



# III

## Mechanisms Supporting SHIONOGI's Growth

- 76 Responsibility to Society
- 77 Strengthen Supply Chain Management
- 78 Supply Socially Responsible Products and Services
- 79 Respect Human Rights
- 80 Protect the Environment
- 84 [Special Feature 2](#) Dialogue between President Isao Teshirogi and Kunio Ito  
What Constitutes a Next-Generation Leader?
- 86 Message from the Chairperson of the Board
- 87 Corporate Governance
- 98 Ensure Compliance
- 99 Risk Management



Responsibility to Society

In order to achieve both business growth and the sustainability of society, responsible corporate behavior is required in all aspects of the supply chain, from the procurement of raw materials to the supply of products and services. SHIONOGI attaches importance to cooperation with business partners and ensures the stable provision of safe products and services that offer peace of mind, and information on proper use. We also strive to reduce the negative impacts of our business activities and promote initiatives so that we continue to be trusted by society.

Ideal State	Delivering high-quality SHIONOGI products and services along with peace of mind to society while striving to respond responsibly to ensure credibility and stable supply
-------------	--

Issues/Needs

<b>Strengthen Supply Chain Management</b> <ul style="list-style-type: none"><li>• Greater in-house awareness of sustainable procurement, which includes overseas Group companies</li><li>• Establishment of SOP on each aspect of procurement and training</li><li>• Identification of significant suppliers and implementation of regular assessments</li><li>• Strengthening of supplier engagement</li></ul>	<b>Supply Socially Responsible Products and Services</b> <ul style="list-style-type: none"><li>• Production system that can supply products stably and be flexible in response to changes in the operating environment or sudden contingencies</li><li>• Entrenchment of quality culture* extending to the entire supply chain<ul style="list-style-type: none"><li>* Corporate culture that gives top priority to quality</li></ul></li><li>• Timely and appropriate information provision concerning efficacy and safety</li><li>• Securing of quality assurance system compliant with the HaaS* business</li></ul>	<b>Respect Human Rights</b> <ul style="list-style-type: none"><li>• Statement in accordance with the Modern Slavery Act</li><li>• Ongoing implementation of human rights due diligence</li><li>• Human rights risk assessments of suppliers of important items and implementation of on-site audits</li><li>• Activities to improve issues incorporating the opinions of experts</li></ul>
---	---	--

\* Healthcare as a Service: Provide a range of healthcare services in line with customer needs, rather than only providing pharmaceuticals

Initiatives	Indicators
<ul style="list-style-type: none"><li>• Activities to disseminate the Policy and Code of Conduct</li></ul>	<ul style="list-style-type: none"><li>• Number of employees involved in procurement operations that received SOP training covering response to social issues: 74</li></ul>
<ul style="list-style-type: none"><li>• Identification of significant suppliers and sustainability assessment of suppliers</li></ul>	<ul style="list-style-type: none"><li>• Surveys or assessments conducted using EcoVadis in 2022: 100 companies</li><li>• EcoVadis assessment: cumulative total of 101 companies</li><li>• Ratio of suppliers that satisfy established standards: 87.1%</li></ul>
<ul style="list-style-type: none"><li>• Interviews and briefings on sustainability issues</li></ul>	<ul style="list-style-type: none"><li>• Ratio of new suppliers contracted in fiscal 2022 consenting to the SHIONOGI Group Business Partner Code of Conduct: 100%</li><li>• Number of companies educated with interviews and briefings: human rights-related (14 companies) and climate change-related (15 companies)</li></ul>
<ul style="list-style-type: none"><li>• Stable supply of products and services</li></ul>	<ul style="list-style-type: none"><li>• Management of procurement, production and distribution taking into account changes in supply-demand balance for preventing defective products</li><li>• Routine/non-routine consultations with suppliers to achieve stable supply</li><li>• Support for strengthening relationship with manufacturing contractors and for BCP system maintenance</li></ul>
<ul style="list-style-type: none"><li>• Strengthening of legal compliance and monitoring</li></ul>	<ul style="list-style-type: none"><li>• Strict adherence to laws, ordinances, and guidelines related to production and sales of pharmaceuticals</li><li>• Analysis results of quality culture survey</li></ul>
<ul style="list-style-type: none"><li>• Guarantee of appropriate use and implementation of training programs for timely and appropriate response to medical professional requests</li></ul>	<ul style="list-style-type: none"><li>• Implementation of assessments by compliance review managers and improvements to training</li><li>• Implementation of AI-powered monitoring</li></ul>
<ul style="list-style-type: none"><li>• Responding to human rights issues</li></ul>	<ul style="list-style-type: none"><li>• Statement in accordance with the Modern Slavery Act</li><li>• Conducting human rights impact assessments<ul style="list-style-type: none"><li>• Investigation of labor conditions in manufacturing regions that produce raw materials and basic materials</li><li>• Investigation of labor conditions for foreign workers</li></ul></li><li>• Response to new human rights themes<ul style="list-style-type: none"><li>• Survey on forced labor in the manufacturing of rubber gloves in Malaysia</li></ul></li></ul>

Material Issue Strengthen supply chain management

In order for a company to fulfill its social responsibilities, it is important to build relationships of trust and collaborate not only within its own corporate group but also with its business partners. SHIONOGI is working to strengthen supply chain management by cooperating with suppliers based on the SHIONOGI Group Procurement Policy and the SHIONOGI Group Business Partner Code of Conduct, which define the basic concepts for conducting procurement activities based on honesty, accuracy, fairness, and transparency.

Initiatives for sustainable procurement

We established the SHIONOGI Group Procurement Policy and the SHIONOGI Group Business Partner Code of Conduct and are assessing risks in the supply chain, such as human rights, labor, and the environment, and identifying issues by obtaining cooperation in surveys and audits primarily from significant suppliers. For the issues we have identified, we are working to realize sustainable procurement by engaging with the relevant suppliers and building a PDCA cycle for making improvements cooperatively.

When considering collaboration with new business partners, we evaluate and select companies in accordance with the SHIONOGI Group Procurement Policy, and at the start of business dealings, we sign contracts that include their acceptance of the SHIONOGI Group Business Partner Code

of Conduct. In fiscal 2022, we were able to obtain agreements from all new suppliers. In fiscal 2023, we will expand these initiatives to include business partners with whom we have an ongoing business relationship. In order to address social issues throughout the supply chain, we will work to obtain consent from all business partners and expand efforts for improvement.

To raise awareness of sustainable procurement, we have established and disseminate SOP that stipulate matters related to social issues, such as human rights, labor, and the environment, that employees involved in procurement operations should understand and follow. In fiscal 2022, we provided training to 74 employees involved in procurement operations.

Supplier engagement program

Suppliers that SHIONOGI engages with are selected based on the SHIONOGI Group Procurement Policy and taking into account geopolitical risks and risks specific to the industries and raw materials of our business partners. In fiscal 2022, we revised the selection process, identifying suppliers who met any of the following requirements: large transaction value, items related to antimicrobial resistance (AMR), development and manufacture of products that should continue to be supplied from the perspective of social responsibility and company management, and existence of risks related to human rights and the environment, as “significant suppliers” that are particularly necessary for the stable provision of SHIONOGI products and services to the market.

In order to efficiently conduct fairer and more objective assessments of risk assessments of these significant suppliers, we introduced EcoVadis, a rating platform for the evaluation of corporate social responsibility and sustainable procurement. In fiscal 2022, we asked 116 significant suppliers to cooperate and completed evaluations of the 100 companies that responded. In addition, in order to enhance the effectiveness of supplier engagement, we held briefings and interviews with 29 suppliers to support their human rights practices and climate change-related initiatives. In fiscal 2023, we will continue to engage suppliers who deviate from the standards set by SHIONOGI by encouraging and providing support for corrective actions.

For more information about our initiatives for supply chain management, please visit our website. <https://www.shionogi.com/global/en/sustainability/society/supply-chain-management.html>

Column Initiatives in logistics

In January 2023, we became the first in Japan’s pharmaceutical industry to jointly deliver drugs in accordance with the Good Distribution Practice (GDP) guidelines in collaboration with other pharmaceutical companies and logistics support companies. By increasing loading efficiency and reducing the number of operations through joint delivery, we aim to maintain stable pharmaceutical logistics in compliance with GDP, respond to the 2024 problem in logistics and reduce CO2 emissions.

Material Issue

Supply socially responsible products and services

It is SHIONOGI's duty as a life-related company to protect people's health by providing a stable supply of essential, high-quality products and services. In addition to establishing a system for stable supply so that stakeholders can use SHIONOGI products and services with confidence, we are also working Groupwide to provide high-quality information on quality, safety, and proper use.

Efforts to achieve stable supply

In order to ensure that the supply of products is not interrupted under any circumstances, SHIONOGI regularly assesses risks related to procurement from suppliers such as raw material manufacturers and manufacturing contractors, and takes measures such as promoting improvements, adding alternative suppliers, and establishing redundant procurement for high-risk suppliers. We have also set strict targets for product delivery indicators to strengthen our supply system so that we can deliver SHIONOGI products and services to patients and healthcare professionals in a stable manner.

In fiscal 2022, in addition to continued rising raw materials prices and logistics disruptions due to the COVID-19 pandemic and international conflicts, there were a series of problems within the industry related to the quality of pharmaceuticals. As a result, the supply-demand balance for some items was disrupted due to growing demand for replacement items, and the risk of pharmaceutical supply uncertainty became apparent. Nevertheless, we were able to prevent shortages in the market by flexibly collecting information in Japan and overseas, confirming with each supplier, reviewing production plans, and adjusting shipment volumes.

Fostering a quality culture

In recent years, there have been several incidents in Japan related to violations of legal compliance in pharmaceutical manufacturing. In order to prevent similar incidents from occurring, SHIONOGI is working to foster a quality culture including at Group companies and to advance a mindset of rigorous compliance not only within the Group but also in the supply chain.

In addition, in accordance with the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (Pharmaceuticals and Medical Devices Act), the roles and scope of responsibility

of the officer in charge are clearly defined, and training on legal compliance for SHIONOGI employees is continuously conducted under an appropriate management system based on the three-role system of Pharmaceutical Officer, Quality Assurance Supervisor and Safety Supervisor.

We conduct systematic on-site or remote audits of plants and manufacturing contractors in Japan and overseas, and conduct ad hoc audits of plants and manufacturing contractors where serious events have occurred in the past; thereby ensuring that management supervision is conducted efficiently and with a high level of quality.

Ensuring proper use and developing safety monitoring system

Based on the principles required of pharmaceutical companies to "provide information necessary for the proper use of pharmaceuticals," SHIONOGI focuses on providing and monitoring information based on scientific and objective grounds so that medical professionals can accurately understand the characteristics of SHIONOGI products.

Information provision activities by SHIONOGI that were recognized as inappropriate in the report of the Monitoring Program for Advertisement Activities for Ethical Pharmaceuticals for fiscal 2022 have been reduced. On the other hand, medical professionals have pointed out that it is difficult to obtain appropriate information in a timely

manner due to the excessive caution exercised by pharmaceutical companies in information provision.

In light of this situation, SHIONOGI examines "what constitutes appropriate information provision" from scratch, and implements an annual education program that enables organizations and employees responsible for sales information to practice appropriate information provision with confidence. Furthermore, we are focusing on initiatives to improve the efficiency of these activities through AI-based monitoring and to build a predictive and preventive healthcare compliance system.

Material Issue

Respect human rights

SHIONOGI recognizes the importance of respecting the human rights of all stakeholders in the course of its business activities. We promote initiatives that are in line with the SHIONOGI Group Human Rights Policy, which was established based on the UN Guiding Principles on Business and Human Rights (UNGPs).

Human rights due diligence

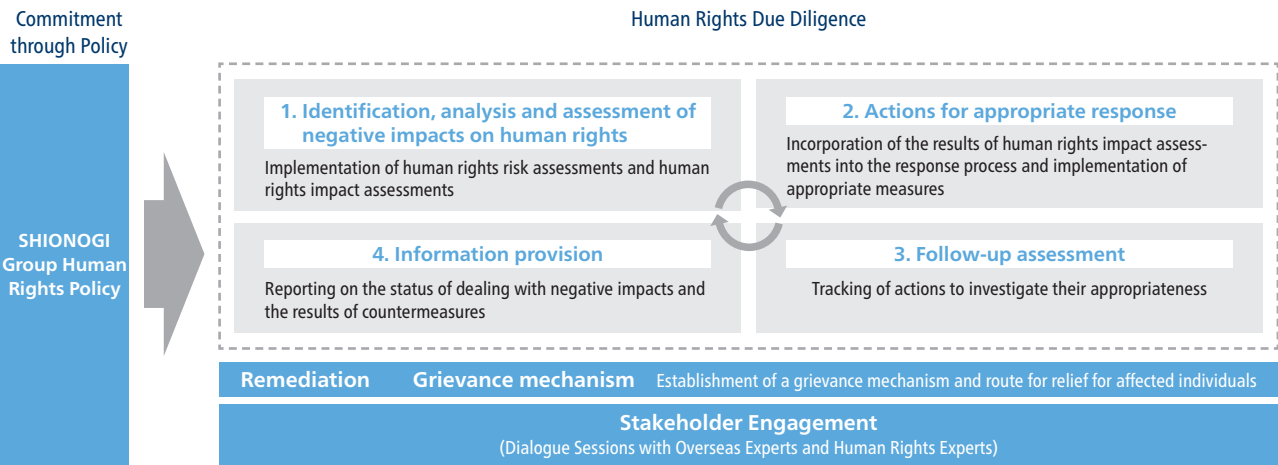
In order to promote the identification, prevention, and reduction of human rights risks, SHIONOGI conducts human rights due diligence on all businesses and narrows down the areas in which risks should be more carefully scrutinized. In fiscal 2022, as in fiscal 2021, as part of the survey on labor conditions in manufacturing areas of raw materials and materials, we conducted direct dialogue with suppliers of glass, ethanol, and aluminum, which are important items, to understand human rights issues throughout the supply chain. In addition, we conducted a survey on foreign technical intern trainees at suppliers of COVID-19-related products and confirmed that they did not have technical intern trainees. Moreover, when we recognize human rights risks that have not been identified in the course of conducting our business, we have put in

place a system that allows us to promptly share information and take countermeasures. As a specific example, in August 2022, after learning that forced labor in the manufacture of rubber gloves in Malaysia had become a problem, we promptly shared the information internally and conducted an investigation into the primary supplier from which SHIONOGI purchased rubber gloves. As a result, it was confirmed that while the product had been purchased in the past, it was not purchased or used at the time the problem was recognized. We will continue to closely monitor such developments in forced labor.

We hold dialogues with overseas human rights experts and reflect their opinions and comments on our efforts in our activities to strengthen our human rights initiatives.

For more information on our human rights initiatives, please visit our website.  
<https://www.shionogi.com/global/en/sustainability/society/respect-human-rights/human-rights-policy.html>

For the opinions and comments received in dialogue with experts, please visit our website.  
<https://www.shionogi.com/shionogi/global/en/sustainability/society/respect-human-rights.html#6>.



Compliance with the Modern Slavery Act

In September 2022, in accordance with the U.K.'s Modern Slavery Act 2015, we announced SHIONOGI's commitment to human rights in a statement. We will continue to promote initiatives for respect for human rights in accordance with the SHIONOGI Group Human Rights Policy established

based on the United Nations Guiding Principles on Business and Human Rights. By disclosing the progress of these efforts, we will demonstrate to all stakeholders SHIONOGI's stance on addressing human rights issues and put them into practice.

Protect the Environment

SHIONOGI is working to address environmental issues to realize a sustainable society through conservation of the global environment. In addition to identifying environmental material issue consisting of climate change, AMR (antimicrobial resistance), resource conservation and resource recycling, and water, we have formulated the SHIONOGI Group EHS Policy, the SHIONOGI Group EHS Code of Conduct, along with the SHIONOGI Group EHS Action Goals based on them. We are now working to reduce the environmental impacts of our corporate activities, including across the supply chain.

Ideal State		Contribution to a sustainable society through preservation of the global environment	
Issues/Needs			
Consider measures to achieve SBT and implement them		Expand climate change-related information disclosure in accordance with the TCFD framework	
		Promote strict controls of chemical substances, including the supply chain	
		Close monitoring of developments regarding biodiversity	
Activities		Indicators	
Climate change		FY2030: 46.2% reduction for Scopes 1+2; 20% reduction for Scope 3, category 1 (FY2019 benchmark)	
Reduce greenhouse gas (GHG) emissions		FY2050: Achieve zero emissions	
AMR		FY2030: Strict controls, including the supply chain (completion of audit follow-ups)	
Reduce the environmental impact of the antibiotic manufacturing process		FY2030: Recycle 65% of plastic waste	
Resource conservation/ circulation		FY2024: Reduce the volume of water resource usage to 1,340 thousand m³ or less	
Reduce waste and improve recycling rates			
Water			
Control the volume of water resources used			

As a corporate group that engages in business activities by investing natural capital, SHIONOGI is deeply aware of the importance of minimizing the negative environmental impacts caused by its business activities as much as possible. We are always conscious of contributing to the conservation of the natural environment and the realization of a sustainable society by efficiently using natural capital such as energy and water and purchased raw materials, providing pharmaceuticals and services, and appropriately managing and treating waste and wastewater generated in the process. With this in mind, we are strengthening

Climate change initiatives

As part of the medium- to long-term SHIONOGI Group EHS Action Targets, we have set “reduce greenhouse gas (CO<sub>2</sub>) emissions” as an indicator aimed at reducing risks related to climate change. In addition, we have set Science Based Targets (SBT) as greenhouse gas emission reduction targets for fiscal 2030 with the aim of achieving carbon neutrality by 2050, and obtained approval from the SBT Initiative in June 2021. To achieve the SBT targets for fiscal 2030, we are gradually introducing electricity derived from renewable energy sources

Environmental and Health and Safety (EHS) initiatives throughout the Group. In fiscal 2022, we revised the SHIONOGI Group EHS Policy and established the SHIONOGI Group EHS Code of Conduct, clarified SHIONOGI’s policy on the environment and the governance system to ensure its viability, and specified concrete actions to promote EHS activities. In addition, in response to the TCFD recommendations that we endorsed in March 2022, we identified climate change risks and opportunities that affect our business activities and disclosed information such as financial impact assessments.

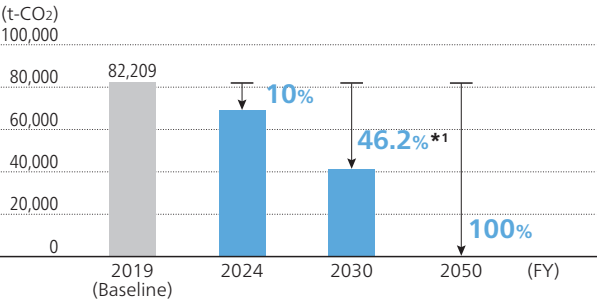
mainly at major business sites such as SHIONOGI Group plants and research laboratories, and are advancing initiatives to reduce CO<sub>2</sub> emissions. In addition to the introduction of renewable energy-derived electricity at the CMC Innovation Center in fiscal 2023, the introduction of renewable energy-derived electricity at the Pharmaceutical Research Center was completed ahead of schedule. SHIONOGI has achieved a 100% introduction rate of renewable energy-derived electricity to the main sites of research laboratories. Going forward,

we plan to promote the introduction of renewable energy-derived electricity, particularly at Shionogi Pharma’s plants, and aim to achieve a 100% introduction rate of renewable energy-derived electricity to the main sites of the SHIONOGI Group by fiscal 2030. We are also targeting an annual 1% improvement in intensity per unit of production and the

introduction of equipment with high energy consumption efficiency, as energy efficiency improvements. In response to the TCFD recommendations that we endorsed in March 2022, we identified climate change risks and opportunities that affect our business activities and disclosed information such as financial impact assessments.

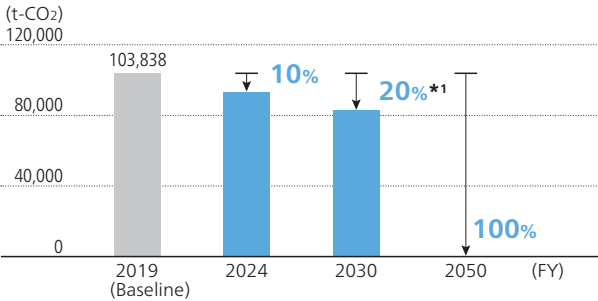
Medium to long-term targets for greenhouse gas emissions (CO<sub>2</sub>)

Our own emissions (Scope 1+2)



\*1 Targets approved by the SBT Initiative

Supply chain emissions (Scope 3 Category 1)



Information disclosures based on the TCFD recommendations

Governance

Our progress on specific measures to address climate change risks is managed by the EHS Management Secretariat. The Senior Executive Officer and Head of the Administration Division serves as the chairperson of the SHIONOGI Group Central EHS Committee and the Energy Conservation Committee as the supervisor in charge of EHS. In total, the decisions of each committee, which meet at least four times a year, are reported to the President, and matters that need to be consulted by a higher-level deliberative body are submitted to the Corporate Executive Management Meeting in advance and an institutional decision such as a resolution of the Board of Directors is obtained. In this way, we have put into place a system to enable more in-depth discussion.

Approaches to risk management and climate change scenario analysis

We assess risks and opportunities that may have a significant impact on the future business environment, including climate change, as important and likely to occur within the enterprise risk management system, and are steadily implementing countermeasures. In our climate change scenario analysis, we comprehensively identify the transition risks, physical risks, and opportunities that will affect our business activities, analyze the magnitude of the financial impact and business resilience of each item in 2030 by dividing them into the 1.5°C and 4°C scenarios with reference to the following reference sources, and then evaluate response priorities and formulate response policies and countermeasures.

- 1.5°C scenario: Average temperature remains below +1.5°C by 2100 compared to the Industrial Revolution
  - Reference climate scenarios: IEA\*<sup>2</sup>-NZE, IPCC\*<sup>3</sup>-1.5, and IPCC AR6 SSP\*<sup>4</sup>-1.9, etc.
  - More stringent measures (carbon tax, environmental regulations, etc.) are introduced, and society as a whole actively works on climate change countermeasures.
- 4°C scenario: Average temperature increases by 4°C in 2100 compared to the Industrial Revolution
  - Reference climate scenarios: IPCC AR6 SSP3-7.0/SSP5-8.5, etc.
  - Stringent measures (carbon tax, environmental regulations, etc.) are not introduced, and natural disasters become more severe and frequent (a world of consequences)

\*2 IEA stands for International Energy Agency  
\*3 IPCC stands for Intergovernmental Panel on Climate Change  
\*4 SSP stands for Shared Socio-economic Pathway

Risks and opportunities

The results of SHIONOGI’s assessment of climate change-related risks and opportunities based on scenario analysis conducted in fiscal 2022 are shown in the table on the next page. We have identified three risks and opportunities arising from climate change, which have a relatively large financial impact: (1) introduction of carbon pricing, (2) impacts on raw materials procurement due to localized extreme weather and temperature rises, and (3) sea level rise. Estimates made at the time of the assessment confirm that even if all identified risks and opportunities were to materialize, the negative financial impact on core operating profit, which had been targeted for 2030, the final year of the medium-term management plan STS2030, would be only



Protect the Environment

about 10%. In the STS2030 Revision revised in June 2023, we aim to further increase earnings compared to the initial

STS2030; thus, we judge that the resilience of our business to possible climate change scenarios is sufficiently ensured.

Assessment of climate change risks and opportunities

Categories		Main risks and opportunities	Details of assumed risks and opportunities	Financial impacts in FY2030*5	
				1.5°C scenario	4°C scenario
Transition risks	Policy	Introduction of Carbon Pricing	New regulations are put into place on manufacturing and procurement activities, such as the introduction and expansion of carbon taxes, emissions regulations, and emissions trading systems	Medium	Small
		Stricter Energy Efficiency Regulations	Energy efficiency regulations on production facilities are strengthened compared to the current Act on Promotion of Global Warming Countermeasures to reduce energy consumption intensity per unit of production by an average of 1% or more per year, resulting in additional capital investment.	Small	Small
Physical risks	Acute	Impacts on Raw Materials Procurement due to Localized Extreme Weather and Temperature Rises	Rising temperatures affect growth, yield, quality, price, etc., making it difficult to procure biological raw materials.	Medium	Medium
		Damage to Supply Chain Facilities Caused by More Severe Storm and Flood Damage	Supply chains are disrupted or shut down due to localized extreme weather (typhoons, torrential rains, etc.) and associated disasters (equipment damage, flooding, power outages, etc.)	Small	Small
	Chronic	Sea Level Rise	Plants and other business sites become inoperable due to sea level rise.	Large	Large
Opportunities	Markets	Cultivation of New Markets and Regions through R&D of New Pharmaceuticals	The technologies and know-how in pharmaceutical R&D cultivated by the SHIONOGI Group are applied to new diseases	Small	Small
		Changeover to Eco-Friendly Low-Carbon Containers and Packaging	Costs are reduced following the changeover to eco-friendly packaging materials	Small	Small

\*5 Financial impact: Large: 10 billion yen or more, medium: 1 billion yen or more to less than 10 billion yen, small: less than 1 billion yen

Identified risks	Risk response policy
Introduction of Carbon Pricing	Carbon pricing has already been introduced in some overseas countries, and the Japanese government is also considering introducing it, so it is relatively likely to be implemented in the medium term. Therefore, we will carry out medium- to long-term activities to reduce SHIONOGI's greenhouse gas emissions and mitigate risks.
Impacts on Raw Materials Procurement due to Localized Extreme Weather and Temperature Rises	As the population of horseshoe crabs decreases due to climate change, it will not be possible to procure lysate reagents made from their blood components and quality tests will not be possible, and the worst case scenario is assumed to be the suspension of shipments of some main pharmaceuticals. However, horseshoe crab conservation activities are being carried out on the reagent manufacturer's side, or even if it becomes difficult to procure lysate reagents, there are alternative reagents using genetically modified proteins. Therefore, although the long-term possibility cannot be ruled out, we judge that the probability of risk occurring in 2030 is extremely low at this time, and we accept this risk.
Sea Level Rise	The long-term trend of sea level rise due to climate change is unquestionable, and we assume that the worst case is the possibility that it will adversely affect the operations of some of SHIONOGI's major sites located in particularly low lying areas. However, the average sea level rise along the Japan coast is projected to be less than 0.2 m from 2031 to 2050. Therefore, although the long-term possibility cannot be ruled out, we judge that the probability of risk occurring in 2030 is extremely low at this time, and we accept this risk.

For details of information disclosure based on TCFD recommendations, please see our website.  
<https://www.shionogi.com/global/en/sustainability/environment/results/climate/tcf.html>

AMR

Antimicrobial resistance (AMR) is when pathogenic microorganisms such as bacteria acquire drug resistance to antimicrobials, making antimicrobials ineffective. Inappropriate use and overdose of antimicrobials are said to be major factors in AMR, but environmental emissions from antimicrobial manufacturing plants are also considered to be one of the factors that create resistant strains of bacteria. This requires countermeasures from various angles.

SHIONOGI, which has provided antimicrobials to society for many years, strictly controls the environmental emissions of antimicrobials in the manufacturing process as a natural responsibility of a company that handles antimicrobials. Since AMR is a global threat, in order to reduce the environmental impact of the antimicrobial manufacturing process, we will conduct audits on AMR not only at SHIONOGI plants that

manufacture antimicrobials, but also at suppliers of APIs and other substances. Through feedback and the implementation of and support for corrective plans, we plan to achieve appropriate management of antimicrobial emissions throughout the supply chain by 2030.

As an example of efforts to control and manage antimicrobial emissions, at the Kanegasaki Plant, which is SHIONOGI's core antimicrobial manufacturing plant, antimicrobials are inactivated in wastewater in each manufacturing building and then discharged via the wastewater treatment facility at the plant. In addition, we conduct an analysis of the concentration of antimicrobials contained in actual wastewater to confirm that the level has no impact even if it is discharged into the natural environment. Currently, we have completed confirmation that all items manufactured at Kanegasaki Plant comply

with environmental emission standards. We have also completed initial audits of all suppliers in Japan and overseas, and confirmed that five out of seven suppliers comply with environmental emission standards. We have implemented

Biodiversity

SHIONOGI recognizes that the four forms of environmental materiality identified as AMR, climate change, resource conservation and resource recycling, and water are all important matters that affect the environment that nurtures diverse organisms, and we believe that addressing these issues, including by our suppliers, over the medium to long term and striving to reduce their impacts will lead to the conservation of biodiversity.

SHIONOGI is also engaged in activities to restore rich natural environments, such as the conservation of more than 1,000 species of plants, including endangered and rare plants, at the Aburahi Botanical Garden, and the protection and restoration of endangered natural Gagome kombu (kelp) through the kelp forest restoration project.

Gagome kombu (kelp) is used as a raw material for products made by Shionogi Healthcare Co., Ltd., but in 2019 we started switching to aquaculture for raw materials, and in fiscal 2022, the changeover rate reached 50%. In fiscal 2024, we aim to fully eliminate the amount of wild Gagome kombu kelp used.

Evaluation from external stakeholders

We were the first pharmaceutical company to be certified as an Eco-First Company under the Eco-First System\*8 promoted by the Ministry of the Environment. This certification recognizes our environmental emission management of antimicrobials and responses to climate change, which SHIONOGI has been working on responsibly as a corporate group that handles infectious disease drugs, as well as the Resource Recycling Project (horizontal recycling of label mounts) of Shionogi Pharma Co., Ltd., and the Kelp Forest Restoration Project (protection of natural Gagome kombu) of Shionogi Healthcare Co., Ltd. These initiatives were evaluated as “advanced, original, and industry-leading business activities,” which is a requirement of certification.

CDP, an international non-profit organization that works on environmental information disclosure, selected SHIONOGI as an “A List Company” with the highest rating in both the fields of “climate change” and “water security.” Out of more than 10,000 companies around the world that were recognized, SHIONOGI became one of 57 companies recognized as an A List Company in both fields. In addition, for the third consecutive year, we were selected for the Supplier Engagement Leaderboard, the highest rating for supplier engagement evaluations in the field

corrective measures for the two companies whose compliance could not be confirmed, and by continuing to follow up, we will promote appropriate management of environmental emissions of antimicrobials throughout our supply chain.

Making points of contact with nature visible

Society has moved to address the issue of biodiversity in various ways, including the adoption of the Kunming-Montreal Global Biodiversity Framework\*6 at COP15 in December 2022, and the announcement of the TNFD Framework\*7 in September 2023. For both of these, companies are required to adopt the LEAP approach—that is, identify and evaluate their businesses’ reliance and impact on biodiversity and biodiversity-related risks and opportunities in their businesses and take the necessary steps to achieve sustainable consumption.

At SHIONOGI, in order to identify our reliance and impact on biodiversity, we launched on initiative to make the points of contact between our businesses and nature visible with an eye toward TNFD Framework-based disclosure. We will also use the results of this visualization analysis to continue to reinforce our activities to preserve biodiversity.

\*6 Kunming-Montreal Global Biodiversity Framework: Framework that incorporates biodiversity-related global targets that should be achieved by 2030, which are continuations of the Aichi Biodiversity Targets, global targets through 2020 adopted at COP10.  
\*7 TNFD: Taskforce on Nature-Related Financial Disclosures (TNFD) is a mechanism for evaluating the reliance on natural capital and impact on the ecosystem and for companies and financial institutions to provide that information to investors and other interested parties.

of climate change. SHIONOGI has identified “protect the environment” as a materiality to be addressed, has established the medium- to long-term SHIONOGI Group EHS Action Targets to contribute to environmental protection, is promoting activities to achieve them, and has established the SHIONOGI Group Business Partner Code of Conduct. We believe that our efforts to comply with these activities when dealing with our business partners in the supply chain with whom we collaborate were also highly evaluated.



\*8 A program in which companies pledge to the Minister of the Environment that they will undertake environmental preservation-related initiatives, which include global warming countermeasures, and waste and recycling related measures, and are then certified by the Minister of the Environment as companies who are undertaking “advanced, original, and leading business activities” in the field of the environment. (Eco-First Commitment: <https://www.env.go.jp/guide/info/eco-first/commitment.html> (Japanese only))

# Dialogue between President Isao Teshirogi and Professor Kunio Ito

— Facilitated by Ms. Yoshiko Sato —

## What Constitutes a Next-Generation Leader?

President Teshirogi sat down with Professor Ito to discuss perspectives he believes are necessary for management and outside directors in order for the Company to implement management with effective governance.



**Isao Teshirogi, Ph.D.**

Representative Director, President and CEO,  
Shionogi & Co., Ltd.



**Kunio Ito**

Director, Center for CFO Education and Research,  
Hitotsubashi University

**Sato** To achieve sustainable growth, the Company will need to develop human resources with leadership skills. What are your thoughts on sustainable succession planning for the president and other executive positions, who are leading SHIONOGI forward?

**Teshirogi** Since it is difficult for people to make decisions 100% objectively based on their own thoughts, and it is not possible for me alone to decide what kind of human resources to promote when considering the future of the Company, we have established the Nomination Advisory Committee composed mainly of outside officers. SHIONOGI established the position of Associate Corporate Officer, one rank below executive officer, two years ago. Appointments to this position are mainly for organization heads including not only those who have worked their way up the corporate ladder, but also those hired mid-career. Outside officers have the opportunity to talk with Associate Corporate Officers at least twice a year so that they can see if Associate Corporate Officers are suitable as the next corporate officers. Although it is difficult to fully understand them with only limited opportunities, we believe that it is important to continue the selection process until the end, referring to both internal and external evaluations, as a process for selecting human resources who will lead SHIONOGI in the future.

**Ito** As President Teshirogi said, people inside the Company are familiar with these candidates because they are looking at them through a lens at a close distance. The role of outside officers is to look at candidates' qualifications from a distance based on their expertise. Having both close and far evaluations increases the probability of selecting the most suitable human resources to lead SHIONOGI in the future.

**Teshirogi** In today's rapidly changing and dynamic environment, it is difficult to determine when to change over top management. I myself have already been president for 16 years, but it generally takes more than 10 years to research and develop pharmaceuticals. When my predecessor, Shiono, handed over the reins to me, he said, "If you only serve a short term of office, you will only look at the short term and not be able to make management decisions from a long-term perspective." There are benefits to serving as president for a prolonged period of time, assuming that compliance and integrity are maintained. It takes about two years just to fully understand the entire company, so it is difficult to be judged by a short term of office such as three years.

**Ito** The timing of when to change over top management is a difficult question. In the past in Japan, it was implicitly thought that if an executive's term of office were limited to four or six years, they could not damage corporate value irreparably even if there were issues in their management.

**Facilitator**

**Yoshiko Sato**

Executive Managing Director and  
Chief Researcher, Japan Investor  
Relations Association



outside director. Investors have come to want it too.

**Sato** How do you think the Board of Directors of SHIONOGI has changed, including its diversity?

**Teshirogi** Although SHIONOGI has chosen to be a company with an Audit & Supervisory Board, there are almost no barriers between outside Audit & Supervisory Board Members and Directors, and they speak from the same standing. At the General Meeting of Shareholders in June 2023, the Company increased the number of outside directors by one, and the ratio of internal and external directors is currently 2:4, and 4:7 including the Audit & Supervisory Board members. In the future, I think the Company can increase the number of women and non-Japanese nationals serving as outside directors. As a representative of business execution, the head of each Business Unit participates in the Board of Directors as an observer. This includes a manager who is a foreign national, but he does not feel a language barrier at these meetings. If this kind of communication is possible, I think that outside officers who are foreign nationals will function sufficiently.

**Sato** Professor Ito, what is your ideal board of directors' style?

**Ito** To increase the number of outside officers, and more specifically to increase diversity, it is wonderful to have foreign nationals join the Board of Directors. However, it is also necessary to be aware of the continuity of discussions and avoid sudden changes, such as replacing three to four directors at a time. The purpose is to compensate for any shortfall in skills, and I doubt whether simply addressing diversity such as nationality and increasing the number of directors will increase board effectiveness.

**Teshirogi** After the official board meeting, we can obtain helpful opinions by talking honestly during informal off-site meetings. At SHIONOGI we hold informal meetings called the "outside officer and the president opinion exchange meetings" four times a year involving outside officers and myself.

**Ito** That's right. It is difficult for people in the company to give advice and change the way of thinking of top management. If people outside the company feel that top management is open to listening to the opinions of people outside the company, like President Teshirogi, I think a good cycle will be created in which people outside the company will give more advice.

**Sato** Thank you for your time today.

Now that the effectiveness of the Board of Directors has increased and the Nomination Advisory Committee has begun to function, there is no need to set a scheduled term of office if the Company's governance is working correctly. Basically, I think that a long term of office as a president is good. However, the Company must ensure that this does not negatively affect self-discipline. If the president is such person who can absorb new knowledge, experience, and surprises, such as serving as an outside director of another company, and transform in response to changes in the environment through re-skilling, I believe that the benefits of having him or her work for a long time will outweigh any negatives. In order for the president to become more self-aware objectively, constructive dialogue with the Nomination Advisory Committee is important.

**Sato** Are there people at SHIONOGI originally from outside the Company who can talk frankly about the president's ongoing tenure?

**Teshirogi** I always receive frank opinions from outside directors. The Nomination Advisory Committee begins with the question of whether or not to allow the president to renew his or her term of office. At least once a year, I receive advice from people outside the company about the positives and negatives of the president's tenure, and then I will try to fix the negative. If there is a majority of opinions consider the president no longer fit for duty, dialogue will be held to select the next president from among the candidates at that time.

**Ito** In that respect, outside directors who are members of the Nomination Advisory Committee are placed in a sensitive position. This may be a self-important way to put it, but members of the Nomination Advisory Committee also need to refine themselves. If they do not notice changes in the environment and evaluate the current president only according to old standards, the evaluation will be distorted. Outside directors also need to undergo reskilling.

**Teshirogi** You are right. It will be difficult for outside directors to continue to serve if they do not have other jobs. Based on my own experience, I would like to recommend that current CEOs be in charge of one or two outside directors.

**Ito** Even the same director can take a different stance depending on a position inside or outside the company. It is a great idea for the president or executive vice president to have the experience of standing on the other side. In the past, investors have asked if the president has that kind of time, but I think they will understand if the president contributes to the sustainable growth of the company by having valuable experiences otherwise not possible before as an



## Message from the Chairperson of the Board



**Keiichi Ando**  
Independent Outside Director

### Career History

After graduating from the Faculty of Economics at The University of Tokyo, Ando joined Sumitomo Bank Limited (now Sumitomo Mitsui Banking Corporation). He worked his way up to Representative Director and Deputy President of the Bank and then moved on to become Representative Director, President and CEO of New Kansai International Airport Company, Ltd. Ando also served as an outside director of the Company for seven years from 2016. Currently, he is an outside director of Tsubakimoto Chain Co. and an outside director of DAIHEN Corporation. In addition to practical experience as an executive of a financial institution and a wide range of knowledge in treasury and finance, as the CEO of an operating company he transformed business models and formulated and promoted growth strategies to grow the company's business value.

### As chairperson of the Board, how do you evaluate SHIONOGI's governance and challenges?

The Company has ensured a high level of corporate governance, including by strengthening supervisory functions, separating business execution, pursuing management transparency, undertaking prompt and bold decision-making, and evaluating the effectiveness of the Board of Directors. In FY2022, the Company was able to meet the expectations of society by obtaining emergency approval for the COVID-19 therapeutic drug Xocova and applying for manufacturing and marketing approval of a COVID-19 preventive vaccine. However, the environment surrounding the pharmaceutical industry is becoming increasingly severe. To continue achieving sustainable growth and further increase corporate value, the Company's top priority should be the establishment of growth drivers, such as new businesses and promising drug discovery for medium- to long-term growth. As an outside director serving on the Board of Directors, I recognize that it is increasingly important to actively commit to its business and growth strategies from various angles with a medium- to long-term perspective.

### What skills and talent should directors have to address these challenges?

Looking at the Company's future direction, which includes transformation into a Health as a Service (HaaS) company and expansion of overseas business, directors will need to analyze and recognize the management and business risks that the Company faces over the medium to long term, and thoroughly discuss growth strategies, business model transformation, and progress in anticipation of future changes in the environment. Therefore, it is important for human resources with diverse management experience, expertise, and international business experience to engage in free and vigorous discussions from a broad perspective based on their different perspectives and knowledge. In addition, as part of its corporate social responsibilities, the Company is required to manage business strategies, including contributing to the realization of a sustainable society, so I recognize that further strengthening the management system with a wider range of management personnel is also an issue for the Company's future.

### What are your impressions of the Associate Corporate Officer position established two years ago? Does it pose any challenges?

Strengthening management personnel and succession planning are the most critical issues for management. With regard to human resources who will lead the next generation, the Company is working to identify candidates for management personnel through explanations at the Board meetings and direct discussions and interviews at informal meetings of Associate Corporate Officers, and the Board of Directors receives reports on the status of human resource development and the human resource portfolio, and focuses on strengthening and developing strategic human resources.

With regard to personnel moves involving top management, in addition to the Nomination Advisory Committee, which is chaired by an outside officer, discussions between the President and outside officers involve the exchange of frank opinions, ensuring transparency and accountability in personnel affairs. From the perspective of sustainable growth and raising corporate value, the Board of Directors constantly and objectively assesses the direction, way of thinking, and execution ability to determine their suitability.

### As chairperson of the Nomination Advisory Committee, what are your expectations for the future of the Company's human resources?

The Board of Directors needs to have human resources who are fully aware of the management and business risks that the Company faces, and who can boldly take on the challenge of transforming the business model in response to changes in the environment. In particular, the pharmaceutical industry faces long-term and difficult issues such as medium- to long-term business strategies, creation of promising pipelines, and responses to patent cliffs, so a high level of management and execution skills are required. In order to transform into a HaaS company, I anticipate that the Company will build and develop a human resource portfolio that matches growth and strategic fields, strengthen its R&D capabilities (human resources), and acquire highly skilled human resources.

## Corporate Governance

### Material Issue Strengthen 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, 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 corporate auditors' audit function, and business audits by the Internal Control Department.

### Features of SHIONOGI's corporate governance

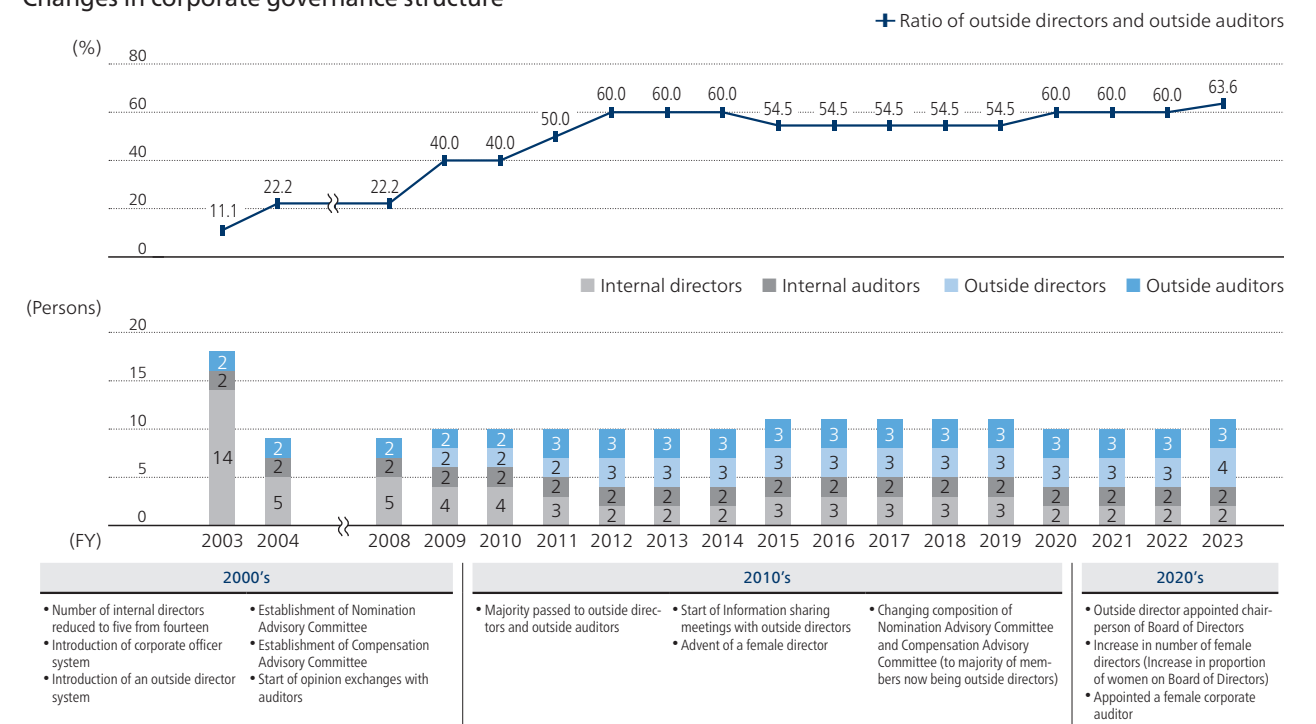
1	Consider balancing among our four types of stakeholders	SHIONOGI incorporates the perspectives of its four groups of stakeholders—customers, society, shareholders and investors, and employees—in maintaining transparent and proper business management that treats its stakeholders fairly and is responsive to the expectations of society.
2	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.
3	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. We have appointed two female directors and one female auditor, as well as directors and auditors with a wide diversity of skills and age groups.
4	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.

### Status of compliance with the Corporate Governance Code

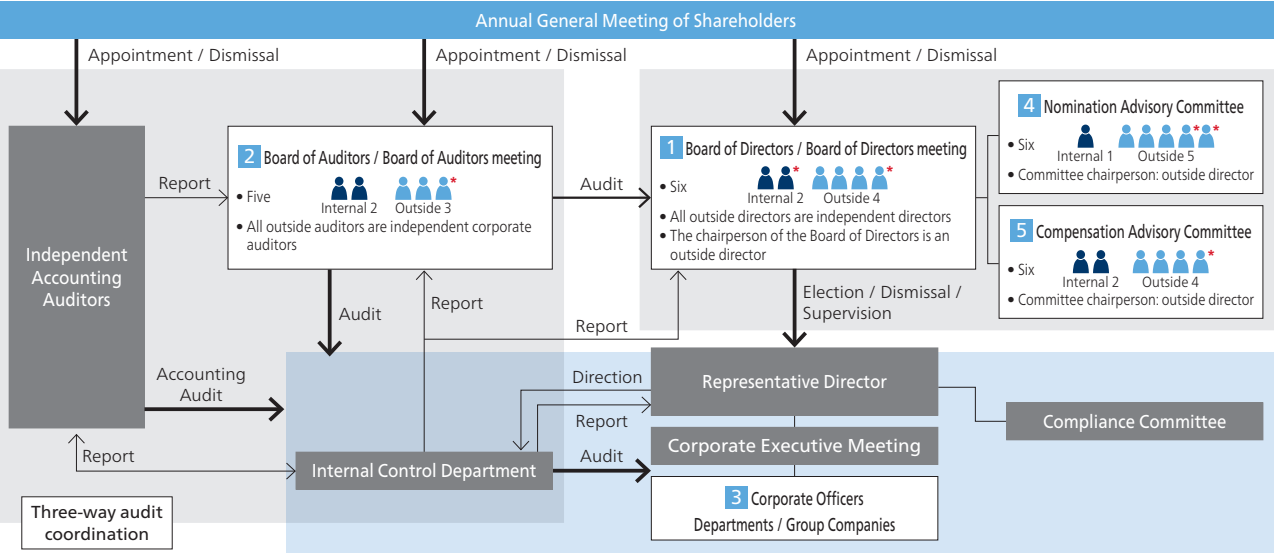
We comply with all the principles of the Corporate Governance Code. For more information, please see our Corporate Governance Report.

[https://www.shionogi.com/content/dam/shionogi/global/company/cg/basic/pdf/cg\\_report\\_en\\_202306.pdf](https://www.shionogi.com/content/dam/shionogi/global/company/cg/basic/pdf/cg_report_en_202306.pdf)

### Changes in corporate governance structure



Corporate governance structure (As of July 1, 2023)



**1 Board of Directors / Board of Directors meeting**  
At the 158th Annual General Meeting of Shareholders held in June 2023, the Board of Directors was expanded by one outside director to a six-member board in order to further enhance oversight of the directors' execution of their duties and to build more highly transparent and equitable management from the perspective of all stakeholders. Two of the six directors are women. In addition, four members of the board are independent outside directors, all of whom are aware of SHIONOGI's corporate responsibility, contributing to greater transparency in management. The Board of Directors is chaired by an independent 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 regular reports from the Internal Control Department on the content of internal audits. Additionally, through exchanges of opinions, they promote cooperation among corporate auditors, the independent accounting auditors, and the internal auditing unit.

**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 changes in the operating environment. Business execution is conducted by 10 divisions across four organizations: the R&D Supervisory Unit, Healthcare Business Supervisory Unit, Supply Supervisory Unit, and Corporate Supervisory Unit.

- **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

The Corporate Executive Management Committee deliberates on important matters related to the execution of duties by each executive officer and important management matters, and is composed of internal directors, standing corporate auditors, and parties responsible for business execution. In principle, the Corporate Executive Management Committee meets once a week, and more important matters affecting management are deliberated by the committee and then decided by the Board of Directors.

**4 Nomination Advisory Committee**  
The Nomination Advisory Committee consists of the Representative Director, President and CEO, four outside directors, and one outside corporate auditor, and is chaired by an outside director. The committee reviews the skills of the Board of Directors, including outside directors, and the appointment of corporate officers. In addition, it discusses plans and status

for cultivating personnel candidates for the next batch of executive candidates, as confirmed through proposals and reports at Board of Directors meetings and opportunities for dialogue between outside directors and division heads and associate corporate officers. This committee was held twice in fiscal 2022.

**5 Compensation Advisory Committee**  
The Compensation Advisory Committee consists of the Representative Director, President and CEO, four outside directors, and one standing corporate auditor, and is chaired by an outside director. In fiscal 2022, the main topics of discussion included confirmation of compensation levels and various compensation ratios, performance evaluation of directors and corporate officers for fiscal 2021, performance evaluation indicators for fiscal 2022, and the ideal form of the executive compensation system. This committee was held twice in fiscal 2022.

**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 outside directors, all of the corporate auditors, and the Representative Director, President and CEO in attendance, and topics for discussion include recent trends in the health-care industry and Company business, as well as plans for executive training and the status of that training. In addition, four rounds of dialogues were held between outside directors and associate corporate officers who are prospective executive officer candidates. In fiscal 2022, the number of participants, the format and frequency of the meetings were adjusted with the aim of deepening discussions, reflecting requests from outside directors based on the previous year's results.

**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 2022, the sessions were held twice, once in September 2022 and once in March 2023. The topic of the September study session was "The SHIONOGI Group's R&D Strategy," where information was shared on the status of our R&D for future growth. The topic of the March study session was "status of DX promotion at SHIONOGI," where participants deepened their understanding of efforts to implement DX measures that are essential for future business expansion.

Voluntary committees/meeting activities (titles are as of July 1, 2023)

	Members	Chair/Host	Purpose	Activities in fiscal 2022
4 Nomination Advisory Committee	• Director Ando • Director Ozaki • Director Takatsuki • Director Fujiwara • Corporate Auditor Goto • President Teshirogi	• Director Ando	• Discuss and report to the Board of Directors on the selection of candidates for directors and corporate auditors, the selection of corporate officers, and the selection of associate corporate officers	• Discussed mainly the appointment of corporate officers from the perspective of balancing the expertise of the Board of Directors (including outside directors), strengthening management support organizations, and promoting research activities
5 Compensation Advisory Committee	• Director Ando • Director Ozaki • Director Takatsuki • Director Fujiwara • President Teshirogi • Standing Corporate Auditor Okamoto	• Director Ozaki	• Discuss and report to the Board of Directors on confirmation of compensation levels and various compensation ratios, performance evaluation of directors and corporate officers for the relevant fiscal year, performance evaluation indicators for the next fiscal year, and the ideal form of the executive compensation system, including stock-based compensation	• Discussed mainly confirmation of compensation levels and various compensation ratios, performance evaluation of directors and corporate officers for fiscal 2021, performance evaluation indicators for fiscal 2022, and the ideal form of the executive compensation system, including stock-based compensation
6 Outside officer and the President opinion exchange meetings	• President Teshirogi • Outside directors • All corporate auditors	• President Teshirogi	• Exchange opinions with the aim of improving the quality of discussions at Board of Directors meetings	• Discuss recent trends in the healthcare industry recent and Company business, as well as plans for executive training and the status of that training
7 Informal meetings with Associate Corporate Officers	• Outside directors • All corporate auditors • Associate corporate officers	• Board of Directors secretariat	• Cultivate executives through dialogue with associate corporate officers, who are prospective executive officer candidates	• Four meetings (October 3, October 31, November 28, and December 19, 2022)
8 Outside officer information exchange/study sessions	• Outside directors • All corporate auditors	• Standing corporate auditors	• Deepen understanding of SHIONOGI's business	• September 2022 session, topic: "The SHIONOGI Group's R&D Strategy" • March 2023 session, topic: "Status of DX Promotion at SHIONOGI"

No. of meetings held	2022										2023		
	April	May	June	July	August	September	October	November	December		January	February	March
1 Board of Directors meeting	1	1	1		1	1	2	1	1		1	1	1
2 Board of Auditors meeting		1	2	1		1	2	1	1		1		1
4 Nomination Advisory Committee	1											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							2	1	1				
8 Outside officer information exchange/study sessions						1							1



Deliberations at Board of Directors meetings

Example1

Receipt of returned *Xofluza* and *Rapiacta* influenza antiviral drugs and recording expenses associated with disposal

Items reported and resolved at the Board of Directors

The following proposal from the executive side was approved by resolution. “The expiration date of ethical drugs is allowed to be extended after their market launch based on the prescribed tests, and the expiration date of products managed in company warehouses can be changed by changing the packaging, but changes after shipment are not allowed. It is difficult to predict appropriate inventory levels for the anti-influenza drugs *Xofluza* and *Rapiacta*, for which demand is influenced not only by seasonality but also epidemics. Until now, products stocked at pharmaceutical wholesalers that have reached their expiration date have been replaced with usable products of the same amount, but this method results in a certain amount of waste each year. In order to address these issues, we will accept the return of products stocked at pharmaceutical wholesalers and record a loss of ¥5.8 billion associated with the disposal of such products, as well as seek new distribution methods to achieve both a reduction in inventory volume and a stable supply at pharmaceutical wholesalers in the future.”

Main discussions

Traditional measures are unable to adjust the amount of inventory on the wholesaler side, so there is a risk that disposal amounts will increase depending on the prevailing conditions. As a company that identifies “environmental friendliness” as a material issue, SHIONOGI recognizes the correctness of this proposal in that it addresses a problem that cannot be overlooked. On the other hand, compared to other industries, the difficulty of establishing a new distribution method is high due to the difficulty of understanding inventory levels and the existence of unique business practices related to customer transactions. Any new distribution method should be well-founded both in concept and logic, and partners should be engaged in discussions about how to shape the delivery system.

Example2

Shionogi Pharma Co., Ltd.'s efforts to improve quality issues

Items reported and resolved at the Board of Directors

The following proposal from the executive side was approved by resolution. “In recent years, there have been cases in the industry where companies have been subject to administrative penalties for product quality and other problems. In addition, the SHIONOGI has also experienced incidents that, if left unchecked, could have developed into serious problems. It is based on this premise and a field investigation by Shionogi Pharma, a manufacturing group, that we propose work to improve quality issues at said subsidiary by addressing aging facilities, building an organizational culture, strengthening organizational management, and enhancing production management.”

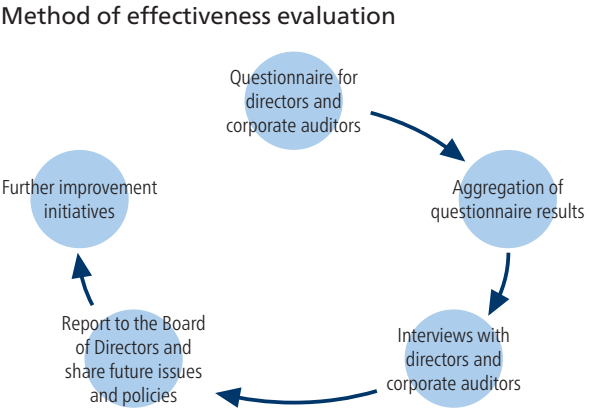
Main discussions

Harnessing digital transformation will save manpower and strengthen coordination among facilities, and maintenance will become more important in light of overall facility balance. In addition, as SHIONOGI becomes more globalized, it will be subject to an increasing number of inspections and other actions outside of Japan from authorities in various countries where it does business, so it is necessary to plan investments with an eye to the future.

While there is a strong tendency to put off dealing with aging facilities due to cost-consciousness, it necessary to establish a system for eliciting feedback from the field regarding problematic facilities. These must then be categorized into items for periodic review and other items, and to take measures such as separate budgets for important facilities.

Analysis/evaluation of effectiveness

SHIONOGI conducted a questionnaire and interviews with each director and corporate auditor from December 2022 to February 2023, analyzing these results and evaluating the effectiveness of the Board of Directors overall for fiscal 2022. This questionnaire items were focused on the items listed in (1) Framework, (3) Roles and Responsibilities, and (6) Operation under 6. Directors and the Board in the Basic Views and Guidelines on Corporate Governance published by SHIONOGI. In order to enhance the objectivity of the effectiveness evaluation in fiscal 2022, a third-party organization was used to prepare the content of the questionnaire and to conduct interviews with each director and corporate auditor.



Summary of analysis and evaluation results for fiscal 2022 and response in fiscal 2023

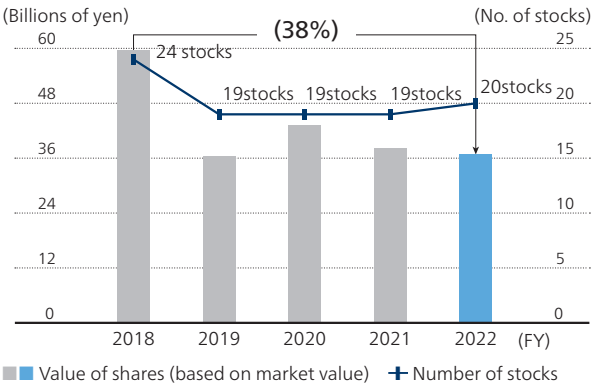
Results of fiscal 2021 evaluation	<ul style="list-style-type: none"><li>Issues identified included enhancement of reporting on non-financial information in addition to implementation of measures in line with management strategies, efficient management to enhance discussions, and enhancement of the board structure, including the succession process.</li></ul>
Response and initiative status in fiscal 2022	<ul style="list-style-type: none"><li>Measures to discussions, such as accelerating the timing of provision of materials to directors and corporate auditors and, as necessary, providing preliminary briefings on board meeting agenda items</li><li>Expanding reporting opportunities for TCFD and other sustainability activities, risk management actions, etc.</li><li>Enhancing opportunities and content of dialogues between the next batch of executive officer candidates and outside officers</li><li>Adjust the skill matrix with a view to SHIONOGI's future vision and confirming the skills of each officer</li></ul>
Results of fiscal 2022 evaluation	<p>A summary of the results of the analysis and evaluation of the overall effectiveness of the Board of Directors for fiscal 2022 is as follows:</p> <ul style="list-style-type: none"><li>Framework<p>While the necessary structure is in place in terms of diversity and various factors including expertise and experience, the need to appoint female directors and directors with expertise in overseas business was identified as an issue for the future in terms of further diversity in light of the expansion and transformation of business. In the interest of succession, the need was also mentioned for human resource development through the President's Management Seminar and the associate corporate officer system, as well as further opportunities for dialogue between outside officers and human resources who will become the next batch of corporate officers.</p></li><li>Roles and responsibilities<p>Regarding discussions at the Board of Directors, progress reports for the STS2030 medium-term business plan and enhancement of sustainability discussions were well-received. However, a number of comments also called for a revision of the medium-term business plan toward growth in the post-pandemic era in light of the launch of the COVID-19 therapeutic drug <i>Xocova</i> and COVID-19 prophylactic vaccine as well as recognition of issues and fuller discussion on the further promotion of DX and utilization of human capital.</p></li><li>Operation<p>In addition to the appropriate control of the items and time for deliberation at meetings of the Board of Directors, the implementation of preliminary briefings to stimulate discussion, improvement of presentation content, and an atmosphere conducive to free and vigorous discussion and exchange of opinions received strong evaluations. Opinions toward further improvement included greater information provision in order to enhance discussions of the Board of Directors, as well as considerations for a support system for the board.</p></li></ul>
Response in fiscal 2023	<p>Agenda items to be submitted to the Board of Directors will continue to be enhanced and a system and operations will be developed in order to facilitate the vigorous discussion necessary for SHIONOGI's sustainable growth. Our responses toward this end are as follows.</p> <ul style="list-style-type: none"><li>Consideration of the ideal state of the Board of Directors and revision of the rules of the Board of Directors</li><li>Further enhancement and utilization of the skill matrix</li><li>Agenda setting and optimization of deliberation time to ensure discussion of items of particular importance</li><li>Enhancement of support system, including further information sharing to outside officers</li><li>Improved management of roundtable meetings with associate corporate officers to develop successor human resources</li></ul>

Cross-shareholdings

Cross-shareholdings are reviewed annually by the Board of Directors to determine whether continued holding presents a business rationale. In light of the relationship with the cost of capital, SHIONOGI maintains such cross-shareholdings only when they are deemed to enhance SHIONOGI's corporate value and contribute to sustainable growth. Otherwise, we proceed with sequential sell-offs in consideration of stock prices and market trends. In fiscal 2022, the number of listed stocks held increased to 20 due to IPOs.

We will continue to fulfill our responsibilities as a shareholder by exercising our voting rights after determining whether to approve or disapprove of the proposals based on the criteria for exercising voting rights.

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 officers' compensation and discusses the ideal state of and various issues concerning remuneration for direc-

tors and corporate officers, verifies the levels of compensation every year, and deliberates the compensation system and performance evaluation system for the following fiscal year.

Composition of remuneration

The targeted ratio for each type of remuneration is set at base remuneration: performance-linked remuneration\*<sup>1</sup>, etc.: non-monetary remuneration\*<sup>1</sup>, 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.

1	:	1	:	1
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.

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., consolidated net income 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%). 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 industry peers including SHIONOGI (relative TSR) and also incorporate the status of sustainability compliance, and the status of initiatives associated with COVID-19. For fiscal 2022, we have decided to set the ratio of lifting the transfer restriction at 80% after deliberation and reflection by the Compensation Advisory Committee based on an overall assessment of external evaluations on ESG, status of compliance, and the results of activities related to COVID-19, such as the start of supply of *Xocova*, a drug for the treatment of COVID-19, and the application for approval of a vaccine. 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.

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. 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 our Corporate Governance Report p.12\*<sup>2</sup>. 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 amounts, etc. are evaluated and determined by a person who bears the ultimate management responsibility, and thus, such evaluation and determination are entrusted to the Representative Director, President and CEO. 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 Representative Director, President and CEO, to whom such determination is entrusted, shall make decisions in accordance with said recommendations and the abovementioned resolution by the Board of Directors.

\*2 Corporate Governance Report  
[https://www.shionogi.com/content/dam/shionogi/global/company/cg/basic/pdf/cg\\_report\\_en\\_202306.pdf](https://www.shionogi.com/content/dam/shionogi/global/company/cg/basic/pdf/cg_report_en_202306.pdf)

Actual remuneration

Actual remuneration for fiscal 2022 was as follows.

		Total amount of remuneration for Directors and Corporate Auditors (fiscal 2022)			
		(Millions of yen)			
Category	Persons	Total amount of remuneration, etc. by type			
		Base remuneration	Performance-linked remuneration* <sup>3</sup>	Non-monetary remuneration* <sup>4</sup>	Total
Directors (of which Outside Directors)	5 (3)	207 (57)	182 (—)	126 (—)	516 (57)
Corporate Auditors (of which Outside Corporate Auditors)	5 (3)	124 (54)	— (—)	— (—)	124 (54)
Total	10	332	182	126	640

		Total consolidated remuneration, etc. by director (fiscal 2022)			
		(Millions of yen)			
Name	Position	Total amount of remuneration, etc. by type			
		Base remuneration	Performance-linked remuneration* <sup>3</sup>	Non-monetary remuneration* <sup>4</sup>	Total
Isao Teshirogi	Director	93	112	86	292
Takuko Sawada	Director	57	70	39	166

\*3 The amount of "Performance-linked remuneration, etc." above is the amount of provision for Directors' bonuses for the fiscal year.  
\*4 The amount of "Non-monetary remuneration, etc." above is the amount recorded as an expense in the fiscal year.



Skills required of directors and the Board of Directors

In order to achieve the growth set forth in the STS2030 Revision, SHIONOGI is taking action under three pillars: 1) further growth of the HIV business, 2) growth of COVID-19 therapeutics, and 3) expansion of new products and businesses. In executing these key strategies, in order to enhance the Board of Directors’ oversight function over business execution, increase the speed and transparency of decision-making, and ensure equitable management, it is necessary to augment the skills required of a Board of Directors and its directors for traditional pharmaceutical companies. These skills should be augmented with the skills needed to work with business partners as a HaaS company to create value that diverges from that of traditional pharmaceutical companies, and to promote the

creation and global provision of that value. Therefore, after reviewing the skills listed so far and considerations at the Nomination Advisory Committee, the Board of Directors passed a resolution in May 2023 to redefine the skill matrix based on what SHIONOGI wants to be in the future. In addition, the Company confirmed which skills each director and corporate auditor possesses.

Going forward, we will continue to study paths toward greater skill sufficient, including by clarifying skill definitions, in order to improve the plausibility and transparency in the selection of officers and to use these in the training of human resources who will become future officer candidates.

need to cultivate successor candidates in a multifaceted fashion based on the vision for the future SHIONOGI. To this end, we have established opportunities for dialogue between outside officers and associate corporate officers, who are prospective executive officer candidates, to identify talent from an early stage. Candidate information is also checked at opinion exchanges between the President and outside officers at the meeting (the aforementioned outside officer and the President opinion exchange meetings). Based on these

exchanges, the Nomination Advisory Committee holds its own discussions, where a great deal of advice is provided by outside directors and outside corporate auditors. In fiscal 2022, four associate corporate officers were newly appointed as corporate officers. In addition, we continue to provide education to human resources who meet successor requirements through the President’s Management Seminar, taught directly by the President who trains executives with strong leadership and enthusiasm.

Succession plan

SHIONOGI regards the selection of its executives as one of the most important decisions of the Board of Directors. In an era

of rapid changes in the external environment, the criteria for evaluating candidates also change, and we recognize the

Officer training

SHIONOGI provides opportunities for directors and corporate auditors to acquire the knowledge necessary to fulfill their roles and responsibilities, and to provide management information on business, finance, organizations, etc., as needed, so that they can express opinions and make proposals with complete candor. In addition, we provide and mediate training opportunities and assist with their costs as needed.

Furthermore, the Company continues to hold outside officer

and the President opinion exchange meetings as well as outside officer information exchange/study sessions. In fiscal 2022, the Company held study sessions on the Group’s R&D strategy and DX initiatives, as well as roundtable discussions with associate corporate officers who are candidates for executive positions, in order to deepen understanding of the business through collaboration and information exchange among outside officers and between outside officers and executives.

Skill matrix (as of September 30, 2023)

	Name	Number of years in post	FY2022 attendance				Skills										
			Board of Directors	Nomination Advisory Committee	Compensation Advisory Committee		Corporate management/ Management strategy	Finance/ Accounting/ Taxation	Law/Compliance/ Intellectual property	Science/ Technology/ Innovation	Sales/Marketing	Manufacturing/ Quality/Supply chain	Global business	Personnel and labor affairs/ Human capital development/D&I	Corporate governance	Risk management	SDGs/ Sustainability
Directors	Representative Director, President and CEO	Isao Teshirogi, Ph.D. (63/Male)	21years	12/12 (100%)	2/2 (100%)	2/2 (100%)		●		●	●	●	●		●	●	●
	Director and Vice Chairperson of the Board	Takuko Sawada (68/Female)	8years	12/12 (100%)	—	—		●			●	●		●	●	●	●
	Independent Outside Director	Keiichi Ando (71/Male)	7years	12/12 (100%) Chairperson	2/2 (100%) Chairperson	2/2 (100%)		●	●				●	●	●	●	●
	Independent Outside Director	Hiroshi Ozaki (73/Male)	4years	12/12 (100%)	2/2 (100%)	2/2 (100%) Chairperson		●			●	●	●		●	●	●
	Independent Outside Director	Fumi Takatsuki (48/Female)	3years	12/12 (100%)	2/2 (100%)	2/2 (100%)				●			●	●	●	●	●
	Independent Outside Director	Takaoki Fujiwara* (71/Male)	—	12/12 (100%)	2/2 (100%)	—		●				●		●	●		●

\* Mr. Takaoki Fujiwara’s listed attendance of Board of Directors meetings is from his tenure as a corporate auditor.

Auditors	Name		Number of years in post	FY2022 attendance					Skills										
				Board of Directors	Board of Auditors	Nomination Advisory Committee	Compensation Advisory Committee		Corporate management/ Management strategy	Finance/ Accounting/ Taxation	Law/Compliance/ Intellectual property	Science/ Technology/ Innovation	Sales/Marketing	Manufacturing/ Quality/Supply chain	Global business	Personnel and labor affairs/ Human capital development/D&I	Corporate governance	Risk management	SDGs/ Sustainability
	Standing Corporate Auditor	Akira Okamoto (68/Male)	8years	12/12 (100%)	11/11 (100%)	—	2/2 (100%)				●		●			●	●	●	●
	Standing Corporate Auditor	Ikuo Kato (69/Male)	7years	12/12 (100%)	11/11 (100%)	—	—		●		●	●					●	●	●
	Independent Outside Auditor	Tsuguoki Fujinuma (78/Male)	4years	12/12 (100%)	11/11 (100%)	—	—			●	●				●		●	●	●
	Independent Outside Auditor	Shuichi Okuhara (55/Male)	3years	12/12 (100%)	11/11 (100%)	—	—		●	●		●				●	●		
	Independent Outside Auditor	Yoriko Goto (64/ Female)	—	—	—	—	—		●	●					●	●	●	●	●





Directors

1 Isao Teshirogi, Ph.D. 68,050 shares  
Representative Director, Chairman and 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 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, President and CEO of the Company (incumbent)

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

2 Takuko Sawada 45,600 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 2018	Director of the Company and Executive Vice President
April 2020	Director of the Company and Executive Vice President and Senior Vice President of Integrated Disease Care Division
July 2022	Director and Vice Chairperson of the Board (incumbent)
June 2023	Outside Director of Konica Minolta Inc. (incumbent)

Major concurrent posts:  
Outside Director of Konica Minolta 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

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.

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)
June 2023	Outside Corporate Auditor of Sankyo Seiko Co., Ltd. (incumbent)

Major concurrent posts:  
Partner of Oh-Ebashi LPC & Partners  
Outside Corporate Auditor, Sankyo Seiko Co., Ltd.

6 Takaoki Fujiwara 0 shares  
Independent Outside Director

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.
June 2017	Representative Director, Hankyu Hanshin Holdings, Inc.
June 2017	Outside Director, Sanyo Electric Railway Co., Ltd.
December 2017	Director, Hanshin Hotel Systems Co., Ltd.
June 2018	Outside Corporate Auditor of the Company
April 2023	Advisor of Hanshin Electric Railway Co., Ltd. (incumbent)
June 2023	Outside Director of the Company (incumbent)

Auditors

7 Akira Okamoto 6,657 shares  
Standing Corporate Auditor

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 Corporate Auditor of the Company (incumbent)

8 Ikuo Kato 0 shares  
Standing Corporate Auditor

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 Corporate Auditor of the Company (incumbent)

Number of the Company's share owned

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 Trustees
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 (incumbent) and Advisory Board Member at Chuo University Business School
July 2017	Auditor, Chiba Gakuen (incumbent)
June 2018	Chairman, Association of Certified Fraud Examiners (AFCE Japan) (incumbent)
June 2019	Outside Corporate Auditor of the Company (incumbent)
June 2023	Councilor of Association of Certified Fraud Examiners Japan (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 Investment manager of 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 Corporate Auditor of the Company (incumbent)

Major concurrent posts:  
Representative Director and Chairman of Nippon Venture Capital Co., Ltd.

11 Yoriko Goto 0 shares  
Independent Outside Auditor

November 1983	Joined Deloitte Haskins and Sells International (now Deloitte Touche Tohmatsu LLC)
June 1996	Partner of Deloitte Touche Tohmatsu Limited (now Deloitte Touche Tohmatsu LLC)
June 2007	Japan Leader of Global Financial Services Industry, Deloitte Touche Tohmatsu Limited
October 2010	Managing Partner of Financial Services Industry, Deloitte Touche Tohmatsu LLC
October 2013	Member of Executive Committee of Deloitte Touche Tohmatsu LLC and Member of Board of Deloitte Touche Tohmatsu Limited
June 2018	Chairperson of the Board of Deloitte Touche Tohmatsu LLC and Deloitte Tohmatsu Group, and Member of Board of Deloitte Touche Tohmatsu Limited
November 2018	Member of Board of Deloitte Asia Pacific Limited
October 2022	President of Yoriko Goto CPA Office (incumbent)
October 2022	Outside Director (Member of the Audit and Supervisory Committee) of Sumitomo Mitsui Banking Corporation (incumbent)
June 2023	Outside Corporate Auditor of the Company (incumbent)

Major concurrent posts:  
(Outside Director (Member of the Audit and Supervisory Committee) of Sumitomo Mitsui Banking Corporation

Corporate Officers

Senior Executive Officers

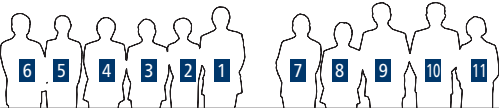
Koji Hanasaki, Ph.D.  
John Keller, Ph.D.  
Toshinobu Iwasaki, Ph.D.  
Noriyuki Kishida

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 Miharu  
Takeki Uehara, Ph.D.  
Yoshinori Yurugi  
Satoru Yoshimoto





Ensure Compliance

In the SHIONOGI Group Charter of Conduct and the SHIONOGI Group Compliance Policy, SHIONOGI defines compliance as “indispensable for the survival and development of a company” and as “not limited to compliance with laws, rules, and regulations, but also includes compliance with social norms and ethical behavior as a company and as a member of society”. All officers and employees comply strictly with these policies.

Ideal State	Earning the trust of stakeholders by fulfilling social responsibilities
Needs/Issues	
Preventing reputation damage triggered by noncompliance	
• Unify global compliance standards.	
• Visualize compliance activities in each supervisory unit, division, department, and group company.	
• Establish a compliance culture consistent with the Company Policy of SHIONOGI.	
Initiatives	Indicators
• Strengthening our compliance system in Japan	• We hold Compliance Committee meetings for all companies, including Group companies in Japan, four times a year. In addition, each supervisory unit holds its own Compliance Committee meetings four times a year.
• Strengthening collaboration with compliance promotion departments in Japan and overseas	• To promote more effective initiatives, we have uniformly assigned the role compliance manager of each division and group company to the corresponding general manager or group company president, and the role of compliance promoter in each department to its head.
• Employee training	• Interviewed all compliance promoters and managers regarding compliance activities, etc.
	• Established Global Compliance & Quality Week as an opportunity for all employees to think about compliance and quality.
	• Revised global rules for amounts of reimbursement to healthcare professionals.
	• Media response training for corporate officers to deal with an event of a major violation.
	• Harassment prevention training at the three levels of management, managers, and general employees.
	• Information security education.
	• Anti-bribe and anti-corruption education.
	• Education on compliance and the internal reporting system.
• The Internal Reporting System	• Number of calls to the reporting desk (n=75).
• Compliance awareness surveys	• Implementation of compliance surveys that include engagement surveys.

Raising compliance awareness

At SHIONOGI, we regard compliance as the cornerstone of all our activities, and we urge each and every officer and employee to understand its importance and to ensure that they act in compliance with it. As we move toward the realization of the STS2030 Revision, there are more and more opportunities than ever before to collaborate with different industries, and we are increasingly faced with difficult decisions in terms of compliance that we have not experienced in the past. In this changing environment, compliance promotion activities must be implemented consistently in accord with company policies in each workplace, so that each employee can think for themselves about what is expected of them by those around them, and do the right thing. In FY2022 we established compliance committees in each supervisory unit in order to implement more detailed compliance activities in each value chain that are better aligned with the actual situation on-site

and in reality. As a result, in addition to compliance risks that demand compliance across all companies, we have identified compliance risks specific to each of the four supervisory units, and established response policies to deal with each risk. Compliance committees in all companies receive reports on initiatives by each supervisory unit, and discuss group-wide compliance issues, leading to the formulation and implementation of countermeasures. In addition, until now the head of each department has been responsible for appointing the compliance promoters for their own organization, but we have now changed the system to one in which the head of the department is the compliance promoter. This reform fosters compliance culture in each organization and makes our activities more effective. We will continue to promote the importance of compliance at SHIONOGI to all employees and nurture a stronger compliance culture.

Risk Management

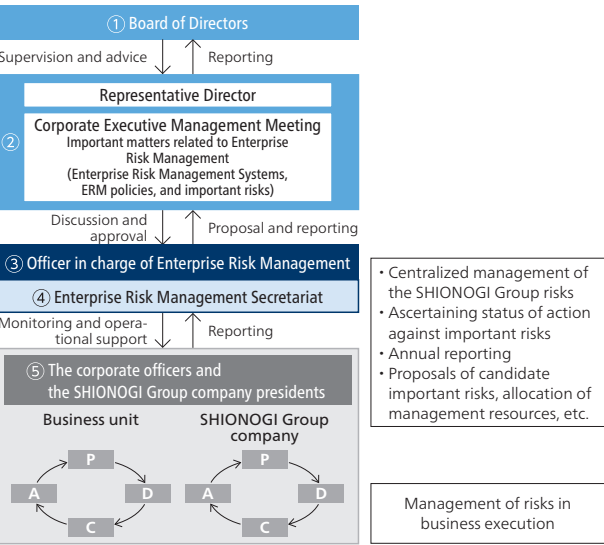
As the transformation of society picks up pace, uncertainties that impact business strategies and the results of those strategies continue to grow more diverse and complex. Appropriately managing risks both within and outside the Group is necessary for SHIONOGI to achieve the transformation envisioned in STS2030 Revision and generate further growth. To further strengthen our resilience, we foster a risk culture by strategically managing both offensive and defensive risks.

Promoting risk management system

At SHIONOGI, our enterprise risk management (ERM) system, a system for coordinating risk management throughout the Group, is an important mechanism for both the corporate strategy and management foundation. The implementation and management of company-wide risk management is based on SHIONOGI and Group companies not only ascertaining and evaluating risks taking into consideration their probability and impact on Group management but also taking the lead in implementing responses based on the Risk Management Plan deliberated on and approved by the Corporate Executive Meeting and Board of Directors. ERM consists of compiling risk information from throughout the Group, reporting on such issues as the state of the response to the Corporate Executive Meeting and Board of Directors, receiving

the opinions and advice of directors and auditors, and reflecting that in improvement initiatives In fiscal 2022, we revised the SHIONOGI Group Enterprise Risk Management Policy, introduced the ERM system, and improved the efficiency of integrated management and monitoring of company-wide risks. In addition, we provide education on the basics of ERM to spread understanding of ERM to all employees and education for the heads of each organization that promotes risk management at workplaces so that ERM is properly implemented. We also offer newly appointed auditors education on the ERM system and ERM policies and SHIONOGI Group's risks, and work to create an environment that fosters active discussions of risk management at all levels of the company, from the workplace to Board of Directors.

Risk management structure



Crisis and incident management

When a crisis occurs, we place the highest priority on protecting people's lives and ensuring safety, and then quickly implement measures to minimize and prevent a repeat of the crisis, and maintain the business. Therefore, we are improving effectiveness by resolving problems with systems, procedures, and related rules uncovered during business continuity plan (BCP) training. We have created a system to deal with incidents. In this system

the management team is quickly provided with relevant information, and the responsible people in the organizational unit in which the incident occurred and the business site collaboratively respond to the incident. To create this type of system, we foster a “bad news fast/first” culture that quickly reports negative news and conduct mock-crisis training for corporate officers and more senior management.

Main business risks

At SHIONOGI, we categorize risks that could have a material impact on performance and business as either “business strategy-related risks,” risks inherent in strategic decision-making, or that could hinder the implementation of the strategy, or “business execution-related risks,” risks that impact business execution that support business targets; assign each risk a risk owner; and promote response plans to leverage uncertainty as an opportunity or mitigate the risk. The Corporate Executive Meeting conducts a regular (around twice a year) check of progress in responding to each risk and implements corrections and improvements.

The following table shows the important risks we are aware of currently. In addition to these risks, we identified risks that could impact SHIONOGI's performance or business, which include litigation, natural disasters and pandemics, and financial market and exchange rate trends, and are moving forward with a response to each risk. The following, however, are not all the risks that SHIONOGI faces.

1. Summary of business strategy–related risks

	Risk summary	Main response
Global growth, centered on the infectious disease field	By dividing the infectious disease field into “infectious diseases that require long-term treatment,” “vaccines,” and “acute diseases,” we are working to transform each into a sustainable business that is part of the whole disease field through a different strategy for each sub-field. We are undertaking not only business activities, such as development, filing for and obtaining approval, marketing, and sales in Europe, the U.S., and Asia, but also health improvement activities, including expanding into low- and middle-income countries. Even so, if initially envisioned development plans and marketing strategies are delayed or fail or we are unable to create expected future therapeutic drugs or vaccines or generate related earnings, this could have a material impact on performance.	<ul style="list-style-type: none"><li>• Promote the sale and proper use of acute respiratory infection therapeutic drugs</li><li>• Develop acute respiratory infection vaccines</li><li>• Research and develop long-acting HIV therapeutic/prophylactic drugs</li><li>• Research and develop new treatments for such diseases as malaria, tuberculosis, and nontuberculous mycobacterial infection</li><li>• Expand sales of the multidrug-resistant Gram-negative bacterial infection treatment cefiderocol</li><li>• Create products and services that achieve total care for infectious diseases</li><li>• Develop and file for approval of core products overseas and further expand the overseas manufacturing, distribution, and marketing system</li><li>• Negotiate with government and regulatory authorities of various countries regarding such issues as stockpiles and the expansion of subscription-type reimbursement model</li><li>• Improve healthcare access in low- and middle-income countries</li></ul>
Pipeline expansion	Researching and developing pharmaceuticals requires extensive time and massive investments, and because there is the possibility candidate pharmaceuticals will not have the expected efficacy or receive approval, it is necessary to obtain new modalities and employ outside networks to create an attractive pipeline. We must also foster businesses other than the pharmaceutical business and balance those businesses in order to transform our business model, which overemphasizes earnings from patents.	<ul style="list-style-type: none"><li>• Take on the challenge of new modalities and technologies</li><li>• Promote manufacturing through co-creation with outside parties</li><li>• Actively invest in growth drivers, such as in-licensing</li><li>• Develop human resources to ensure leading R&amp;D capabilities</li><li>• Maintain a high internally-discovered pipeline ratio</li><li>• Develop innovative treatment options not limited to therapeutic drugs</li><li>• Develop services necessary to create an environment in which all people can actively participate</li></ul>
Human capital management	To achieve growth through transformation, it is necessary for SHIONOGI to become a community of human resources with exceptional strengths, and therefore, we focus on human capital management. Obstacles, such as failures related to measures and capturing human resources, could undermine this transformation and have a material impact on performance.	<ul style="list-style-type: none"><li>• Reinforce mid-career hiring</li><li>• Reform the HR system</li><li>• Implement workstyle reforms so that various types of people can actively participate</li><li>• Hold events that welcome and praise challenges</li></ul>
Digital transformation	We are implementing a digital transformation (DX) to accelerate decision-making and create new value. If DX initiatives falter, this could have a material impact on not only performance but also increase in corporate value.	<ul style="list-style-type: none"><li>• Build global IT foundation</li><li>• Transform our business models and operations using AI</li><li>• Develop software as medical device (SaMD) and disease detection algorithms to diagnose and treat illnesses</li><li>• Create a data use platform to increase operational efficiency and create new value</li><li>• Implement training measures to produce digital core human resources</li></ul>

2. Summary of business execution–related risks

	Risk summary and concerns about risk realization	Main response
Systems and administration	Government policies, such as medical insurance reforms that anticipate increases in medical costs as society grays, annual revisions to NHI drug prices, and changes in development and manufacturing-related regulations in Japan and overseas, could impact performance. <ul style="list-style-type: none"><li>• Lower predictability of pharmaceutical business</li><li>• Calculation of drug price independently of value of innovation</li><li>• Delay in development of solutions necessary to respond to infectious disease pandemics and supply instability</li></ul>	<ul style="list-style-type: none"><li>• Create innovative solutions and provide at a price acceptable to society</li><li>• Accumulate evidence to prove the created value</li><li>• Promote initiatives through industry organization activities</li><li>• Obtain the latest information on such issues as the drug pricing system and various types of regulations related to R&amp;D, manufacturing, and marketing, and quickly respond</li></ul>
Adverse reaction, etc.	We implement measures necessary to ensure the safety and proper use of pharmaceuticals after they are launched, but if there are unforeseen adverse reactions or other problems, this could result in the following. <ul style="list-style-type: none"><li>• Termination of sales and recall of products</li><li>• Litigation seeking compensation for health hazards</li><li>• Damage to the corporate brand and reputation</li></ul>	<ul style="list-style-type: none"><li>• Build and reinforce a system to appropriately collect, analyze, evaluate, and report information on adverse reactions and similar issues</li><li>• Educate all employees to curb the spread of adverse reactions and control damage</li><li>• Obtain insurance for medical damage compensation based on adverse reactions, etc.</li></ul>

Partnerships with other companies	We collaborate with business partners to strengthen businesses that leverage each other's strengths, but this entails the following risks. There is also the risk of damaging our corporate value through collaboration with companies that violate ESG-related initiatives, such as resource and environmental protection, safety, and human rights. <ul style="list-style-type: none"><li>• Use of the Company's technology and know-how for purposes other than those intended</li><li>• Unintentional and unauthorized use of other company's technology and infringement on intellectual property rights</li><li>• Leak of confidential information by the Company</li><li>• Leak of confidential information by other companies</li><li>• Damage to reputation and trust due to collaboration with companies who conduct business activities that are inconsistent with the Company's perception of ESG issues</li></ul>	<ul style="list-style-type: none"><li>• Eliminate differences in awareness through extensive dialogues and maintain and improve trust</li><li>• Conclude NDAs that factor in envisioned risks</li><li>• Conclude agreements that clearly state such items as handling intellectual property rights and compensation for damages</li><li>• Conduct regular inspections of intellectual property to survey problems and infringement risk</li><li>• Build a monitoring system and other information management systems that incorporate encryption, strengthen access controls, and prevent unauthorized access</li><li>• Minimize shared information and establish information sharing rules</li><li>• Build a system to monitor use of shared information and logs</li><li>• Regularly audit and evaluate the information management system</li><li>• Conduct multi-faceted due diligence related to trustworthiness, financial state, and legal issues</li><li>• Regularly audit and evaluate partnerships in order to quickly discover problems and improvements</li></ul>
Quality	We manufacture products and conduct commissioned production in line with pharmaceutical affairs–related laws and regulations, including GMP and ICH Guidelines, undergo inspections by the Ministry of Health, Labour and Welfare, FDA, EMA, and other regulatory authorities, and are licensed to conduct manufacturing and marketing. However, if there are quality problems, lot failures, or similar problems, this could result in the following. <ul style="list-style-type: none"><li>• Quality defects, suspension of shipments, recalls, and administrative action due to inconsistencies between approval documents and actual manufacturing conditions</li><li>• Recalls and important findings of inspections by the authorities due to incomplete information</li><li>• Deterioration in trust in the Company due to damage to reputation</li></ul>	<ul style="list-style-type: none"><li>• Formulate a SHIONOGI Group Quality Policy</li><li>• Spread understanding of the importance of quality by holding such events as in-house education events</li><li>• Promote such activities as fostering a quality culture</li><li>• Conduct control and oversight activities through plant audits, etc.</li></ul>
Supply chain management	If there is a natural disaster, such as major earthquake, storm, or flood, or pandemic, or our supply chain is impacted by a geopolitical event or some sustainability-related issue, such as human rights or the environment, this could result in the following. <ul style="list-style-type: none"><li>• Suspension of plant operation</li><li>• Difficult in procuring raw materials and products</li><li>• Major impact on stable supply of pharmaceuticals</li></ul>	<ul style="list-style-type: none"><li>• Conduct inventory management based on standards for the amount of inventory held</li><li>• Create a domestic system for APIs that are used in some products but entail procurement risk</li><li>• Examine diversification of raw material suppliers in order to ensure a stable supply of products (select a second vendor for raw materials that entail high risks)</li><li>• Set priority BCP products and conduct regular reviews</li><li>• Conduct due diligence and monitoring of suppliers and request improvements</li></ul>
IT security and information management	If there is an IT security threat due to an act by an employee, outsourcing service provider, or other entity or an incident such as an attack by a malicious third party, this could result in the following. <ul style="list-style-type: none"><li>• Difficult in continuing business due to suspension of important systems</li><li>• Outflow of confidential information, including personal information</li><li>• Legal damages, such as claims for compensation for damages, costs related to subsequent response, etc.</li><li>• Decline in performance or damage to reputation</li></ul>	<ul style="list-style-type: none"><li>• Appoint a CIO who oversees information management, a CDO who has control over data and document use and management, and Global Head of IT who is responsible for operating IT</li><li>• Establish rules related to information management based on laws, regulations, and guidelines</li><li>• Establish a SHIONOGI Group Global Privacy Policy</li><li>• Provide thorough education to employees on the importance of information management and personal information and the need to comply with personal information protection–related laws and ordinances.</li><li>• Move forward with projects to build an IT-BCP system in case of a crisis such as cyber-attacks or massive disasters</li><li>• Create IT infrastructure and reinforce information security foundation and improve its operation</li><li>• Conduct a fundamental group-wide review of the network based on global security assessment in light of a cyberattack at the Taiwan facilities</li></ul>
Environment and safety	If there is the chance of an incident that could impact the environment, ecosystem, or safety of workers in a business activity process, such as research, development, or manufacture of pharmaceuticals, and the incident actually occurs, it could result in the following. <ul style="list-style-type: none"><li>• Suspension of facility operation and equipment and cost of response and recovery</li><li>• Litigation seeking compensation for damages and payment of compensation</li><li>• Damage to the corporate brand and reputation</li></ul>	<ul style="list-style-type: none"><li>• Reinforce governance by formulating a SHIONOGI Group EHS Policy, SHIONOGI Group EHS Code of Conduct</li><li>• Create an EHS Integrated Management System</li><li>• Reinforce ISO 14001 and ISO 45001 or equivalent management system operation at each office</li><li>• Comply with related laws and ordinances, set independent management standards and targets that are even stricter, and implement response</li></ul>
Compliance	We recognize the following as important risks: acts and behavior that violate laws, deviate from social norms, or violate ethics in business activities, based on an awareness of not simply complying with laws, regulations, rules, etc., but also following social norms, and acting ethically as a company and member of society. If such a risk materializes, this could result in the following. <ul style="list-style-type: none"><li>• Damage to reputation</li><li>• Loss of stakeholders' trust</li><li>• Damage to business performance and financial condition</li></ul>	<ul style="list-style-type: none"><li>• Add compliance items to SHIONOGI Group Code of Conduct and formulate SHIONOGI Group Compliance Policy</li><li>• Raise awareness of compliance throughout the Company by holding a Global Compliance Week &amp; Quality Week</li><li>• Rebuild the promotion system to match organizational structure</li><li>• Operate an in-house reporting desk in line with the Whistleblower Protection Act</li><li>• Hold regular Compliance Committee meetings, which a Representative Director chairs</li><li>• Report Compliance Committee activities to the Board of Directors</li><li>• Use message from the President to talk about compliance</li><li>• Conduct compliance awareness survey of all employees and provide related feedback to all organizational units</li></ul>
Intellectual property	If a third party infringes on the intellectual property rights of SHIONOGI or SHIONOGI products infringe on those of a third party, this could result in the following. <ul style="list-style-type: none"><li>• Damage to business performance and financial position due to loss of expected earnings</li><li>• Dispute or litigation to protect the intellectual property</li><li>• Payment of compensation for damages</li><li>• Injunction on manufacturing and marketing the product</li><li>• Damage to the corporate brand and reputation</li></ul>	<ul style="list-style-type: none"><li>• Establish appropriate rights to and management system for intellectual property and continually monitor third party's rights infringement</li><li>• Conduct freedom-to-operate searches in business activities</li><li>• Create a system to prevent rights infringements based on such activities as conducting intellectual property due diligence in in-licensing and out-licensing activities</li></ul>

See our website for details on Risk Management.  
<https://www.shionogi.com/global/en/sustainability/governance/risk-management.html>