concentrating resources on COVID-19 initiatives, and other risks and opportunities concerning our business over the medium to long term.

The upshot of these discussions was that, as a leader in infectious diseases and to help bring an early end to the pandemic, we must build a manufacturing system before Phase 1 clinical trials begin, we should bolster our resources dedicated to fighting COVID-19, and we can expect to obtain future synergies with our other businesses. It was therefore decided to make an early facility investment and to funnel human resources into that area.

■ Example of Deliberation Details 2 : Announcement of Year-End Dividend and Fiscal 2021 Earnings Forecast

The business execution side proposed an increase in the dividend because financial performance should be recovering as the business grows steadily from now on, after two years of lower revenues and profits. Also, regarding the fiscal 2021 business forecast, they stated that many uncertainties exist that make it difficult to forecast earnings, including "changes in the timing of providing COVID-19 related products and services due to development guidelines and policies" and "changes in the market environment due to the prolongation of the pandemic." They proposed not announcing an earnings forecast, saying that a number of uncertainties could not be incorporated into an earnings forecast, because of concern that a revision of the earnings forecast caused by an unforeseen event every time could cause a market disruption.

In response to this proposal, the outside directors and outside auditors said that when society and the stock market are watching Shionogi as a leader in infectious diseases and its progress in COVID-19 product development, not giving an earnings forecast for fiscal 2021 could lead to speculation about our development of COVID-19 drugs and a vaccine and harm our reputation in society and the stock market. They therefore suggested announcing an earnings forecast that does not incorporate uncertainties and offering a careful explanation to this effect, given that as a leader in infectious diseases, Shionogi needs to take an above-board stance in response to social demands. Likewise, regarding increasing the dividend, a comment was made that financial performance should improve going forward, and the payout ratio should be raised to about 30%.

After this discussion, it was decided to increase the year-end dividend and to announce the earnings forecast without factoring in the uncertainties after explaining them in detail.

Features of Shionogi's Corporate Governance

Consider balancing among our four types of stakeholders

Shionogi incorporates the perspectives of its four groups of stakeholders—customers, local communities, shareholders, and employees—in maintaining transparent and proper business management that treats its stakeholders fairly and is responsive to the expectations of local communities.

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 that we always strive for the best compliance system, clearly express our thoughts about points with which we will not comply, and thoroughly discuss any differences of opinion with outsiders.

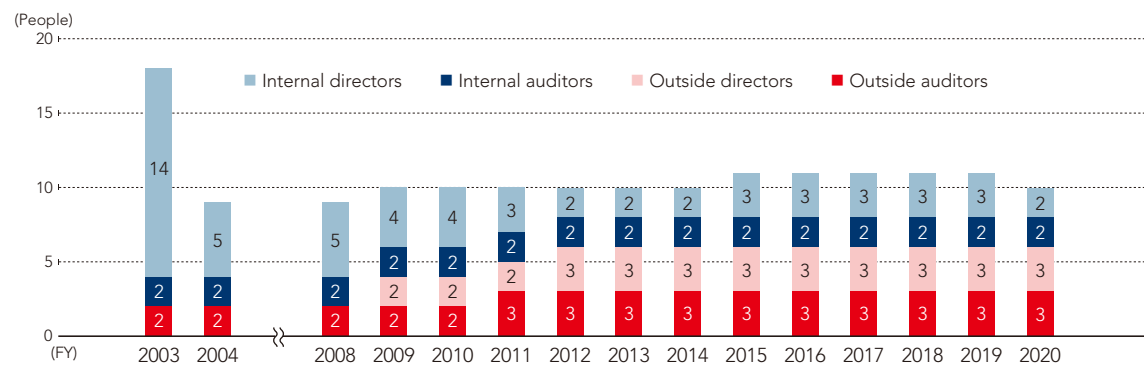
Diversity of the Board of Directors and Board of Auditors

To further strengthen our framework in view of the progress in our business development, Shionogi is building the necessary framework from the standpoint of diversity and such factors as expertise and experience. Regarding diversity, we have appointed two female directors, and regarding skills, we have appointed directors and auditors with a wide diversity of skills and age groups.

Management transparency

A majority of Shionogi's directors and auditors are independent and outside officers, which increases the transparency of our management. Also, based on our Disclosure Policy, we continue to disclose our corporate information to all of our stakeholders in a fair, timely, and appropriate manner.

Changes in Corporate Governance Structure



Fiscal 2004

- Number of internal directors reduced to five from fourteen
- Introduction of corporate officer system

Fiscal 2009

- Introduction of an outside director system
- Establishment of Nomination Advisory Committee
- Establishment of Compensation Advisory Committee
- Start of opinion exchanges with auditors

Fiscal 2012

- Majority passes to outside directors and outside auditors

Fiscal 2015

- Information sharing meetings with outside directors
- Advent of female directors

Fiscal 2017

- Changing composition of Nomination Advisory Committee and Compensation Advisory Committee (to majority of members now being outside directors)

Fiscal 2020

- Outside director appointed chairman of Board of Directors
- Increase in number of female directors (Increase in proportion of women on Board of Directors)

Members of Boards (as of July 1, 2021)



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Directors

1 Isao Teshirogi, Ph.D.

Representative Director, 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)
 June 2021 Outside Director of Sumitomo Mitsui Banking Corporation (incumbent)

Major concurrent posts:

Outside Director of Sumitomo Mitsui Banking Corporation

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 Office 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 Outside Director of the Company (incumbent)
 June 2016 Representative Director and President, GINSEN CO., LTD.
 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.
 June 2009 Representative Director and President, Operating Executive Officer, Osaka Gas Co., Ltd.
 June 2009 Director of OGIS-RI Co., Ltd.
 June 2011 Outside Director of Asahi Broadcasting Corporation (now Asahi Broadcasting Group Holdings Corporation)
 April 2015 Representative Director and Chairman, Osaka Gas Co., Ltd.
 June 2019 Outside Director of the Company (incumbent)
 January 2021 Director and Senior Advisor, Osaka Gas Co., Ltd.
 June 2021 Senior Advisor, Osaka Gas Co., Ltd. (incumbent)
 June 2021 Outside Director, The Royal Hotel Ltd. (incumbent)
 Major concurrent posts:
 Senior Advisor, Osaka Gas Co., Ltd.
 Outside Director, The Royal Hotel, Ltd.

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 (incumbent)
 June 2020 Outside Director of the Company (incumbent)
 Major concurrent posts:
 Partner of Oh-Ebashi LPC & Partners



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Auditors

6 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)

7 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)

8 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 2015 Chairman and Representative Director, Hanshin Hotel Systems, Co., Ltd.
 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.
 June 2017 Outside Director, Sanyo Electric Railway Co., Ltd. (incumbent)
 December 2017 Director, Hanshin Hotel Systems 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.

9 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
 June 2008 Outside Corporate Auditor of Takeda Pharmaceutical Company Limited
 June 2008 Outside Director of Nomura Holdings, Inc.
 June 2008 Outside Director of Nomura Securities Co., Ltd.
 July 2008 Outside Director of Sumitomo Life Insurance Company
 April 2010 Visiting Professor at Kansai University (incumbent)
 May 2010 Outside Corporate Auditor of Seven & i Holdings Co., Ltd.
 April 2015 Fellow and Advisory Board Member at Chuo University Business School (incumbent)
 July 2017 Auditor, Chiba Gakuen (incumbent)
 June 2018 Chairman, Association of Certified Fraud Examiners (AFCE Japan) (incumbent)
 June 2019 Outside Member of the Board of Auditors of the Company (incumbent)

Major concurrent posts:

Auditor, Chiba Gakuen

10 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.

Corporate Officers

Senior Executive Officers

Kohji Hanasaki, Ph.D.

John Keller, Ph.D.

Kazuhiro Hatanaka

Toshinobu Iwasaki, Ph.D.

Noriyuki Kishida

Ryuichi Kiyama, Ph.D.

Corporate Officers






Takeshi Shiota, Ph.D.

Akira Kato, Ph.D.






Yasuyoshi Isou, Ph.D.

Tatsumori Yoshida

Meeting attendance status and skills of Directors (as of July 1, 2021)

Name	Number of years in post	FY2020 attendance			Skills									
		Board of Directors	Nomination Advisory Committee	Compensation Advisory Committee	Management experience	Financial accounting	Law/Compliance/Risk Management	R&D	Sales/Marketing	Manufacturing	IT/Information management	International experience	HR/HR Development	Internal Audit
 Isao Teshirogi, Ph.D. (61/Male) Representative Director, President and CEO	19 years	14/14 (100%)	1/1 (100%)	3/3 (100%)	●		●	●		●		●		
 Takuko Sawada (66/Female) Director and Executive Vice President of the Company, President of Integrated Disease Care Department	6 years	14/14 (100%)	—	—	●			●	●		●	●		
 Keiichi Ando (69/Male) Independent Outside Director	5 years	14/14 (100%) Chairman	1/1 (100%) Committee Chairman	3/3 (100%)	●	●						●	●	
 Hiroshi Ozaki (71 / Male) Independent Outside Director	2 years	13/14 (92.8%)	1/1 (100%)	3/3 (100%) Committee Chairman	●				●		●	●	●	
 Fumi Takatsuki (46 / Female) Independent Outside Director	1 year	11/11* (100%)	1/1 (100%)	2/2* (100%)			●					●	●	●

Meeting attendance status and skills of Auditors (as of July 1, 2021)

Name	Number of years in post	FY2020 attendance				Skills									
		Board of Directors	Board of Auditors	Nomination Advisory Committee	Compensation Advisory Committee	Management experience	Financial accounting	Law/Compliance/Risk Management	R&D	Sales/Marketing	Manufacturing	IT/Information management	International experience	HR/HR Development	Internal Audit
 Akira Okamoto (65/Male) Standing Member of the Board of Auditors	6 years	14/14 (100%)	10/10 (100%)	—	3/3 (100%)			●		●				●	●
 Ikuo Kato (67/Male) Standing Member of the Board of Auditors	5 years	14/14 (100%)	10/10 (100%)	—	—	●		●	●						
 Takaaki Fujiwara (69/Male) Independent Outside Auditor	3 years	14/14 (100%)	10/10 (100%)	1/1 (100%)	—	●				●				●	
 Tsuguoki Fujinuma (76/Male) Independent Outside Auditor	2 years	14/14 (100%)	10/10 (100%)	—	—		●	●				●			●
 Shuichi Okuhara (53/Male) Independent Outside Auditor	1 year	11/11* (100%)	8/8* (100%)	—	—	●	●				●		●	●	

*This is for the period after taking office on June 23, 2020.

Message from the Chairman of the Board of Directors

Independent Outside Director **Keiichi Ando**

Biodata

Mr. Ando joined the Sumitomo Bank Limited (now Sumitomo Mitsui Banking Corporation) upon graduating from the University of Tokyo's Faculty of Economics. After serving in various positions, including Representative Director and Deputy President of the Bank and Executive Officer and Representative Director and President and CEO of the NEW KANSAI INTERNATIONAL AIRPORT CO., LTD., he has been an Outside Director of the Shionogi Group for the past five years, since 2016. He is currently an Outside Director of Tsubakimoto Chain Co. and an Outside Director of DAIHEN Corporation. With his practical experience as a corporate executive at a financial institution and broad insight into finance, and experience as the CEO of a business firm, he is working to increase Shionogi's corporate value by transforming our business model and devising and implementing our growth strategy.



■ What has Shionogi done to strengthen its governance?

I believe that as a pharmaceutical company Shionogi has a very serious social responsibility to protect people's health, safety, and well-being. We are implementing very effective corporate governance by aiming for transparency, fairness, and accountability in our decision-making processes and developing solid decision-making functions and oversight functions for our Board of Directors. Currently two of our five board members are women, and more than half are outside directors. The Board Chairman and the heads of the Nomination Advisory Committee and the Compensation Advisory Committee are all outside directors. I therefore believe that we are building a cutting-edge corporate governance framework.

■ Please tell us about the responsibilities of outside directors and their discussions at Board meetings.

Because we are a pharmaceutical company, outside directors need to have a proper understanding of Board meetings' agenda items. Before the Board meetings, adequate time is always spent having preliminary briefings on the agenda items so that everyone participating will have a common base of knowledge and awareness of the issues, and thus we can have straightforward and detailed discussions that incorporate a wide range of viewpoints. Also, as Board Chairman, I am aware of the timeliness and pertinence of the agenda items. This year, we need to take ample time to discuss issues like our progress in developing COVID-19 treatment medicines and a vaccine, as fighting COVID-19 is our top priority.

Human resources development is one of the key missions of the Board of Directors. For a drug discovery-based pharmaceutical company like Shionogi, the areas requiring

the greatest concentration of resources are human resources and R&D. Our discussions take a long-term view so that 10 years from now, we will have concentrated our management resources, made strategic investments, and steadily nurtured a pipeline (new drug candidates) and the human resources that will carry the next generation forward. As an outside director, I am striving for prompt and bold decision making that arises from lively discussions based on diverse perspectives on how to achieve sustainable growth and increase corporate value over the medium to long term.

■ What can we expect from Shionogi in the future?

With STS2030, we have unveiled a major direction toward transforming our business model. We aim to fulfill our customers' healthcare needs, and we have partnered with M3 and the Ping An Group to gain a foothold in the field of total healthcare. At the same time, providing solutions to COVID-19 as a leader in infectious diseases is an urgent issue. We have a social responsibility to respond to society's demands for COVID-19 prevention, treatment, and medicines, i.e., total healthcare. Providing solutions for COVID-19 is in fact the touchstone of STS2030.

Also, the world still has many incurable diseases and new medical frontiers, and Shionogi's mission is to create the next growth drivers and come up with solutions to the many social issues involved in the field of healthcare. To become a social institution that truly supports a healthy society and people's health and well-being while also increasing our corporate value for the long term, we will work hand in hand with all our stakeholders to carry out our social responsibilities, share ownership with our stakeholders of our value system of further expanding our strength as a drug discovery-based pharmaceutical company and collaborates as a healthcare provider focusing on healthcare services, and we expect to achieve sustainable growth based on mutual trust.

Analysis/evaluation of effectiveness

The Board of Directors performed an analysis and assessment of the effectiveness of the Board of Directors in fiscal 2020 that focused on Shionogi's Basic Views and Guidelines on Corporate Governance, Article 6. Directors and the Board, (1) Framework, (3) Roles and Responsibilities, and (6) Operation, by conducting questionnaires and interviews with each director and corporate auditor. Below is a summary of the findings.

■ Summary of analysis and evaluation results for FY2020 and response

Framework

Our assessment is that the Board of Directors has currently secured the necessary framework from the standpoint of diversity and such factors as expertise and experience.

As a future topic and based on our business expansion and transformation, from the standpoints of further diversity and succession, the need to appoint a foreign national as a director and develop and appoint 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 the status of management development and overseeing the status of management development, reports were made and opinions exchanged

on an ongoing basis at the Nomination Advisory Committee and outside officer/president opinion exchange meetings. Reports about the status of compliance activities are also made to the Board of Directors twice a year, and opinions were voiced at Board meetings. Furthermore, Activity plans for ESG promotion and their progress were proposed and reported to the Board of Directors twice a year, and related individual measures were proposed and reported to the Board of Directors on a case-by-case basis for deliberation and resolution. Matters identified as future issues included progress reports on the medium-term business plan, and detailed explanations and debate concerning the status of development, selection process and progress of development of management executives. The Board of Directors will continue to consider ways to further flesh out its roles and responsibilities.

Operation

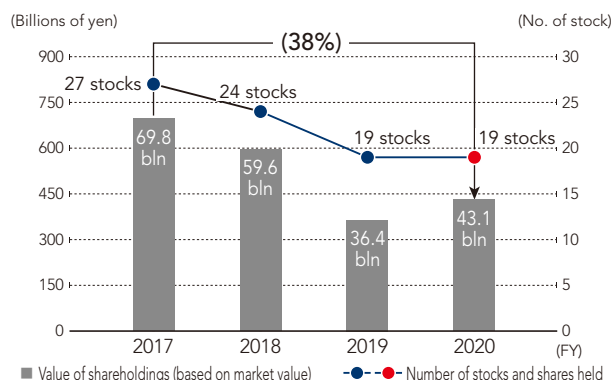
To further stimulate discussion at Board of Directors' meetings, we continued to hold preliminary briefings on the agendas of Board of Directors' meetings on a regular basis and delivered the appropriate reports on the matters decided at Board of Directors' meetings. We also went on a site visit to the Shionogi Education and Training Center. As a future topic, a suggestion was made 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 30% and 38%, 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 value)



Remuneration for directors and corporate auditors

■ Process for determining remuneration

The Compensation Advisory Committee deliberates carefully on the matter of directors' compensation and discusses various issues concerning remuneration for directors and executive officers, verifies the levels of remuneration

every year, and deliberates the remuneration system, and performance evaluation system for the following fiscal year.

■ Remuneration Framework

Total director remuneration is determined within limits set

by resolution of the General Meeting of Shareholders. This consists of base monthly remuneration, performance-linked bonuses determined by results for the fiscal year and other factors, and since fiscal 2018, restricted stock compensation (medium-term, performance-linked and long-term). Also, outside directors receive only base remuneration.

Base remuneration is determined based on the base remuneration table according to the position and role of directors with due consideration of the management environment and global trends.

Performance-linked remuneration (bonuses) is paid as cash remuneration, which reflects performance indicators (core operating profit excluding royalties, sales of assets, etc., profit attributable to owners of the parent and other total performance evaluation as directors) to heighten the awareness of improving performance for each fiscal year. As short-term incentives, they are determined based on the calculation table according to performance such as achievement of targeted profits and other factors in each fiscal year and paid in June of each year.

Non-monetary remuneration (Stock-based compensation) is granted in July of each year based on the stock-based compensation table according to directors' rank and job responsibilities. For medium-term performance-linked stock compensation in particular, the performance evaluation will be based on the degree of achievement in fiscal 2022 for the portion to be granted in the three years from fiscal 2020 through fiscal 2022 during the STS2030 Phase 1 period (fiscal 2020 through fiscal 2024) to determine the ratio of lifting the transfer restriction (100% to 0%). In addition, when lifting the transfer restriction, 50% of the amount of stock-based compensation, translated into the share price at the time of lifting, is paid as monetary compensa-

tion. Performance evaluations use such quantitative indicators as revenue, overseas net sales, core operating profit, ROE and the ranking in total shareholder return (TSR) among 12 competitors including the Company (relative TSR) and also incorporate the status of ESG, compliance, and development associated with COVID-19.

The Compensation Advisory Committee discusses the ratio of remuneration by type for executive directors in consideration of remuneration levels, using as its benchmark companies that have a similar business size to the Company and are included among the relevant business types and categories, and the Board of Directors, in respect of the recommendations given by the Compensation Advisory Committee, determines the details of the remuneration system, etc. so that the ratio of remuneration by type is in line with the recommendations. The policy for determination thereof is set in accordance with the separately defined "Policy for Determination of Details of Individual Remuneration, etc. for Directors." In addition, pursuant to the resolution at the Board of Directors meeting held on February 22, 2021, it is considered appropriate that base remuneration and individual bonus amount, etc. are evaluated and determined by a person who bears the ultimate management responsibility, and thus, such evaluation and determination are entrusted to Isao Teshirogi, Representative Director and President. The Compensation Advisory Committee deliberates the policy and criteria for the entrustment and provides the Board of Directors with the results as recommendations for their resolution, and Isao Teshirogi, Representative Director and President, to whom such determination is entrusted, shall make decisions in accordance with said recommendations and the above-mentioned resolution by the Board of Directors.

■ Remuneration track record

The targeted ratio for each type of remuneration is set at base remuneration: performance-linked remuneration*¹, etc.: non-monetary remuneration*¹, etc. = 4:3:3 on the premise that all KPIs are achieved.

*¹ Performance-linked remuneration, etc. consists of executive bonuses, and non-monetary remuneration, etc. consists of restricted stock.

Base remuneration	Performance-linked remuneration	Non-monetary remuneration
Determined based on the basic remuneration table according to the position and role of each director, taking into consideration the business environment and public trends.	Determined based on a calculation table based on performance, such as achievement of target profits for each fiscal year, as a short-term incentive.	Incentives to further increase the linkage with mid-to long-term business performance and to promote sustainable enhancement of corporate value for the Company's directors, excluding outside directors.

■ Actual compensation

The ratio of basic remuneration: performance-linked remuneration, etc.: non-monetary remuneration, etc. for fiscal 2020 is 5:2:3.

■ Total amount of remuneration for directors and corporate auditors*² (fiscal 2020)

Category	Persons	Total amount of remuneration, etc. by type			Total
		Base remuneration	Performance-linked remuneration* ³	Non-monetary remuneration* ⁴	
Directors (of which outside directors)	7 (4)	207 (56)	60 (—)	207 (—)	475 (56)
Corporate auditors (of which outside corporate auditors)	6 (4)	124 (54)	— (—)	— (—)	124 (54)
Total	13	331	60	207	599

*² The above figures include the amount and number of remuneration, etc. paid to one director, one outside director and one outside corporate auditor who retired on June 23, 2020.

*³ The amount of "Performance-linked remuneration, etc." above is the amount of provision for directors' bonuses for the fiscal year under review.

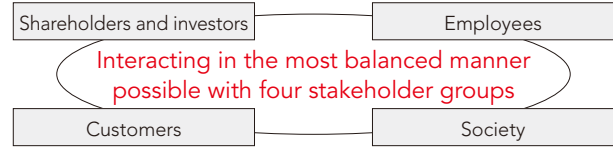
*⁴ The amount of "Non-monetary remuneration, etc." above is the amount recorded as an expense in the fiscal year under review.

Engagement with Stakeholders

Creating corporate and social value through engagement

Shionogi is working to achieve a sustainable society by creating corporate and social value through optimally balanced engagement with its four groups of stakeholders: shareholders and investors, customers, society, and employees.

Shionogi-style "engagement"



Approaching our diverse stakeholders


Our information dissemination efforts to date have focused on pharmaceutical products for treating diseases and have been targeted at our customers, such as healthcare professionals and patients and their families. However, as Shionogi transitions into a HaaS company providing total care, including during the pre-symptomatic and convalescent stages, we are diversifying the information we provide to our stakeholders so that it will


serve the general public. We need to communicate not just through general media and healthcare professionals but directly through our owned media, so we have beefed up our website and have expanded our communication through social media as well. We intend to broaden these efforts going forward so that we can engage with diverse stakeholders.

Upgrading the information provided on our website

In May 2020, we refreshed our corporate website so that we would have a framework for providing information on the Shionogi Group to more of our stakeholders. In particular, the web page "Commitment to Fight COVID-19," which we set up to describe our most recent efforts with respect to COVID-19, has become our website's most frequently accessed and widely read page. In June

2021, we refreshed our website for patients and their families. We will continue to improve the accessibility and useability of information so that a broad range of stakeholders will be able to easily obtain the information that they seek.

 Webpages on our commitment to fight COVID-19
<https://www.shionogi.com/global/en/sustainability/information-for-id/covid19-initiative.html>

 For patients and their families (Japanese only)
<https://wellness.shionogi.co.jp/>

Opening official company accounts on social media

We have had a YouTube account since July 2016, and we recently set up accounts on Twitter and Instagram. These are communicating various types of information on Shionogi. By disseminating information using the characteristics of these social media, we are increasing

recognition of Shionogi by expanding our fan base to new groups of people. We also plan to expand the information provided by linking our website and social media accounts.



Website

<https://www.shionogi.com/global/en/>






Twitter


@ SHIONOGI_JP
SHIONOGI/





YouTube


SHIONOGI





Instagram

@ shionogi_official
SHIONOGI



Risk Management

Under STS2030, we are aiming to transform our 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 could also affect business continuity, so in fiscal 2020 we focused on identifying related risks and worked to build an organization and foster a culture in which information about various business risks are reported to management promptly by departments and other business units.

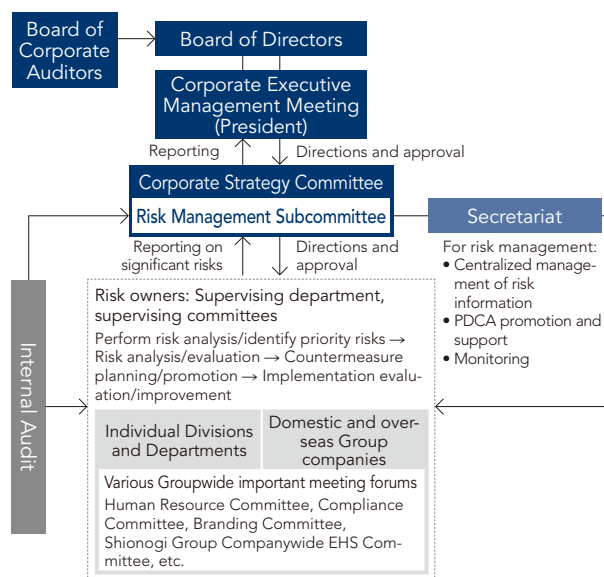
Building and Promoting an Enterprise Risk Management System

A fundamental of the Shionogi Group is to have each organization identify the positive and negative risks associated with its decision making and business execution and then take the initiative to manage and deal with those risks. As part of our corporate strategy, we have created and implemented a company-wide enterprise risk management system that manages the risks of the entire Group, including such crisis risks as pandemics, natural disasters, terrorism, and cyber-attacks, and responds to such business risks by creating new business opportunities and taking risk avoidance and risk reduction actions. In particular, the Corporate Executive Management Meeting and the Board of Directors deliberate and make decisions on policies for responding to significant risks that could have a major impact on management, and based on the response policy, the supervising department works with the related organizations to implement these measures. In fiscal 2021, we will step up our efforts to rebuild into an organization geared toward company-wide risk management that integrates our organizational goals and culture and work on fostering such a culture.

Based on our by-laws, we are working to manage crisis risk with a view to respecting human life, considering and contributing to local communities, and controlling damage to our corporate value. Specifically, we are working to consolidate and maintain a comprehensive crisis management structure that incorporates a business continuity plan

premised on the occurrence of a major earthquake or pandemic. In addition, in fiscal 2021, we will take further steps, including formulating a business continuity plan that addresses IT infrastructure. Going forward, we will respond to the risks facing us so that we can continue to function smoothly as a pharmaceutical company engaged in work with a critical social mission, such as stable supply of medicines as well as research and development of medicines and prophylactic vaccines for COVID-19.

Risk management structure



Scope of risk: Business risks, compliance, crisis issues, ESG, and other issues pertaining to our management strategy

Response to Dichloromethane Leakage at the Kanegasaki Plant

In January 2021, a leakage of about 17 kL of the solvent dichloromethane occurred on the property of the Kanegasaki Plant (in Iwate Prefecture) of Shionogi Pharma Co., Ltd. The direct cause was a piece of ice that had pushed down the handle of the drainage valve at the bottom of the tank, leaving the valve half-open. We are currently taking steps to clean up and prevent spreading to the surrounding area. So far, no leakage outside of the site has been confirmed. Also, we will be implementing appropriate surveillance programs going forward, including sampling and analysis of underground observation points around the plant. We extend our sincere apologies for the trouble that we have caused to the plant's neighbors and everyone else in the surrounding area.

Response to the Cyberattack on Taiwan Shionogi

In response to the October 2020 cyberattack on Taiwan Shionogi, we are taking steps to build an IT-BCP by forming a project team to bolster our IT infrastructure and make our business continuity efforts more robust. Also, in addition to bolstering the IT infrastructure, strengthening our data security base, and improving its management, as a result of the cyber-attack at our Taiwan location, we are performing a global security assessment and taking steps toward preventing a recurrence and any outbreaks at our other global sites, and we are strengthening our response, such as by comprehensively reforming the entire Group's network structure.

Business and other risks

Risk category	Summary	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 and drug price control measures, 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 on revisions to the drug pricing system and related regulations, etc. and promptly make appropriate changes
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 Drastically reduce the time it takes to conduct R&D globally in order to fight the spread of COVID-19 	<ul style="list-style-type: none"> Identify development compounds and key drug discovery programs, such as vaccines and medicines to treat COVID-19, and concentrate investments in resources to manage these programs 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 new drug discovery modalities other than small molecules (such as medium-sized molecule drugs and antibody drugs) Invest in the 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"> Strengthen the appropriate management system for intellectual property rights Strengthen 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"> Sales declines or discontinuation of sales due to the expiration of intellectual property rights of key products and the accompanying launch of generic products, drug price revisions and the appearance of competitors, the scale of epidemic, or other unforeseen circumstances 	<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 research, development, manufacturing and joint research in sales, 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 Enter into agreements that incorporate assumed risks and hold continuous discussions and formulate agreements aimed at risk reduction Establish and maintain a governance system with alliances, understanding the risks of alliances, and respond with measures to resolve them
Risk of Natural Disasters or Pandemics	<ul style="list-style-type: none"> Closure of offices and suspension of plant operations due to natural disasters such as major earthquakes, climate change-related storms and floods, unforeseen accidents, outbreaks of pandemics, etc., and consequent delays and suspension of product supply 	<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

Risk category	Summary	Response
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 who will think logically from a company-wide viewpoint in supporting the Group's highly efficient management, people who can bring about Shionogi's transformation into a HaaS company with sustainable growth, and people who will lead the resolution of social issues and view as golden opportunities such environmental changes as the employment situation, increasing demand for ESG management; and workstyles for the post-COVID era 	<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 manager education that supports development and human resource development that will contribute to the realization of our 2030 Vision Implement business transformation/value creation training that uses IT and digital technology to facilitate our transformation into a HaaS company as set forth in STS2030 Train prospective executives through attendance at The President's Management Seminar and promotion to group company officers
IT Security and Data Management Risks	<ul style="list-style-type: none"> As we use many IT systems and possess a large volume of confidential information, including personal information, in the event that security problems occur or systems are shut down due to carelessness or deliberate actions on the part of employees or outsourcing providers or due to cyber-attacks and viruses from malicious third parties or other causes Our business activities, operating performance, financial circumstances, and credit ratings could be seriously affected We could be subject to damage claims or other legal claims or incur ex-post facto costs 	<ul style="list-style-type: none"> Strengthen data management rules, etc. in light of the regulatory system and guidelines and appoint a CIO*1 to be in charge of data management and set policies to protect data and ensure data security, a CDO*2 to be in charge of integrating the use and management of data and documentation, and a global IT head to be in charge of IT management. Formulate a global privacy policy regarding personal information Make all employees cognizant of the importance of information management and personal information and of the need to obey laws and regulations concerning the protection of personal information Launch a project to build an IT-BCP system that can handle cyber-attacks, major disasters, and other crisis events Bolster the IT infrastructure, and strengthen the data security base and improve its management Perform a global security assessment in response to the cyber-attack on our Taiwan facilities in order to prevent a recurrence and to ward off attacks on our other global locations, and take steps that include a drastic overhaul of our network systems through the entire Group
Compliance Risk	<ul style="list-style-type: none"> In executing our business activities, we are subject to regulations and various laws on pharmaceuticals, product liability, and the like, and we are required to uphold very high ethical standards as a pharmaceutical company that is directly involved in people's lives. Therefore, behavior that violates laws and regulations or runs contrary to social needs could lead to a loss or decline in the Group's credibility among its stakeholders and even have an impact on our financial performance. 	<ul style="list-style-type: none"> As strict compliance is always a top priority in our business endeavors, the topic of compliance will always be addressed in the President's quarterly message Work to strengthen compliance awareness among employees Formulate a compliance policy and set compliance as a goal in the Shionogi Group Code of Conduct Establish a Compliance Committee and Internal Reporting Desks (inside and outside the Company) The Compliance Committee, which will meet four times per year and be headed by the President, will discuss compliance-related topics and implement the necessary educational and other programs (harassment, data leaks, bribery prevention, etc.)
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
The Spread of COVID-19	<ul style="list-style-type: none"> If our business becomes constrained by the further spread of COVID-19, shutdowns or slowdowns in the procurement of raw materials and other parts of the supply chain could have a significant impact on obtaining a stable supply of medicines Restrictions on programs that use MRs to supply information or delays in research and clinical experimentation could have a significant impact on the approval, launch, and commercialization of new products and on the collection and supply of drug safety information and information on proper usage 	<ul style="list-style-type: none"> Restrict on-site work to prevent the further spread of the pandemic Programs to establish new workstyle needed to maintain and improve productivity Fulfill our social responsibility as a pharma company by maintaining business continuity through employing our existing pandemic BCP in a response that prioritizes a stable supply of our proprietary drug products As a marketing initiative during the pandemic, change the mechanism and content of information supply in accordance with the Ministry of Health, Labour, and Welfare's Guidelines on the Provision of Marketing Information

*1 CIO: Chief Information Officer *2 CDO: Chief Data Officer

The Company is subject to many other risks related to its business activities in addition to the above, so the risks discussed here do not comprise all of the Shionogi Group's risks.