

Special  
Feature

## Outside Directors Roundtable

### Outside Directors Roundtable

Keiichi Ando × Hiroshi Ozaki × Fumi Takatsuki

## Corporate Governance Supporting SHIONOGI's Growth

Professor Emeritus Tetsuo Kitagawa, Ph.D. of Aoyama Gakuin University was invited as a facilitator to discuss with the three outside directors the features and challenges of governance at SHIONOGI, which aims to promote transformation into a HaaS company.

#### Role of Outside Directors on the Board of Directors

**Kitagawa** Corporate governance, in a word, varies from company to company depending on its stage of growth, and the role required of outside directors is also very fluid.

Based on your personal experience, could you all tell us your impression of SHIONOGI's governance and how you view the role of an outside director?



**Ando** At SHIONOGI, management recognizes the importance of corporate governance more strongly than anyone else, and they have a very solid governance structure in place. One of the major roles of an outside director is to supervise the execution framework. The six outside directors and auditors provide appropriate advice and wide-ranging discussions at board meetings based on their different experiences, and I believe that management is conducted in a transparent and satisfying manner.

**Ozaki** In SHIONOGI's business, engagement with all stakeholders, including society and employees, as well as customers, shareholders and investors, is very important. My impression is that SHIONOGI's governance is very well done, as there is appropriate communication between management and employees, with even bad information immediately coming to upper management, and a high level of information disclosure to society. However, maintaining the status quo is the first step toward deterioration. It is important for management to constantly consider areas for improvement, and it is the role of outside directors to oversee this.

**Takatsuki** Discussions at the Board of Directors meetings are very active, and there is a multifaceted exchange of opinions that makes good use of the perspectives of each board member. As a lawyer, I have helped with fraud investigations mainly for companies operating in China and Southeast Asia. As SHIONOGI's business continues to expand globally, I would like to offer my opinions from a different perspective than the executive side.

**Kitagawa** I can see that there is open discussion at the board meetings, including with the auditors. Speaking of auditors, in Japan there are three recognized forms of governance organization, of which SHIONOGI has chosen to establish a company with a board of corporate auditors. What kind of discussions do you have on this point at your board meetings?

**Ando** In Europe and the U.S., many companies have chosen to establish a company-with-committees system compared to Japan. In the case of SHIONOGI, the Company has chosen to establish a company with a board of auditors, but it recognizes that there are no problems with our current system, as the six outside directors and auditors are able to express their candid opinions. Discussions by the Nomination Advisory Committee and the Compensation Advisory Committee, which are voluntary committees, are diligently reported to the Board of Directors.

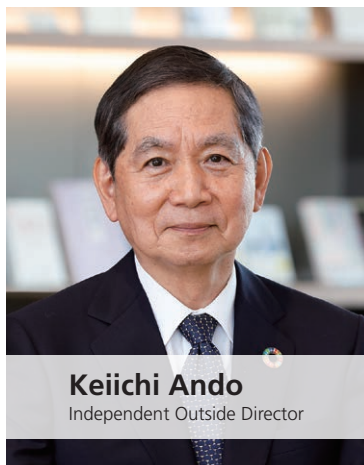


**Ozaki** The importance of governance structure and voluntary committees is not the form, but the quality, i.e., whether appropriate discussions are taking place. Some companies may have the same form, but completely different results.

**Takatsuki** For foreign investors, a company with a board of



**Tetsuo Kitagawa**  
Emeritus Professor,  
Aoyama Gakuin University



**Keiichi Ando**  
Independent Outside Director



**Hiroshi Ozaki**  
Independent Outside Director



**Fumi Takatsuki**  
Independent Outside Director

corporate auditors is an unfamiliar format. Perhaps it is necessary to explain its advantages and how the check-and-balance function works in a way that is easy to understand.

### What the Board of Directors is looking out for as we transform into a HaaS company

**Kitagawa** In STS2030, SHIONOGI has set the goal of transforming itself from a drug discovery-based pharmaceutical company to one that pursues the quality of health that people truly desire and delivers unprecedented new value to society. I believe this goal is highly compatible with the SDGs and ESG, which are receiving increasing attention as demands from society.

What are your thoughts on the background of SHIONOGI's transformation into a HaaS company and the challenges that come with it?

**Ando** In a sense, the pharmaceutical business is a high-risk business. SHIONOGI needs to change their conventional business model in which the expiration of patents on core products (patent cliffs) significantly affects business performance. The recent COVID-19 pandemic has reaffirmed the importance of not only treatment but also total health care, including diagnosis and prevention. I believe that their initiatives for COVID-19 will be a major touchstone for the transformation of their business model toward becoming a HaaS company by 2030.

**Ozaki** Health as a concept has changed. Drug discovery must always be a core competence of SHIONOGI, but in addition to that, they must incorporate peripheral fields such as big data and environmental measurement, and change the mechanisms for healthy living, which I believe will lead to HaaS.

**Takatsuki** Rights (patents) are a part of the pharmaceutical business that is very regulated and institutionalized in Japan and abroad. And, as SHIONOGI aims to become a HaaS company, they will increasingly have to deal with laws in different areas more than before, such as responding to digitalization and providing information to consumers. Furthermore, from a global perspective, the services sector is affected in part by

cultural differences, political, and economic conflicts. I make a point of speaking up about these things, as I am always looking from a different perspective than pharmaceuticals one.

### Utilizing finite human resources to enhance SHIONOGI's competitive advantage

**Kitagawa** In their ESG initiatives, I suspect that efforts related to human resources, particularly diversity and the utilization of human resources, will affect SHIONOGI's corporate value in the future.

What are your thoughts on human resource development?

**Takatsuki** The impact of Japan's declining population is a serious issue for all companies, who need to utilize their limited human resources to increase their competitive advantage. SHIONOGI has a position of "Associate Corporate Officer" as a candidate for the next generation of leaders, and they provide opportunities for these Associate Corporate Officers to explain their own initiatives to us outside directors. Through dialogue with these Associate Corporate Officers, I have learned that over the past two years, SHIONOGI employees have been working hard and involving others in the COVID-19 project, contributing to the sustainability of society through SHIONOGI's core business.

**Ozaki** The skills that SHIONOGI's personnel currently possess will not be sufficient in transforming them into a HaaS company. In addition to recurrent training, they need to be prepared to stay half a step ahead of the changes Japan will undergo as a whole by considering external collaborations and M&A opportunities. In addition, since global expansion means that the world will be watching them from an environmental perspective as well, they must consider human resource development not only within SHIONOGI, but also along the supply chain.

**Ando** Drug discovery is the foundation of SHIONOGI. With the HIV product patent expiring in 2028, there is a great sense of urgency as to whether SHIONOGI will be able to continue to produce new drugs solely through its drug discovery capabilities. The Board of Directors has agreed to invest all management resources in further strengthening the Company's R&D capabilities. In par-

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ticular, they are being asked to raise the level of human resources, which form the foundation of SHIONOGI, and to this end they need to visualize their investments in human resources. They must also continue to look into industry-academia collaborations, collaborations with partners, and the use of AI.

**Kitagawa** On a macro basis, some say that Japanese companies have not invested enough in human resources over the past 20 years, but it seems that SHIONOGI is already tackling that issue head on. What are your thoughts on the skills matrix for the Board of Directors? Also, do you think it is necessary to increase the composition of the Board of Directors, which consists of two internal and three external members?

**Ozaki** I believe that the skills matrix shows that SHIONOGI is looking for diversity. If it is necessary for management, they can invite experts, and the role of management is to define SHIONOGI's business and what it requires of these experts. I think it is important for outside directors to be able to provide advice, based on their experience and knowledge, on whatever the business needs.



**Takatsuki** Although there is a risk of discussions losing their focus if there are too many directors, and despite there being an executive officer system in place, it may become necessary to consider increasing the number of internal directors in the medium to long term, in anticipation of the succession of top management.

**Ando** Succession is definitely the greatest challenge. In order for SHIONOGI to achieve sustainable growth, they need to increase the number of directors from within the Company, and have them speak out with a sense of direction based on an awareness of the issues facing the Company and the content of the discussions. Through speaking out in this way, they can further hone their sense of management. However, I also believe it is necessary to continue to maintain the system in which outside directors make up the majority of the board.

### Corporate governance issues from a medium- to long-term perspective

**Kitagawa** Finally, as an outside director, what are some of the corporate governance issues that you will be keeping a close eye on from a medium- to long-term perspective?

**Takatsuki** My main concern is global governance and the compliance promotion system. When a company expands, if management cannot keep up and there is no proper governance

and support, the risk of various incidents increases. I believe that SHIONOGI has effective governance right now, but, as they expand their overseas business, they need to be well prepared to maintain a certain level of governance throughout the world.



**Ando** The pharmaceutical industry is an industry that can contribute to the achievement of the SDGs as its core business. It is necessary to take pride in this and return even greater benefits to society, and for each and every employee to be working on the same page to promote this transformation into a HaaS company. Furthermore, it is important to think long-term and ensure that this direction is followed by the next potential successors.

**Ozaki** SHIONOGI is a leader in infectious diseases and this position must not be shaken. While the revenue from infectious diseases is highly volatile as it depends on the presence or absence of epidemics, this business needs to be stable because, as we learned in the COVID-19 pandemic, it plays a significant role in society. And I believe that the vaccine business is one answer to this. Figuring out how to create a system that generates profits in order to respond to new technologies and make them a viable business is key. SHIONOGI also needs to foster and instill loyalty for the Company among its stakeholders, such as overseas customers and employees. I believe that this is the challenge to ensuring stable business growth going forward.

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#### Keiichi Ando

An outside director of the Company since 2016. He has served as Chairman of the Board of Directors since 2020, advising on budget planning and management as well as capital policy, including investments.

#### Hiroshi Ozaki

An outside director of the Company since 2019. He has extensive practical experience and broad knowledge of corporate and organizational management, and provides advice on business and marketing matters.

#### Fumi Takatsuki

An outside director of the Company since 2020. She provides advice from the perspective of international corporate legal affairs, particularly with respect to conducting business in China.

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#### Tetsuo Kitagawa

Emeritus Professor of Aoyama Gakuin University. After working as a researcher at both a think tank and an investment institution, he became a professor at Aoyama Gakuin University Graduate School in 2005, and assumed his current position in 2019. His areas of expertise are corporate governance, financial analysis, and ESG investment.

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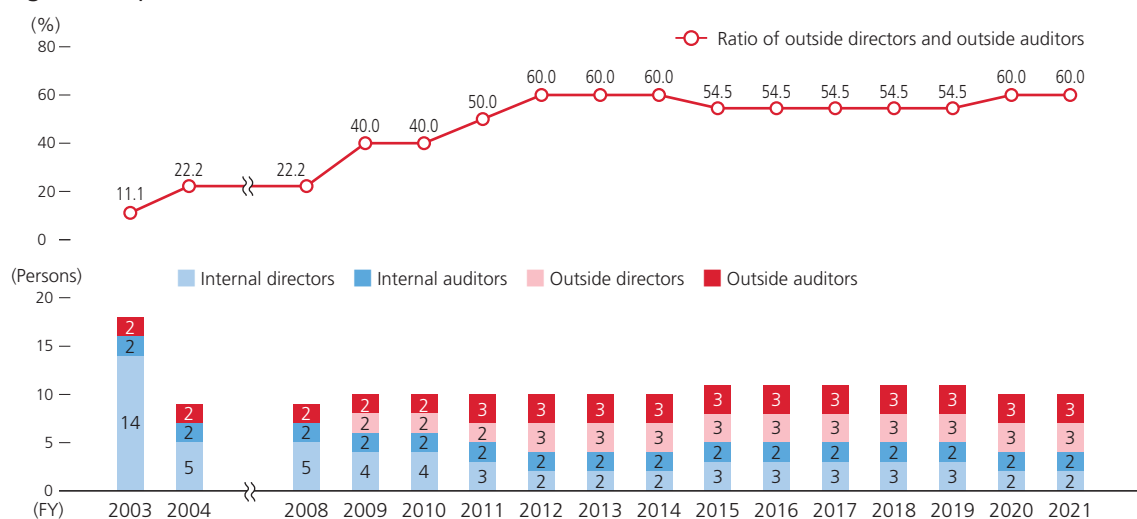
# Corporate Governance

To ensure business execution based on appropriate management decisions, SHIONOGI has strengthened the monitoring function of the Board of Directors, which deliberates on matters mainly relating to the Company's corporate philosophy, business plans, and important matters concerning business execution by tapping into the management experience and professional knowledge of outside directors and outside auditors. This has resulted in the establishment of a framework in which each executive organization ascertains the progress of business execution related to matters for which a management decision was made and reports to the Corporate Executive Management Meeting, the Board of Directors meeting, etc., on a timely basis. SHIONOGI has opted to be a company with a Board of Corporate Auditors to ensure such duties are performed in a legally compliant and smooth manner by linking the Board of Directors' oversight function, the Board of Auditors' audit function, and business audits based on internal audits.

## Features of SHIONOGI's Corporate Governance

<p><b>1 Consider balancing among our four types of stakeholders</b></p> <p>SHIONOGI incorporates the perspectives of its four groups of stakeholders—customers, society, shareholders and investors, and employees—in maintaining transparent and proper business management that treats its stakeholders fairly and is responsive to the expectations of society.</p>	<p><b>2 Emphasis not only on complying but also on explaining</b></p> <p>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.</p>
<p><b>3 Diversity of the Board of Directors and Board of Auditors</b></p> <p>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. We have appointed two female directors, directors and auditors with a wide diversity of skills and age groups.</p>	<p><b>4 Management transparency</b></p> <p>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.</p>

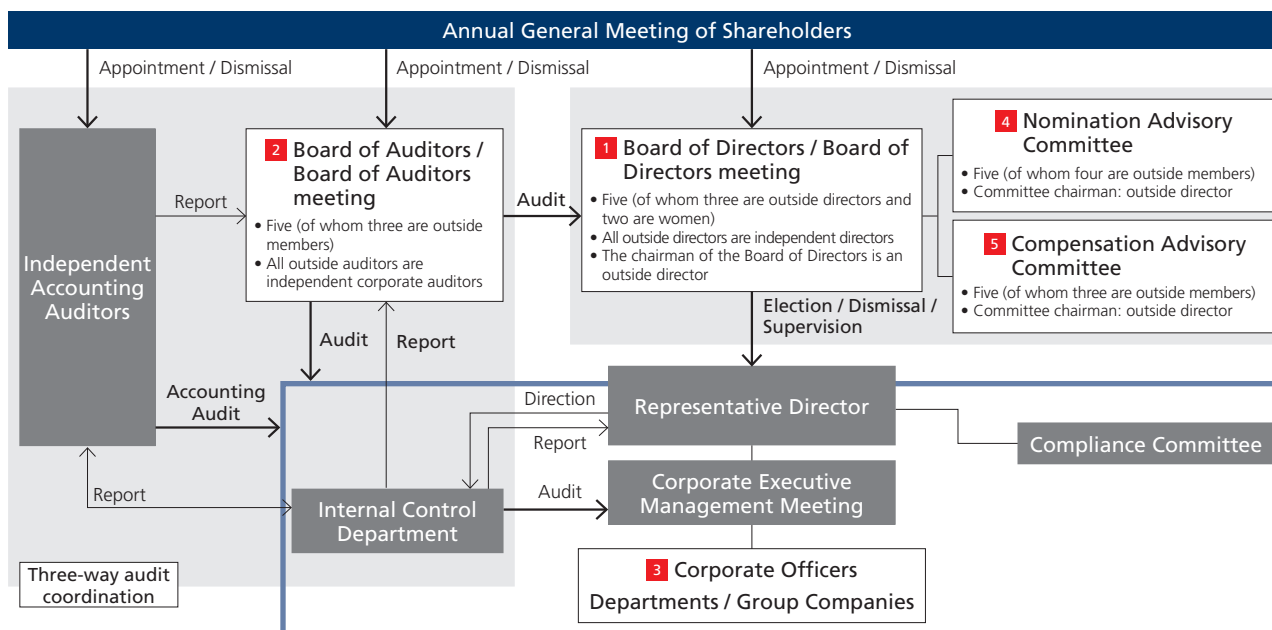
### Changes in Corporate Governance Structure



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|--|--|---|---|--|---|
| <p><b>Fiscal 2004</b></p> <ul style="list-style-type: none"> <li>Number of internal directors reduced to five from fourteen</li> <li>Introduction of corporate officer system</li> </ul> | <p><b>Fiscal 2009</b></p> <ul style="list-style-type: none"> <li>Introduction of an outside director system</li> <li>Establishment of Nomination Advisory Committee</li> <li>Establishment of Compensation Advisory Committee</li> <li>Start of opinion exchanges with auditors</li> </ul> | <p><b>Fiscal 2012</b></p> <ul style="list-style-type: none"> <li>Majority passes to outside directors and outside auditors</li> </ul> | <p><b>Fiscal 2015</b></p> <ul style="list-style-type: none"> <li>Start of Information sharing meetings with outside directors</li> <li>Advent of a female director</li> </ul> | <p><b>Fiscal 2017</b></p> <ul style="list-style-type: none"> <li>Changing composition of Nomination Advisory Committee and Compensation Advisory Committee (to majority of members now being outside directors)</li> </ul> | <p><b>Fiscal 2020</b></p> <ul style="list-style-type: none"> <li>Outside director appointed chairman of Board of Directors</li> <li>Increase in number of female directors (Increase in proportion of women on Board of Directors)</li> </ul> |
|--|--|---|---|--|---|

## Corporate Governance

### Corporate governance structure



#### 1 Board of Directors / Board of Directors meeting

To further strengthen directors' oversight of business execution, make management even more transparent, and promote equitable management by drawing on perspectives from outside the Company, the Board currently consists of five members, three of whom are outside directors. All three outside directors are independent appointments who understand SHIONOGI's corporate responsibility, and they contribute to greater transparency in management. In addition, two of the five directors are women. The Board of Directors meeting is chaired by an outside director and in principle held once a month.

#### 2 Board of Auditors /Board of Auditors meeting

To ensure that the directors and each organization in SHIONOGI 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.

#### 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. SHIONOGI has established the Corporate Executive Management Meeting, which is attended by directors, standing corporate auditors, and parties responsible for business execution, and the meeting is generally held once a week. At the meeting, there is exhaustive deliberations on topics ranging from items concerning the execution of duties to important management matters. Business is executed within a system in which each of the ten divisions are under one of four supervisory units—the R&D Supervisory Unit, Healthcare Business Supervisory Unit, Supply Supervisory Unit, and Corporate Supervisory Unit. When executing business, issues are fully deliberated on at the Corporate Executive Management Meeting, and the Board of Directors makes decision regarding issues that impact management.

- R&D Supervisory Unit: Research Division, Drug Development and Regulatory Science Division, Biopharmaceutical Research Division
- Healthcare Business Supervisory Unit: Pharmaceutical Commercial Division, Integrated Disease Care Division
- Supply Supervisory Unit: Global Business Division
- Corporate Supervisory Unit: Corporate Strategy Division, Administration Division, DX Promotion Division, Corporate Quality Assurance and Ethics & Compliance Management Division

#### 4 Nomination Advisory Committee

The Nomination Advisory Committee consists of the President, 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 2021.

#### 5 Compensation Advisory Committee

The Compensation Advisory Committee consists of the President, three Outside Directors, and one Standing Corporate Auditor, and is chaired by an Outside Director. Main topics discussed in fiscal 2021 included the performance evaluation of Directors and Executive Officers in fiscal 2020, performance evaluation indicators for fiscal 2021, and the ideal form of the executive compensation system, etc. It was held two times in fiscal 2021.

#### 6 Outside officer and the President opinion exchange meetings

#### 7 Informal meetings with Associate Corporate Officers

Meetings that serve as a venue for the outside officers 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 the 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. In fiscal 2021, two rounds of meetings were held with Associate Corporate Officers who will be candidates for future executive officers.

#### 8 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 2021, the sessions were held twice, once in August 2021 and once in March 2022. The topic of the August study session was "Ping An-Shionogi's business expansion," and information regarding the business expansion in the Asian market was shared. The topic of the March study session was "revisions to the Pharmaceutical and Medical Device Act and introduction of an emergency approval system," which deepened understanding of changes in and the present state of the pharmaceutical approval system for the pharmaceutical industry.

#### No. of meetings held

(Times)

	2021										2022		
	April	May	June	July	August	September	October	November	December	January	February	March	
1 Board of Directors meeting	1	2	1		2	1		2	1	1	1	2	
2 Board of Auditors meeting		1	2	1	1	1	1	1	1	1		1	
4 Nomination Advisory Committee											1		
5 Compensation Advisory Committee	1										1		
6 Outside officer and the President opinion exchange meetings					1			1			1		
7 Informal meetings with Associate Corporate Officers								1	1				
8 Outside officer information exchange/study sessions					1							1	

## 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, and CEO. In an era of fast-moving

change in the external environment, the criteria for assessing candidates are changing, and SHIONOGI recognizes the need to groom successors from various aspects, based on what the SHIONOGI of the future should be. As mentioned above, we

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have created opportunities for early dialogue between the Associate Corporate Officers 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/the President opinion exchange meeting, where outside directors and corporate auditors provide a great deal of advice.

### Deliberations at Board of Directors meetings

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

At the Board of Directors meetings in fiscal 2021, there were lively deliberations on a wide range of topics, including the establishment and business plan of a new joint venture with Shimadzu Corporation, an investment in a continuous Active Pharmaceutical Ingredient (API) manufacturing business and establishment of a joint venture following the carve-out of the investigative drug API business, a proposal to conclude a basic agreement with a new partner related to SHIONOGI's IT operations, and SHIONOGI Group branding activities and changes in the visual identity.

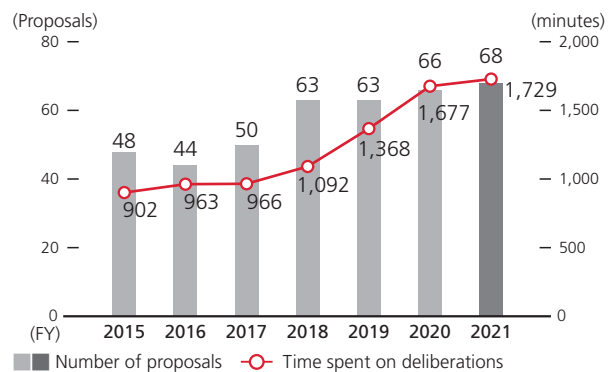
As an example of the animated discussions at our Board of

Of the Associate Corporate Officers in fiscal 2021, four were newly elected as executive officers in fiscal 2022.

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.

Directors meetings, this section has a summary description of the two topics of the new joint venture with Shimadzu Corporation and business plan and proposal to conclude a basic agreement with a new partner related to SHIONOGI's IT operations.

#### Number of proposals and time spent on deliberations



#### State of response to Corporate Governance Code

SHIONOGI has responded to all the principles in the Corporate Governance Code. See the Corporate Governance Report for details.

[https://www.shionogi.com/content/dam/shionogi/global/company/cg/basic/pdf/cg\\_report\\_en\\_202207.pdf](https://www.shionogi.com/content/dam/shionogi/global/company/cg/basic/pdf/cg_report_en_202207.pdf)

#### Example 1 of deliberations: Establishment of and Business Plan of a new joint venture with Shimadzu Corporation

The involved parties made a proposal regarding not only establishing a joint venture with the Shimadzu to create a COVID-19 wastewater surveillance service platform by integrating and standardizing the related strengths that each group has acquired and promote the related business throughout Japan but also future business plans.

In response to the proposal, outside directors and Outside Corporate Auditors expressed a wide range of opinions based on their particular expertise and conducted lively deliberations. These opinions included ones regarding issues related to broadening the platform by expanding the service to other pathogens than COVID-19 and undertaking further collaboration with other companies that possess particular strengths; standardization of technology with an eye toward overseas expansion and the related patent strategy; scope of responsibility due to the provision of products and services; relationship with entities such as the responsible government ministries and agencies and local governments; and matters in the agreement that both parties should adhere to.

After the chairman consulted with attendees and the proposal was deliberated on, the proposal was approved as proposed, and the new joint venture AdvanSentinel Inc. was established in January 2022.

#### Example 2 of deliberations: Proposal to conclude a basic agreement with a new partner related to SHIONOGI's IT operations

The business environment is such that DX is accelerating in all fields, including the use of digital technology for drug discovery and clinical development and optimization of the overall value chain, even procurement, manufacturing, and logistics. SHIONOGI also faces various management issues, such as further increasing the efficiency of IT operations and reinforcing the strategy and planning functions within SHIONOGI. Taking these factors into consideration, the involved parties made a proposal to conclude with Hitachi, Ltd. a basic agreement regarding a medium- to long-term strategic partnership related to IT operations and to transfer some of SHIONOGI's operations and human resources to Hitachi Pharma Information Solutions, Ltd.

In response to the proposal, outside directors and Outside Corporate Auditors conducted lively deliberations following comments regarding various issues, including clarifying operations that should be strengthened by securing and training human resources in-house and operations that should try to be made more efficient by transferring them to a partner, the ideal form of governance to prioritize DX/IT projects and achieve an optimal allocation of resources, the continuing need to examine solutions to DX/IT issues, and appropriate disclosure.

After the chairman consulted with attendees and the proposal was deliberated on, the proposal was approved as proposed, and a close partnership with the Hitachi Group was launched in January 2022.

## Analysis/evaluation of effectiveness

The Board of Directors performed an analysis and assessment of the effectiveness of the Board of Directors in fiscal 2021 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 fiscal 2021 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 recommend 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 SHIONOGI's business expansion.

#### Roles and Responsibilities

Regarding the reporting and supervision of the status of senior management development, reports were continuously provided at opinion exchange meetings with the Outside

Directors and the President, and issues were discussed and shared at two opinion exchange meetings with Associate Corporate Officers (senior management candidates), a new job position established in 2021, and outside directors. In addition, the status of compliance activities was reported on twice in the year and there was an exchange of opinions at Board of Directors meetings. Also, ESG-related matters were proposed and reported on several times, and deliberations and resolutions were made on these matters at the Board of Directors meetings.

Future challenges were raised, including the need for further enhancement of reporting on the progress of the medium-term business plan and reporting on non-financial information, such as risk management and responses to climate change.

The Board of Directors will continue to explore ways to improve 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.

As a future topic, a suggestion was made regarding the efficient running of Board of Directors meetings to further enhance discussions.

We will continue to consider ways to enrich management of the Board of Directors.



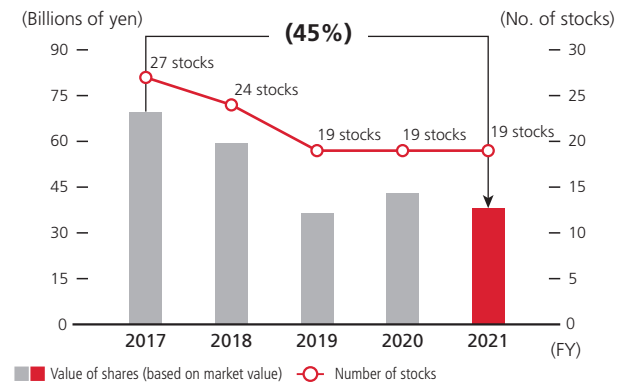
## Corporate Governance

### 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 held and the value of shares have been reduced by 30% and 45%, 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 (bonus) is paid as cash remuneration, which reflects performance indicators (core operating profit excluding 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 compensation. 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 SHIONOGI (relative TSR) and also incorporate the status of ESG, compliance, and the status of initiatives 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 SHIONOGI 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 accor-

dance 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 the 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 the President, to whom such determination is entrusted, shall make decisions in accordance with said recommendations and the abovementioned resolution by the Board of Directors.

## Composition of remuneration

The targeted ratio for each type of remuneration is set at base remuneration: performance-linked remuneration\*1, etc.: non-monetary remuneration\*1, etc. = 1:1:1 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 medium- to long-term business performance and to promote sustainable enhancement of corporate value for the Company's directors, excluding outside directors.

## Actual remuneration

Actual remuneration for fiscal 2021 was as follows.

### Total amount of remuneration for Directors and Corporate Auditors (fiscal 2021)

(Millions of yen)

Category	Persons	Total amount of remuneration, etc. by type			
		Base remuneration	Performance-linked remuneration*2	Non-monetary remuneration*3	Total
Directors (of which Outside Directors)	5 (3)	189 (57)	137 (—)	98 (—)	426 (57)
Corporate Auditors (of which Outside Corporate Auditors)	5 (3)	124 (54)	— (—)	— (—)	124 (54)
Total	10	314	137	98	550

\*2 The amount of “Performance-linked remuneration, etc.” above is the amount of provision for Directors’ bonuses for the fiscal year.

\*3 The amount of “Non-monetary remuneration, etc.” above is the amount recorded as an expense in the fiscal year.

### Total consolidated remuneration, etc. by director (fiscal 2021)

(Millions of yen)

Name	Position	Total amount of remuneration, etc. by type			
		Base remuneration	Performance-linked remuneration	Non-monetary remuneration	Total
Isao Teshirogi	Director	84	87	73	245
Takuko Sawada	Director	48	50	25	123



## Members of Boards (as of July 1, 2022)

### Directors

#### 1 Isao Teshirogi, Ph.D. 57,900 shares

**Representative Director, Chairman and President**

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
June	2021	Outside Director of Sumitomo Mitsui Banking Corporation (incumbent)
March	2022	Outside Director of AGC Inc. (incumbent)
July	2022	Representative Director, Chairman and President (incumbent)

**Major concurrent posts:**  
Outside Director of Sumitomo Mitsui Banking Corporation  
Outside Director of AGC Inc.

#### 3 Keiichi Ando 0 shares

**Independent Outside Director**

April	1976	Joined Sumitomo Bank Limited (now Sumitomo Mitsui Banking Corporation)
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

#### 5 Fumi Takatsuki 0 shares

**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

#### 2 Takuko Sawada 40,850 shares

**Director and Vice Chairperson of the Board**

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
July	2022	Director and Vice Chairperson of the Board (incumbent)

#### 4 Hiroshi Ozaki 0 shares

**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:**  
Outside Director, The Royal Hotel, Ltd.

Number of the Company's share owned





## Auditors

### 6 Akira Okamoto

6,657 shares

#### 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

0 shares

#### 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
September 2010		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 Takaaki Fujiwara

0 shares

#### 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

1,000 shares

#### 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 (now Japan Exchange Group), Inc.
October	2007	Governor of Tokyo Stock Exchange Regulation (now Japan Exchange Regulation)
April	2008	Specially appointed Professor of Chuo Graduate School of Strategic Management
June	2008	Outside Corporate Auditor of Sumitomo Corporation
June	2008	External 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

0 shares

#### 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

Koji Hanasaki, Ph.D.  
John Keller, Ph.D.  
Toshinobu Iwasaki, Ph.D.  
Noriyuki Kishida  
Kazuhiro Hatanaka  
Ryuichi Kiyama, Ph.D.  
Yasuyoshi Isou, Ph.D.

### Corporate Officers

Takeshi Shiota, Ph.D.  
Akira Kato, Ph.D.  
Tatsumori Yoshida  
Masashi Deguchi, Ph.D.  
Yasunori Aoyama, Ph.D.  
Yousuke Miharū  
Takeki Uehara, Ph.D.

## Corporate Governance

## Skill Matrix

## ■ Directors (as of July 1, 2022)

Name	Number of years in post	FY2021 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	
<b>Isao Teshirogi, Ph.D.</b> (62/Male) Representative Director, Chairman and President	20 years	14/14 (100%)	1/1 (100%)	2/2 (100%)	●		●	●		●			●		
<b>Takuko Sawada</b> (67/Female) Director and Vice Chairperson of the Board	7 years	14/14 (100%)	—	—	●			●	●			●	●		
<b>Keiichi Ando</b> (70/Male) Independent Outside Director	6 years	14/14 (100%) Chairman	1/1 (100%) Committee Chairman	2/2 (100%)	●	●							●	●	
<b>Hiroshi Ozaki</b> (72/Male) Independent Outside Director	3 years	14/14 (100%)	1/1 (100%)	2/2 (100%) Committee Chairman	●			●			●	●	●		
<b>Fumi Takatsuki</b> (47/Female) Independent Outside Director	2 years	14/14 (100%)	1/1 (100%)	2/2 (100%)			●						●	●	●

## ■ Auditors (as of July 1, 2022)

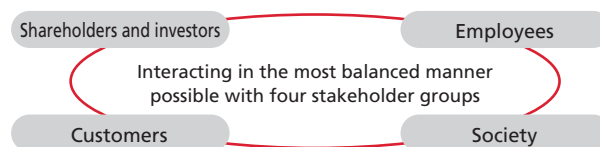
Name	Number of years in post	FY2021 attendance				Skills										
		Board of Directors	Board of Auditors	Nomination Advisory Committee	Compensation Advisory Committee	Management experience	Financial accounting	Law/Compliance/Risk Management	R&D	Sales/Marketing	Manufacturing	IT/Information management	International experience	HR/HR Development	Internal Audit	
<b>Akira Okamoto</b> (67/Male) Standing Member of the Board of Auditors	7 years	14/14 (100%)	11/11 (100%)	—	2/2 (100%)			●		●					●	●
<b>Ikuo Kato</b> (68/Male) Standing Member of the Board of Auditors	6 years	14/14 (100%)	11/11 (100%)	—	—	●		●	●							
<b>Takaoki Fujiwara</b> (70/Male) Independent Outside Auditor	4 years	14/14 (100%)	11/11 (100%)	1/1 (100%)	—	●				●					●	
<b>Tsuguoki Fujinuma</b> (77/Male) Independent Outside Auditor	3 years	14/14 (100%)	11/11 (100%)	—	—		●	●					●			●
<b>Shuichi Okuhara</b> (54/Male) Independent Outside Auditor	2 years	14/14 (100%)	11/11 (100%)	—	—	●	●					●		●		●

# Engagement with Stakeholders

## Creating corporate and social value through engagement

SHIONOGI aims to build a sustainable society by creating corporate and social value through engagement with its four stakeholder groups: shareholders and investors, customers, society, and employees.

### SHIONOGI-style "engagement"



## Approaching our diverse stakeholders

In order to reach out to a wide range of stakeholders, we focus on proactively disseminating information to the press and the public at large through our website, social media, and

a variety of other tools. We are also working to enhance our information by posting the latest initiatives for COVID-19 on our website and revamping our pages for individual investors.

	Website <a href="https://www.shionogi.com/global/en/">https://www.shionogi.com/global/en/</a>			YouTube SHIONOGI	
	Twitter @SHIONOGI_JP SHIONOGI			Instagram @shionogi_official SHIONOGI	

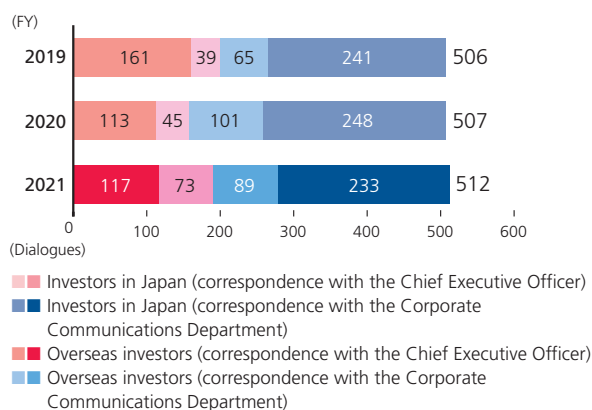
## IR activities during the pandemic

In fiscal 2021, in addition to financial results and other such briefings, SHIONOGI held several briefings for investors and the media on COVID-19-related products, which are in particularly high demand. Through these various briefings, SHIONOGI disclosed information and engaged in dialogue, as appropriate, on strategies and progress toward achieving STS2030 and our efforts to resolve COVID-19 issues.

### Major IR Activities (FY2021)

- Number of dialogues with institutional investors and securities analysts: approximately 500, of which approximately 200 were handled by the Chief Executive Officer
- Briefings for investors and securities analysts: 8

### Number of dialogues with investors



## Launch of the new brand

On July 1, 2022, the Group launched a new SHIONOGI brand in order to promote business transformation and achieve STS2030, as well as to gain recognition of SHIONOGI and appreciation of our activities among more people in Japan and abroad. By working together as a united Group under the new brand, we will continue to take on the challenge of transformation so that we can become a company that will be needed by all of our stakeholders in the future.

Capability and Vision, unified.



## Ensure Compliance

For SHIONOGI, compliance is the basis for the company’s survival and development. Compliance means compliance not only with laws, rules, and regulations, but also with social standards, and it also includes ethical behavior as a company and as a member of society. This stance is set forth in the Shionogi Group Code of Conduct and the Shionogi Group Compliance Policy, and all of our executives and employees are in strict adherence.

Initiatives	Related Indicators	Current Progress	Remaining Issues/Needs
Fostering of compliance awareness	<ul style="list-style-type: none"> <li>• Identification of SHIONOGI culture issues among all employees (April–July)</li> <li>• Deliberation and implementation on identified issues within the organization and formulate countermeasures (by whole organization, and Group companies)</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of a compliance promotion system headed by the President</li> <li>• The Compliance Promotion Unit was established within the General Administration Department to plan compliance activities, support promotion, conduct education and training, and conduct awareness surveys</li> </ul>	<p>Aiming for zero compliance violations</p> <ul style="list-style-type: none"> <li>• Collecting information on corporate culture-related issues and reflecting that in Group overall activities</li> <li>• Making use of Shionogi Compliance Handbook</li> </ul> <p>Early detection and prevention of violations through use of internal reporting desks</p>
Strengthening of tie-ups with compliance units both in Japan and overseas	<ul style="list-style-type: none"> <li>• Meetings between the Compliance Promotion Unit and other divisions and among Group company Compliance Committees and compliance officers and promoters (August)</li> <li>• Formulation of rules on the payment of compensation to healthcare providers when undertaking global activities in coordination with compliance unit in each region</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with domestic and overseas Group companies</li> <li>• Revised and made employees aware of the Shionogi Compliance Handbook (6th edition)</li> <li>• Integration of internal reporting desks</li> </ul>	
Employee education	<ul style="list-style-type: none"> <li>• Top managers (division and organization heads)</li> <li>• Education for compliance officers and promoters</li> <li>• Education for new hires</li> <li>• E-learning regarding the four main compliance risks for all employees</li> </ul>		
Internal reporting system	<ul style="list-style-type: none"> <li>• Times the reporting desk was used (about 70)</li> </ul>		
Compliance awareness survey	<ul style="list-style-type: none"> <li>• Administered a questionnaire on compliance (100% response rate)</li> </ul>		

Value Created

Trust of stakeholders

### Fostering of compliance awareness

Having positioned compliance as the cornerstone of all activities, SHIONOGI encourages officers and employees to improve their understanding and awareness of its importance. As SHIONOGI works to implement STS2030, there are a growing number of situations involving unprecedented collaboration with entities in other industries that require novel but difficult decisions related to compliance. In order for each and every SHIONOGI employee to respond to these changes, possess a strong awareness of compliance, and act based on proper

decisions, SHIONOGI has undertaken various efforts. These include ensuring that all officers and employees know of the fully revised Shionogi Compliance Handbook (revised March 2021) and getting employees to view issues of the organization they belong to as their own problem, share diverse ways of thinking through repeated discussions at workplaces, consider such issues and ways of thinking independently as an individual and organization, and make it a habit to act.

# Risk Management

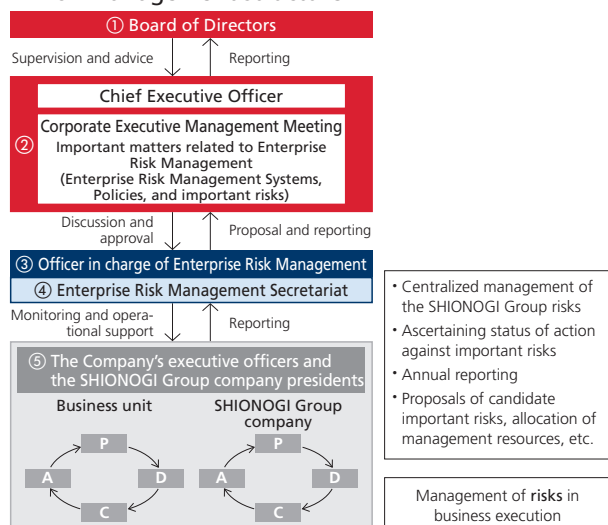
In the age of VUCA, business uncertainty is increasing as the pace of social change increases, and it is essential to properly manage various internal and external risks in the process of change and corporate activities that STS2030 aims to achieve. In fiscal 2022, we have revised the SHIONOGI Group Enterprise Risk Management Policy, aiming to foster a risk culture and further strengthen our resilience through strategic management of both offensive and defensive risks.

## Promotion of risk management system

SHIONOGI is committed to the appropriate management of business risks, including the creation of business opportunities and the avoidance and mitigation of risks, and has established an Enterprise Risk Management (ERM) system to oversee risks throughout the Group as an important mechanism for management strategy and management infrastructure, which we are striving to promote. A fundamental of the SHIONOGI Group is to have each organization identify risks associated with its decision making and business execution and then take the initiative to manage and deal with those risks. 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 an impact on management, and based on the response policy, the supervising department works with the related organizations to implement these measures. In addition, the Internal Control Department, which is the internal audit division, conducts independent verification in accordance with the “Basic Policy for Construction and Operation of Internal Control System”.

### Risk management structure



	Role
① Board of Directors	Provides supervision, advice, etc. on the planning, progress, and results of ERM promotion activities
② Chief Executive Officer, Corporate Executive Meeting	The Corporate Executive Meeting, chaired by the Representative Director, President discusses important matters concerning SHIONOGI's ERM, which are approved by the Representative Director, President
③ Officer in charge of Enterprise Risk Management	The Corporate Supervisor is Chief Risk Management Officer (CRO), overseeing SHIONOGI's risk management and assuming responsibility for the promotion and operation of the ERM system.
④ Enterprise Risk Management Secretariat	The enterprise risk management secretariat consists of the Sustainability Management Department, the General Administration Department, and the Corporate Planning Department.
⑤ The Company's executive officers and the SHIONOGI Group company presidents	Each business unit and Group company is responsible for the execution of risk management in the execution of its operations

## Crisis Management and Incident Management

In line with the revision of the “SHIONOGI Group Risk Management Policy,” we revised our crisis management-related regulations and established a management system that includes a Business Continuity Plan (BCP). In the event of a crisis, we will promote management focused on respect for human life, consideration for and contribution to local communities, and prevention of damage to corporate value, and strive to quickly overcome the crisis by taking prompt action.

Since fiscal 2021, we have been taking steps to build an IT-BCP, identifying critical systems with high recovery priority and revising rules that stipulate procedures for IT recovery in the event of a cyber incident. In fiscal 2022, we will conduct a BCP drill assuming an earthquake in the Nankai Trough for management to verify the system and procedures, and test

the effectiveness of related rules and regulations.

Furthermore, an incident is defined as “a negative event caused by SHIONOGI's action or omission,” and we have a system in place so that when an event occurs that may affect management, information is promptly communicated to the Crisis Management Manager, the executive officer in charge, the CRO, and the President, who responds in cooperation with the person in charge of the department or office where the incident occurred. To create an organizational culture to achieve such a system, we are working to foster a culture of “Bad News First,” in which negative information is reported more promptly than positive information, in coordination with the Group-wide compliance measures.



## Risk Management

### Business and other risks

Risk category	Summary	Response
Systemic and Regulatory Risk	<ul style="list-style-type: none"> <li>There could be an impact from trends on government regulations such as revisions to Japan's National Health Insurance (NHI) system, drug price control measures, including the NHI drug price system, and COVID-19 related regulations and systems</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Provide innovative new drugs at an acceptable price to society</li> <li>Build evidence to show the value of the innovations created</li> <li>Promote the value of innovation through industry group activities</li> <li>Obtain the latest information on revisions to the drug pricing system and related regulations, etc. and promptly make appropriate changes</li> </ul>
Risk of Adverse Reactions	<ul style="list-style-type: none"> <li>Pharmaceuticals entail the risk of unanticipated adverse drug reactions that could lead to the termination of sales, product recalls, and other outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Construct systems to appropriately convey side effect and other information</li> <li>Educate all employees to limit the spread of side effects and control damage</li> <li>Obtain insurance for medical damage compensation based on side effects, etc.</li> </ul>
R&D Risk	<ul style="list-style-type: none"> <li>Pharmaceutical R&amp;D requires substantial commitment of resources and time. In addition, new drugs are subject to numerous uncertainties prior to the start of actual sales</li> <li>Drastically reduce the time it takes to conduct R&amp;D globally in order to fight the spread of COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Develop efficient drug discovery research; leverage strengths in disease fields and small-molecule drug discovery</li> <li>Maintain and improve productivity with global top-level R&amp;D</li> <li>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)</li> <li>Invest in the management resources necessary for acquiring technologies such as peptide drugs and vaccines and collaborate with outside parties through alliances</li> <li>Undertake rigorous determination of development possibility based on R&amp;D data, accelerate R&amp;D through in-licensing and out-licensing of compounds</li> </ul>
Risk of Dependence on Certain Products	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Market launch of product groups and review contracts based on the latest information on drug price systems and competitive position</li> <li>Collaborate and express opinions in industry groups that promote the importance and value of innovation creation</li> <li>Promote business transformation from pharmaceuticals to provide general healthcare services, including pharmaceuticals</li> </ul>
Risk of Partnerships with Other Companies	<ul style="list-style-type: none"> <li>Modification or cancellation of agreements, delays or stagnation of alliances with other companies for research, development, manufacturing and joint research in marketing, joint development, technology licensing and joint marketing</li> </ul>	<ul style="list-style-type: none"> <li>Judge whether or not to cooperate by analyzing and evaluating from various perspectives</li> <li>Enter into agreements that incorporate assumed risks and hold continuous discussions and formulate agreements aimed at risk reduction</li> <li>Establish and maintain a governance system with alliances, understanding the risks of alliances, and respond with measures to resolve them</li> </ul>
Supply Chain Risk	<ul style="list-style-type: none"> <li>There could be a significant impact on the stable supply of pharmaceutical products in the event of raw material or product supply disruptions due to factors such as natural disasters, pandemics, or geopolitical influences</li> </ul>	<ul style="list-style-type: none"> <li>Inventory management based on standards for the amount of inventory held</li> <li>Selection of second vendors for items with high geopolitical risk</li> <li>Establishment of a domestic manufacturing system for drugs contained in some products</li> <li>Establishment and periodic review of BCP items to be supplied on a priority basis</li> </ul>
Quality Risk	<p>In the event of a quality problem of equipment origin, including contamination, quality defects, or lot failure,</p> <ul style="list-style-type: none"> <li>Damage to reputation originating in product</li> <li>Recalls, quality defects, and administrative action due to inconsistencies between the approval documents and actual manufacturing conditions</li> <li>Product recall due to inadequate data integrity, or serious findings during inspections by the regulatory authorities</li> <li>Possible serious impact on business performance, etc., due to loss of credibility of the company, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of the Shionogi Group Quality Policy</li> <li>Promoting the importance of quality by holding the SHIONOGI Global Quality Week</li> <li>Fostering a Quality Culture</li> <li>Responding to inspections by the authorities</li> </ul>
IT Security and Data Management Risks	<p>As we use many IT systems (including outsourcing companies) 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</p> <ul style="list-style-type: none"> <li>Our business activities, operating performance, financial circumstances, and credit ratings could be seriously affected</li> <li>We could be subject to damage claims or other legal claims or incur costs related to post-incident measures</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen data management rules, etc. in light of the regulatory system and guidelines and appoint a CIO<sup>11</sup> to be in charge of data management and set policies to protect data and ensure data security, a CDO<sup>12</sup> to be in charge of integrating the use and management of data and documentation, and a Global Head of IT to be in charge of IT management.</li> <li>Formulate a Global Privacy Policy regarding personal information</li> <li>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</li> <li>Launch a project to build an IT-BCP system that can handle cyber-attacks, major disasters, and other crisis events</li> <li>Bolster the IT infrastructure, and strengthen the data security base and improve its management</li> <li>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</li> </ul>

Risk category	Summary	Response
Risks Related to Securing / Training Human Resources	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Secure and train human resources with diverse values and expertise</li> <li>Practice diversity and inclusion</li> <li>Provide opportunities for self-growth and strengthen systems and mechanisms that help individuals realize their potential</li> <li>Implement manager education that supports development and human resource development that will contribute to the realization of the SHIONOGI Group Vision</li> <li>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</li> <li>Train prospective executives through attendance at The President's Management Seminar and promotion to Group company officers</li> </ul>
Environmental and Safety Risks	<ul style="list-style-type: none"> <li>Effects on the human body and ecosystems of substances used and generated in the research and manufacturing processes of pharmaceuticals</li> <li>Temporary closure of facilities, countermeasures and restoration as well as legal liability attributable to environmental pollution or other hazards</li> </ul>	<ul style="list-style-type: none"> <li>Establish integrated management system and management regulations for environment, safety and health</li> <li>Ensure compliance with laws and regulations, formulate stricter self-management standards and goals, implement responses and measures, and confirm their appropriateness</li> </ul>
Risk of Natural Disasters or Pandemics	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>BCP formulation and training, and plan reviews</li> <li>Confirm and request improvement for environmental and safety conditions in response to supplier audits</li> <li>Consider diversifying raw material suppliers to ensure the stable supply of products</li> </ul>
Intellectual Property Risk	<ul style="list-style-type: none"> <li>Concerns surrounding inadequate protection of the intellectual property of drugs discovered or infringement of the intellectual property of third parties</li> <li>Impact of the expiration of intellectual property rights of pharmaceuticals developed and the launch of generics</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the appropriate management system for intellectual property rights</li> <li>Strengthen the system for preventing infringement by investigating infringement prevention in business activities and conducting intellectual property due diligence on licensing</li> </ul>
Litigation Risk	<ul style="list-style-type: none"> <li>Possibility of litigation related to medication side effects, product liability, workplace disputes, fair trading and other issues</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen internal systems as necessary to reduce risk</li> <li>Appropriately respond through consultation with experts such as lawyers and patent attorneys</li> </ul>
Capital Market and Foreign Exchange Risk	<ul style="list-style-type: none"> <li>Fluctuations in stock and foreign exchange markets could increase retirement benefit obligations and affect royalty income from overseas partners</li> </ul>	<ul style="list-style-type: none"> <li>Diversify investment of pension assets among multiple investment products</li> <li>Utilize forward exchange contracts with respect to foreign exchange fluctuation risk</li> </ul>
Compliance Risk	<ul style="list-style-type: none"> <li>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 SHIONOGI's credibility among its stakeholders and even have an impact on our financial performance.</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Work to strengthen compliance awareness among employees</li> <li>Formulate a compliance policy and set compliance as a goal in the Shionogi Group Code of Conduct</li> <li>Establish a Compliance Committee and Internal Reporting Desks (inside and outside the Company)</li> <li>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.)</li> </ul>
The Spread of COVID-19	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Restrict on-site work to prevent the further spread of the pandemic</li> <li>Programs to establish new workstyle needed to maintain and improve productivity</li> <li>Fulfill our social responsibility as a pharmaceutical company by maintaining business continuity through employing our existing pandemic BCP in a response that prioritizes a stable supply of our proprietary drug products</li> <li>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</li> </ul>

\*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 SHIONOGI risks.



For more information on our risk management, please visit our website.

<https://www.shionogi.com/global/en/sustainability/governance/risk-management.html>