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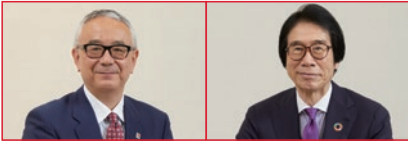
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Forward-looking statements

This report contains forward-looking statements. These statements are based on expectations in light of the information currently available, assumptions that are subject to risks, and uncertainties which could cause actual results to differ materially from these statements. Risks and uncertainties include general domestic and international economic conditions, such as general industry and market conditions, and changes of interest rates and currency exchange rates. These risks and uncertainties particularly apply to forward-looking statements concerning existing products and those under development. Product risks and uncertainties include, but are not limited to: completion and discontinuation of clinical trials; obtaining regulatory approvals; claims and concerns about product safety and efficacy; technological advances; adverse outcome of important litigation; domestic and foreign healthcare reforms; and changes of laws and regulations.

For existing products, there are also manufacturing and marketing risks, which include, but are not limited to, inability to build manufacturing capacity to meet demand, unavailability of raw materials, and competition with other companies' products. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, or otherwise. This report contains information on pharmaceuticals (including compounds under development), but this information is not intended to make any representations or advertisements regarding the efficacy of these pharmaceuticals nor provide medical advice of any kind.

External evaluation

■ ESG index

FTSE4Good

FTSE Blossom Japan Index

FTSE Blossom Japan Sector Relative Index

2023 MSCI ESG Leaders Indexes Constituent

2023 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

S&P/JPX Carbon Efficient Index

2023 Sompo Sustainability Index

Morningstar GenDi J Japan ex-REIT Gender Diversity Top Index

STOXX Indices by Group

Member 2023/2024 Platinum Career Index

■ External recognition related to IR and sustainability

CDP Supplier Engagement Leader 2022

CDP A List 2022 Climate Water

2023 D&I Award Best Workplace for diversity & inclusion

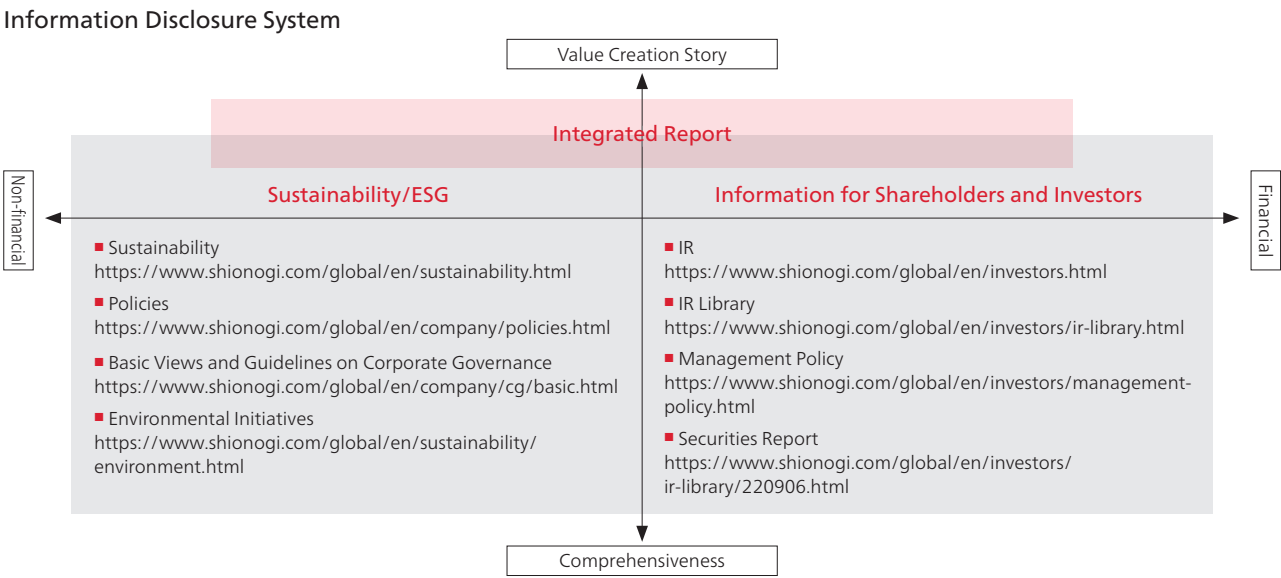
■ Other

Selected by domestic equity managers at the Government Pension Investment Fund as having an "Excellent Integrated Report" (third consecutive year from FY2020)

Commitment to society

WE SUPPORT UN GLOBAL COMPACT

SHIONOGI has endorsed and supported the United Nations Global Compact. See our website for more information.
<https://www.shionogi.com/global/en/sustainability/ungc.html>



Scope of Reporting, etc.

Editorial Policy: In order for stakeholders to better understand SHIONOGI's corporate value, we conduct integrated reporting based on integrated thinking.

Period covered: Results for fiscal 2022 (April 1, 2022 to March 31, 2023). Some of the activities after the same period are included.

Target organizations: This report covers 49 Group companies (the Company, 45 consolidated subsidiaries, 3 affiliated companies, and 1 jointly controlled entity). The scope of our environmental activities covers all of Shionogi & Co., Ltd. business sites and major overseas group companies. For some indicators, major overseas group companies are also included in the scope of coverage.

Reference Guidelines: ISSB "International Integrated Reporting Framework," "GRI (Global Reporting Initiative) Sustainability Reporting Standards," "ISO 26000," Ministry of the Environment "Environmental Reporting Guidelines 2018," and Ministry of Economy, Trade and Industry "Guidance for Collaborative Value Creation"

Shareholders and investors

Employees

Customers

Society

SHIONOGI's stakeholders

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

Shionogi & Co., Ltd. Integrated Report 2023

1

SHIONOGI strives constantly to supply the best possible medicine (healthcare solutions) to protect the health and wellbeing of the patients we serve.

The unwavering purpose of the SHIONOGI Group's corporate activities is expressed in the opening of the SHIONOGI Group Heritage as the image of what SHIONOGI should be and the Company's social existence values. By accurately ascertaining healthcare needs that are growing more advanced and diverse, we will respond with the most appropriate healthcare solutions surpassing the boundaries of a pharmaceutical company.

We will also accelerate SHIONOGI's transformation into a company people need.

*SHIONOGI denotes the SHIONOGI Group

Our Philosophy

SHIONOGI Group Heritage

The Company Policy of SHIONOGI

SHIONOGI's Purpose

SHIONOGI strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

For this purpose, SHIONOGI will need to

Pursue the search for even better medicines.

Produce even better medicines.

Promote awareness of these better medicines to more people so that more people will be able to use these medicines.

Research, produce, and promote in an even more economical manner.

For this purpose, SHIONOGI will need to

Strive ceaselessly day after day to improve their skills.

Strive ceaselessly day after day to improve as human beings.

As a result, SHIONOGI people will

Find even greater satisfaction in their daily work and in their daily lives.

Find even greater improvement in the quality of their lives.

Find even greater prosperity in their lives.

Established in 1957

SHIONOGI Group Vision (Vision 2030)

Building Innovation Platforms to Shape
the Future of Healthcare

SHIONOGI Group Values

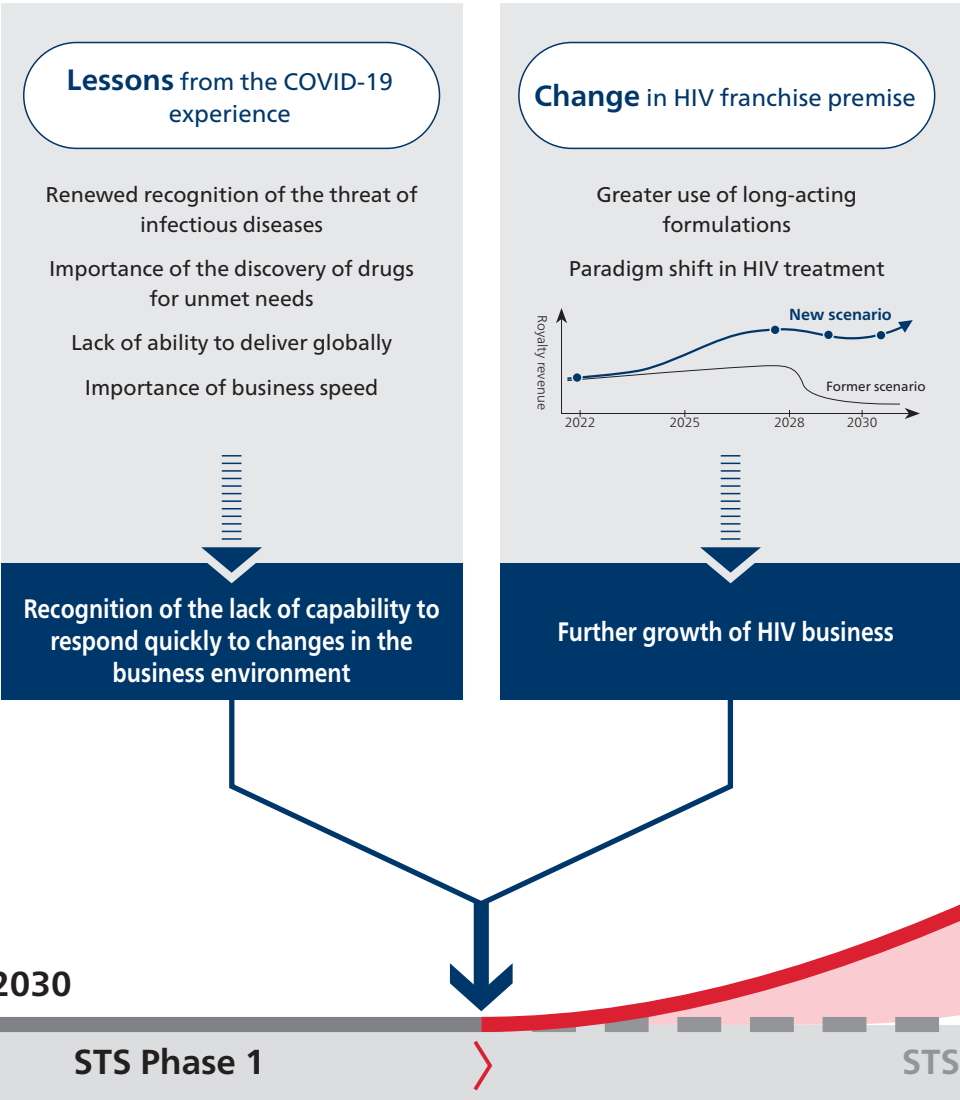
- Be Trustworthy
- Boldness and Innovation
- Play to Win
- Respect for Diversity
- Contribution to Society

Why this Revision?

No change in direction
Accelerate transformation to create HaaS

To achieve the Vision of “building innovation platforms to shape the future of healthcare,” SHIONOGI announced the Medium-Term Business Plan SHIONOGI Transformation Strategy 2030 (STS2030) and moved forward with implementing that strategy. As a result of the efforts over the past three years, major progress has been made toward achieving the SHIONOGI Group Vision and the path to that goal has grown clearer. Therefore, we revised the strategy in June 2023 and released STS2030 Revision. With the goal of transforming into an HaaS company,* we will quickly and forcefully move forward to generate growth through this transformation.

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



STS2030 Revision

STS Phase 3

Evolve into HaaS Company

What has been strengthened in STS2030 Revision

- Strengthens sales capabilities**
Capability to deliver globally
- Reinforces the pipeline**
Invests in unmet needs
- Strengthens the company platform**
Improves business speed and reinforces human resources

Message from the CEO

Utilizing the results and learning from COVID-19,
we will mark a new beginning with STS2030 Revision
aimed at realizing SHIONOGI Group Vision (2030 Vision)



Isao Teshirogi, Ph.D.

Representative Director,
President and CEO

Three years of results and learning for making our 2030 Vision a reality

Looking back on business during STS2030 Phase 1 (fiscal 2020 to fiscal 2022)

In aiming to realize the SHIONOGI Group Vision of “building innovation platforms to shape the future of healthcare,” we formulated the SHIONOGI Transformation Strategy 2030 (STS2030) in June 2020 as a strategy for making this vision a reality. Since then, the entire company has worked as one following this strategy toward this end.

Just before SHIONOGI announced STS2030, cases of novel coronavirus (SARS-CoV-2) were confirmed, and from there, the virus spread around the world in the blink of an eye, drastically transforming our world and our very way of life. Since the declaration of the COVID-19 pandemic in March 2020, SHIONOGI’s operating environment, too, has changed significantly. Nevertheless, we have continued to move forward over the past three years with the desire to “save people” from the threat of infectious diseases and “save society from the pandemic.” In order to provide solutions that help to solve this social issue and the unprecedented consequences of recent years “as quickly as possible,” we undertook a bold shift of our resources, at one point committing 80% of our R&D resources to COVID-19-related services. While we received understanding and encouragement from many stakeholders regarding this management decision, we also heard many complaints about the progress of results and concerns about growth investment. It is true that our vaccine has yet to be approved, and it remains difficult to determine exactly where to allocate resources amid uncertainty about infection trends. This is precisely why we need to take outside comments seriously. However, it is also true that SHIONOGI has been able to obtain many “results” and “learning” to grow strongly as a company through its efforts over the past three years, and these were the driving force behind the upward revision to STS2030.

Major results and learning during the three years since the announcement of STS2030

Here, I would like to discuss three major results and learnings over the past three years. The first is the expansion of in-house products. The biggest achievement was the acquisition of emergency approval for ensitrelvir (brand name Xocova in Japan), which is a treatment for COVID-19, and we were finally able to deliver Xocova to medical professionals and patients in Japan who need antiviral treatment. During this period, companies have been conducting R&D on COVID-19 by leveraging their respective strengths, and antibody drugs and serum therapy to reduce the severity of cases have appeared at a relatively early timing. From the beginning, as with influenza, SHIONOGI has said, “Society can only return to normal once there are preventive

vaccines, rapid diagnostic agents, and an oral antiviral drug that can be easily administered and that reduces the virus itself.” Based on this thinking, we have focused on the development of small-molecule oral therapeutic drugs that leverage our strengths. Looking at the world, there are only a limited number of pharmaceutical companies that can research, develop, and produce antiviral drugs in a short period of time. We started our research with a mission not to see if it would work, but rather because there was no one else capable. The first order of business was to begin the general review of a compound library (a storage system for compound groups in which structural information and experimental data are centrally managed for the search of candidate substances) of data accumulated over many years. We were able to identify a candidate compound as soon as we started the search. Similar to our anti-virus for influenza, because we aimed for a drug that could be widely used by the general public, we decided that we could not proceed to clinical trials if there were concerns about the balance between efficacy and safety. Immediately after this decision, in December 2020, we succeeded in creating a lead compound* that would become Xocova in another research project that had been launched from scratch in parallel, and from there, we were able to run R&D at top speed and bring Xocova to market in about two years.

* Lead compound: A compound which becomes more activated than hit compound (an activated compound identified in screening tests of the compound library) through in vivo evaluation or other means. It is the basis for further improvement of activity, solubility, stability, pharmacokinetics, safety, etc. through chemical synthesis.

Naturally, there are voices questioning whether we could have accomplished this sooner, and there was a time when we felt remorse because we were not being useful to the world, but as the medical field and social environment change at a dizzying pace, and the virus itself continues to mutate, I believe that we have reached the present as a result of assessing the situation each time and doing the best we could at that time while repeating decision-making. In order to link these results to the next level of growth, it is essential that we analyze why we lagged behind other companies globally. As a manufacturer of drugs for infectious diseases, we are proud that our know-how is a strength that other companies simply do not have, but in terms of how much we were committed to strengthening that know-how in anticipation of the pandemic, I can look back and say that we could have done more. In a situation where it is not known when and what kind of virus will appear, it is necessary to further strengthen the compound library that acts

Message from the CEO

Looking back on STS2030 Phase 1: main accomplishments

Expansion of products discovered internally

- Obtained emergency approval of Xocova for COVID-19 treatment
- Strengthened overseas business
- Achieved growth of the HIV franchise

Financial KPIs

KPI		Parentheses indicate STS2030 targets		
		FY2020	FY2021	FY2022
Growth	Revenues	¥297.2 billion	¥335.1 billion	¥426.7 billion (¥400.0billion)
	Core operating profit*	¥94.0 billion	¥110.6 billion	¥158.5 billion (¥120.0billion)
	Core operating profit margin	31.6%	33.0%	37.1% (Over 30%)
	Overseas revenue ratio	16.2%	22.3%	16.9% (Over 25%)
	Internally-discovered pipeline ratio	71%	73%	61% (Over 60%)
Shareholder return	EPS	¥365	¥378	¥619 (Over ¥370)
	DOE	4.1%	3.8%	3.9% (Over 4%)
	ROE	13.9%	12.5%	17.8% (Over 13%)

* Operating profit adjusted for one-time factors (impairment losses, gain on sale of property, plant and equipment, etc.)

Governance enhancement

- Implemented new internal decision-making process
- Continued manager education

on virus-specific enzymes, and we have already started this process. As a result, if the same situation occurs in the future, I think that the initial response of 6 to 8 months can be further shortened. Because SHIONOGI experienced the difficulties of clinical trials during the pandemic, we are strongly aware of the importance of breaking through conventional wisdom and shortening the R&D timeline on a weekly and monthly basis through in-depth discussions.

Second, our launch of “offer products and services other than prescription drugs” is one of our major accomplishments. From the perspective of total care for COVID-19 with the aim of ending the pandemic as soon as possible, we have expanded the scope of our business to include the provision of solutions such as detection (epidemic prediction), prevention, diagnosis, and prevention of severe cases at almost the same time as the development of therapeutic drugs, which has been our strength. Specifically, we established AdvanSentinel Inc. through joint investment with Shimadzu Corporation, launched a new business for the social implementation of wastewater surveillance services, and focused on the development of SHIONOGI’s first preventive vaccine and the development and marketing of diagnostic kits and equipment. In terms of prognosis, we are currently accumulating evidence on the reduced risk of developing long COVID. While concentrating resources in the field of infectious diseases, especially COVID-19, we have provided educational support services through the newly established Yui Connection Co., Ltd. We have also jointly developed “Gamma Wave Sound” with Pixie Dust Technologies, Inc. with the potential to care for cognitive functions in day-to-day living based on the common concept of “cognitive function care that blends into daily life,” releasing a device called *kikippa* that modulates the sound of TVs and other devices to gamma wave sounds. Under STS2030, we have evolved from a “drug discovery pharmaceutical company” that mainly provides prescription drugs

to a “Healthcare as a Service (HaaS) company” that offers healthcare services. We have also set our business direction as solving the issues faced by patients and society more comprehensively, and this policy will not waver even in STS2030 Revision. Over the past three years, we have been able to show a part of the HaaS model advocated by SHIONOGI by developing total care surrounding diseases and launching various new businesses to solve challenges. Of course, at this stage we really cannot call these results accomplishments. Yet, during the course of these three years, we have dramatically improved our ability to create something from nothing based on science and lead it to commercialization in a short period of time, expand the range of customers from patients and healthcare professionals to society, and deepen collaboration with partners from different industries and local governments.

The third point is to strengthen the company platform, especially “governance enhancement.” By completely revamping the internal decision-making process and building a system that allows us to record and track the execution of business processes including “when, where, who, what, and how” with complete transparency, and by further clarifying the responsibility for business execution by reorganizing the organization into four broad areas of jurisdiction, we can now make decisions more promptly and collaborate between organizations according to risk level. Naturally, we worked diligently to properly educate managers about these intentions as the lead actor and to incorporate them into our employees’ day-to-day work.

These results and learning have also had a positive effect on our finances. In fiscal 2022, while investing more than 100 billion yen in R&D, the largest amount ever in SHIONOGI’s history, we were able to attain record highs in revenues and all profit items, not to mention achieve the main KPIs set at the time of formulating STS2030. Even as the environment and outlook surrounding SHIONOGI

changed rapidly, we are proud that we have taken our business management capabilities to a higher level in terms of where to record sales and how to optimize expenses in anticipation of growth in the next few years.

To realize our 2030 Vision based on STS2030 Revision, we must deliver products and services created by leveraging our strengths to markets around the world. In other words, we

need to strengthen our sales and marketing capabilities, including in the supply chain. Expanding the pipeline to respond to social issues and unmet needs is also an issue for further transformation. Leveraging our stable earnings base and robust financial base, we intend to vigorously and rapidly promote reforms while actively collaborating with various partners, including international organizations.

Steady progress of our HIV franchise

In addition to the three “growths” mentioned above, one of the major changes in the situation since we formulated STS2030 is that the HIV business has progressed extremely well. Initially, we thought that the biggest challenge was how to overcome the challenges associated with the expiration of the patent (patent cliff) for the HIV drug dolutegravir, which is due around 2028, and how to regrow, but in recent years, there has been a steady paradigm shift in HIV treatment, causing the business premise to change significantly. SHIONOGI’s new product line, based on the two integrase inhibitors dolutegravir and cabotegravir, has penetrated the market faster than expected through partner ViiV Healthcare Limited, and in fiscal 2022 it has achieved results that far exceeded ViiV Healthcare’s previous annual growth rate of mid-single-digit percentages. Since the late 1990s, three-drug combination therapy has become the mainstream for HIV treatment as a response to the problem of resistance. After the advent of integrase inhibitors, which are particularly safe and have excellent resistance profiles, three-drug therapy based on integrase inhibitors such as dolutegravir have become the focal point of treatment. From the time it was recognized that HIV is a disease that can be adequately managed with drugs began to take hold, ViiV Healthcare was the first to begin developing a two-drug combination therapy based on dolutegravir. It was clear that two-drug therapy was better than three-drug in terms of patient burden and safety, but at that time, the reaction in the medical field and the stock market was frigid due to concerns about tolerance. Nevertheless, we were able to embark on development and achieve the results we have now for two reasons. First was the conviction that we were entering an era in which patients were looking for an improvement of quality of life (QOL) as a social issue in the HIV field, and second was that both ViiV Healthcare and

SHIONOGI believed in the potential of dolutegravir more than anyone else. The two-drug combination products including dolutegravir created in this way are steadily increasing their market share. ViiV Healthcare, which established oral two-drug therapy, has been working on the development of a long-acting formulation using two-drug injections since the same time. Oral medications taken daily are still the mainstream for HIV treatment. In addition to the burden of having to take medication daily, oral medications not only remind patients that they are HIV-infected every time they take one, but also causes the anxiety that others will find out. Listening to these market voices, what emerged was *Cabenuva*, an injectable drug that administers two drugs containing cabotegravir once every two months, which was introduced to address unmet needs that could not be met by oral drugs. At the time of launch, it was strongly affected by the COVID-19 pandemic and efforts to reduce medical consultations, but now it is demonstrating its potential and is steadily promoting a shift from the existing oral drug market. Cabotegravir contributes to the prevention of HIV as a single agent and as a long-acting injectable drug. In countries such as the United States, which are aiming to eradicate new HIV cases, there is a particularly high need for such long-acting drugs for HIV prevention, and this is expected to lead to the greater growth of the prevention market and increased market share. Due to these changes in the market, the patent cliff that was initially envisioned has virtually disappeared, and further growth can be expected depending on the progress of the pipeline, such as the out-licensed S-365598, which is expected to further extend the dosing interval, and we are more confident about the future prospects. SHIONOGI’s role in the medium- to long-term partnership with ViiV Healthcare has also become clearer.

Moving from STS2030 to STS2030 Revision

Working to make our 2030 Vision a reality

Based on the results and learnings of these three years of efforts and the steady progress of the HIV business, the path toward realizing our Vision 2030 has become clearer, so in June 2023, we updated STS2030 and announced

Message from the CEO



STS2030 Revision. The three pillars of growth in STS2030 Revision are “continued growth of HIV franchise,” “continuous growth of COVID-19 treatments,” and “expansion of new products and businesses” through proactive R&D and

business investments. Based on these, we will accelerate our global growth, achieve our upwardly revised revenue target of 800 billion yen for fiscal 2030, and make our Vision 2030 a reality.

Embodying the ability to “research, produce and promote” as a truly global corporation

SHIONOGI must now work on deploying the solutions created by the Group globally using its own efforts. Of course, depending on the area, product positioning, and target market, we will continue to choose to collaborate with other companies, but we will do our utmost to advance to the next stage as a company, keeping in mind how to maximize the value brought about by our innovation from the early stages of R&D. In Phase 2 (fiscal 2023 to fiscal 2025), which has been renewed based on the Revision, we will position this three-year period as a time to embody our ability to “research, produce and promote” as a truly global corporation, with a focus on delivering the results of Phase 1 (fiscal 2020 to fiscal 2022) globally.

First, we will accelerate the global trial of the COVID-19 treatment *Xocova*, which is the greatest achievement of STS2030 Phase 1, and expand it to Asian countries such as China and South Korea, as well as Europe and the United States, and promote preventive indications and development of pediatric applications to maximize product value.

In addition, we will continue to focus on R&D of new therapeutic agents that can be used by more people by overcoming the weaknesses of *Xocova*. While some stakeholders may have suggested that the pandemic has already ended and that investment in COVID-19 treatments and vaccines is no longer necessary, SARS-CoV-2 is expected to continue to have a certain impact on our lives as it mutates. And when a new variant appears, it is clear that it will spread through the world in the blink of an eye due to the flow of people. Therefore, it is important to work with our stakeholders to prepare for future emergencies such as the resurgence of infections, the emergence of highly virulent strains, and pandemics caused by new pathogens, and we believe that this is our mission as a global leader in infectious disease drugs. In addition to providing solutions such as therapeutic drugs and vaccines, we would like to respond to the needs of society by aiming to build a system that can provide total care for infectious diseases as an issue facing society as a whole, from early detection of epidemics to post-treatment follow up.

Establishing a sustainable infectious disease business model

Establishing a sustainable infectious disease business model is what we must work toward to grow as a business while addressing the threat of infectious diseases. Infectious diseases can be described in one word, but as with acute infectious diseases such as COVID-19 and seasonal influenza, whose revenues are easily affected by epidemics, infectious diseases requiring a long period of treatment, such as HIV/AIDS and malaria, which are the world’s three major infectious diseases, and even preventive vaccines, SHIONOGI divides these into several portfolios, such as “symptoms when infected,” “what solutions should be used to solve them,” and “what kind of people need them?” While clearly aware of the characteristics and social position of each business, we will establish an

optimal business model and work to diversify risks and opportunities by combining these models to ensure sustainability as a business. In addition, in terms of “delivering” to the world, cooperation with international organizations is indispensable. Given that infectious diseases are brought about by pathogens that are borderless, can affect anyone, even healthy people, and tend to have more serious consequences in developing countries with weak healthcare systems, developing and selling products only in specific developed countries does not represent a real solution. We will continue to engage in dialogue with stakeholders so that we can contribute to the realization of universal health coverage, including in low- and middle-income countries (LICs/

LMICs), in collaboration with partners such as GARDP and MPP, while receiving certain rewards, mainly in markets in

high-income countries.

Developing growth drivers with proactive investments

We must continue to refine the long-standing “drug discovery capabilities” that SHIONOGI has cultivated as a core strength. Over the next three years, we will invest a total of 300 billion yen to promote R&D that maximizes the value of existing and products under development, as well as actively introduce assets. In addition to continuing to focus on infectious diseases, we will strengthen our efforts for QOL diseases, which have a high social impact. Examples include pain, depression, dementia, and obesity, which we have been working on. Additionally, we have identified sleep disorders, hearing loss, and diseases unique to children. At the research level, interesting ideas and evidence have emerged in addition to these diseases.

The key to cultivating growth drivers is to carefully observe customers and society and identify issues (unmet needs) that are expected to increase without being resolved in the future. At SHIONOGI, we regard the process that patients follow from the pre-symptomatic and prevention stage to disease progression and prognosis as a disease journey, and identify the needs that exist in this process. Once we identify the needs to focus on, we will demonstrate SHIONOGI’s strengths in terms of how quickly we can deliver solutions that contribute to a healthy and prosperous life while taking risks through our approach to the quick solutions and bold resource allocation learned during COVID-19.

Human capital management for realizing our 2030 Vision

In STS2030 Revision, SHIONOGI reiterated its intention to realize growth through business transformation by transforming from a drug discovery pharmaceutical company to a HaaS company that provides various healthcare services that meet customer needs in addition to providing pharmaceuticals. The growth brought about through this transformation will be realized by none other than each and every employee of the SHIONOGI Group. As we pick up the pace from STS2030 Phase 1, we will need to take on many unprecedented challenges with a sense of urgency, but in order to achieve this, existing strengths and expertise alone are not enough, and each and every employee must acquire new skills and abilities and continue to grow. I have repeatedly discussed this in the quarterly messages I share with employees. Looking at the past three years, though, the disparity in capabilities between employees who are eager to acquire new skills and abilities by utilizing the self-investment support system and those who are struggling to take steps to change has become apparent. To continue to grow as a company, we

must develop human resources who can continue to learn and change, and we must provide an environment that offers a good sense of job satisfaction. As part of these efforts, we have revamped our personnel system, revised the grades of all employees according to their roles, and are working to build a system that allows us to better evaluate human resources who have taken on challenges. In addition, we have decided to accelerate the review of our talent portfolio by implementing an early retirement program. Going forward, we will actively promote skills and abilities that are lacking from outside the company to expand our human capital. A company’s commitment will be tested by its ability to successfully develop and operate systems and mechanisms. I promise to continue to incorporate the thoughts and intentions of those who have long contributed to SHIONOGI and society, and to manage the company with an even greater sense of urgency. In addition, I will work together with employees who are eager to take on challenges to achieve STS2030 Revision and make our 2030 Vision a reality.

Message to stakeholders

SHIONOGI has re-defined a clear path to realizing the 2030 Vision as STS2030 Revision and made a new start. Although direction itself has not changed since the formulation of STS2030 in 2020, as a truly global company, we will create value through solving social issues surrounding healthcare, such as SHIONOGI’s material issues of “protect people from the threat of infectious diseases,” “contribute

to a healthy and prosperous life,” “contribute to sustainable social security” and “improve access to healthcare.” We will continue to take on the challenge of transformation so that stakeholders around the world will recognize us as a partner that will be needed in the future. I ask for your continued guidance and support as we move forward.

Dialogue between President Isao Teshirogi and Professor Kunio Ito

— Facilitated by Ms. Yoshiko Sato —

Human Capital Management Practices at SHIONOGI

SHIONOGI clearly stated its policy on human capital management and its commitment to promote human capital management in the STS2030 Revision. President Teshirogi and Professor Kunio Ito discussed the direction SHIONOGI is taking.



Isao Teshirogi, Ph. D.

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

Graduated from the University of Tokyo, Faculty of Pharmaceutical Sciences, and joined SHIONOGI in 1982. He was sent to the New York office in the U.S. in 1987. He returned to Japan in 1991 and was assigned to the Business Development Department. He was transferred to Shionogi Qualicaps, Inc. that manufactures capsules from 1994 to 1997, where he was again stationed in the U.S. After returning to Japan, he worked in the President Unit and was assigned to General Manager, Secretary Office and the General Manager, Corporate Planning Department in 1999. In 2002 he became a Director, in 2004 the Executive General Manager of the Pharmaceutical Research & Development Division, in 2006 a Senior Executive Officer, in April 2008 Representative Director and President, and has been in his current position from June 2022.

Kunio Ito

Director, Center for CFO Education and Research, Hitotsubashi University

Graduated from Hitotsubashi University, Faculty of Commerce and Management. He has served as Dean of the Graduate School of Commerce and Management and Dean of the Faculty of Commerce and Management at the same university, and as Vice President of the same university. The "Ito Report," which summarized the results of the METI Study Group he chaired, was influential both in Japan and overseas. From May, 2019, has served as the chair of the TCFD consortium, which is a group for companies working to mitigate climate change. In September 2020, he published the "Ito Report for Human Capital Management" as a result of the METI study group on sustainable corporate value enhancement and human capital, which he chaired, and in May 2022, he produced "Ito Report 2.0." In August of the same year, he became Chairman of the newly established Human Capital Management Consortium. He is also the chairman of the Digital Governance in the Age of Society 5.0 study group and for the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange, the chairman of the evaluation committee for digital transformation securities.

Facilitator

Yoshiko Sato

Executive Managing Director and Chief Research Fellow, Japan Investor Relations Association

Graduated from Keio University, Faculty of Economics. Joined Nihon Keizai Shimbun, Inc. and was transferred to the Japan Investor Relations Association in March 1993. She became the Chief Research Fellow in 2003, Secretary General in 2007, and Executive Managing Director in 2015. She continues to work to improve corporate value and develop the capital market, mainly through Japan Investor Relations Association (JIRA) seminars and newsletter. In addition to lecturing and writing, she also focuses on dialogue with companies and investors.



Sato Today, the environment surrounding companies is undergoing major change. While innovation is required to respond to the changing environment, the importance of the human resources and organizations that support this innovation is growing as never before. Professor Ito published the "Human Resources Edition Ito Report 2.0" in 2022, and President Teshirogi presented SHIONOGI's human capital management policy in the medium-term management plan STS2030 Revision in June 2023. In this special feature, we would like to begin with the topic of what human capital management is.

First, President Teshirogi, as the top person in management, how do you plan to bring about human capital management under the STS2030 Revision to achieve the SHIONOGI Group Vision that SHIONOGI wants to be, by 2030? Could you talk about this in light of the new personnel system that is scheduled to be introduced in October?

Teshirogi The SHIONOGI Group Vision is to build innovative platforms in order to shape the future of healthcare. This is an indication that we, as a pharmaceutical company, will not only provide drugs as in the past, but also become a company that comprehensively and totally provides services for healthcare. This is called "Healthcare as a Service" (HaaS).

SHIONOGI has always excelled at providing drugs for infectious diseases to reduce the number of bacteria, viruses, and other pathogens that have invaded the body, but in the course of our group's concerted efforts to address the threat of the COVID-19 pandemic, we realized that simply creating and providing drugs to treat infectious diseases as we had in the past was not enough to meet the needs of the world. For example, in addition to vaccines

and diagnostic reagents for prevention, we also need drugs to control the severity of disease so that symptoms do not become prolonged and spread to various organs and blood vessels, leading to serious illness. We must also consider more efficient epidemic forecasting and prevention by society as a whole. Therefore, unless we can provide total solutions for COVID-19, we will not be able to meet the needs of society.

Our goal is to help patients and their families return to normal life as quickly as possible. We believe that providing value to those in need by delivering solutions that are not limited to drugs and helping them return to a normal life, is truly a service industry. We are working to provide solutions to the problems of patients and society, from prevention and detection to diagnosis, treatment, control of serious illness, and prognosis management. This is the goal of HaaS.

In order to achieve HaaS, we have to think about what we can do with limited resources, and the same goes for DX and the issue of human resources. Human resources are necessary to achieve sustainable growth, but we cannot employ an infinite number of people. Therefore, it is necessary to have a personnel system and mindset that can respond to the types and depths of capabilities required, which change with the times. Specifically, we are considering designing a human resource system in which we present a company-wide human resource policy that defines the capabilities we seek as a company every two to three years, and where retraining and reskilling proceed within a certain time frame for personnel who are a mismatch. Of course, procuring the missing personnel from outside sources is also an option. Although this is a difficult task, we believe that the company will not grow unless its approach to human resources is taken as the basis of its management plan.

The human resources portfolio required for business model transformation

Sato In his "Ito Report for Human Capital Management," Professor Ito raises the issue that Japanese companies have become conservative and have not been able to motivate everyone to change, and that they do not have a human resources strategy.

President Teshirogi also talked about recognizing the challenges of human capital management. Could you share your opinions on this topic?

Ito Behind what President Teshirogi said, I believe there is a discernment of, and a sense of crisis, that a major change in the business model is necessary to achieve sustainable growth for SHIONOGI. At the same time, I sensed his determination and resolve to make this happen.

Every company now includes reform of its business model and management strategy in their medium-term management plans. However, unless the human resource portfolio is matched to the business model transformation, it will not be feasible. The changes in human resource policies and system that President Teshirogi is talking about are about shifting to a management style that places human capital at the center.

HaaS is a bold shift in business model and management strategy in the sense that it goes beyond a narrow medical focus on drug discovery. The key to success will be to increase the capability of human resources and match them with management strategies and business models with a high degree of precision. To build an optimal human



resource portfolio, it is necessary to make the capabilities and skills of each individual employee visible in detail and disseminate this information to each department.

In the business model envisioned by President Teshirogi, there are the capabilities that should be possessed by both the core integrated producer-type personnel who can envision the HaaS image, and the highly specialized personnel who are responsible for this image. Without a grand human resource portfolio strategy, I think it will be difficult to increase the feasibility of HaaS, and I would like to hear President Teshirogi's thoughts on this point.

Teshirogi We make staffing decisions based on various personnel evaluations, but it can be difficult for employees to be convinced that they are suited for a particular assignment. We encourage employees up to their 30s to experience a variety of jobs and think about whether they want

to be an integrated producer or specialize in a particular field. However, this is not an easy task. This is because the abilities that you consider to be your strengths may not always be objectively correct. Therefore, it is necessary for employees to experience both integrated and specialized operations at as young an age as possible, and then determine their own aptitudes.

To build an ideal human resource portfolio that increases the feasibility of our strategy, we need to create a highly convincing combination of management and experts by successfully reconciling personnel evaluations with the individual's perception of his or her aptitudes. In this difficult environment, if everyone's vectors are not aligned, it will be a huge loss for the company, so I believe it is important to cultivate an eye for correctly evaluating human resources.

Individual autonomy in career development leads directly to corporate growth

Ito As President Teshirogi mentioned, there are areas where employees are unaware of their own capabilities, abilities, and what they may or may not be suited to. The average Japanese company does not have a personnel system that allows for self-discovery or self-insight, and employees are transferred at the convenience of the company. Instead of voluntarily suggesting what they want to do, they follow the orders of personnel transfers. As a result, employees lose the chance to build autonomy and realize their potential. I believe that this approach has lost its usefulness in the face of increasing global competition. What is important is individual autonomy in career development, and I believe that companies need to encourage autonomy through suggestions rather than giving orders.

Teshirogi SHIONOGI has long since adopted an internal open recruitment system to support employees' individual autonomy in career development. However, when employees raise their hand, they are asked to submit an application form stating the reason why they wish to be

transferred and what they can do at the new location. At that time, the Human Resources Department prepares a rough draft about personnel transfers based on the system, but the decision is made by the Corporate Executive Meeting. This is an indication that personnel transfers are not primarily the responsibility of the Human Resources Department, but are management matters, and should be approved at the level of the Vice Presidents of each division or the members of the Corporate Executive Meeting.

On the other hand, verification several years after a transfer is a weak area. The company has hypothesized how human resources will develop as a result of transfers at their own request, but the major issue is that the results have not been verified. The company needs to verify the results of transfers made through the internal open recruitment system, which is difficult for the organization to see, to understand if the personnel are being developed as initially hypothesized, and if so, why, and if not, why not.



Sato As for the issues to be addressed when incorporating human resource strategies into management strategies, Professor Ito mentioned the issue of having individuals develop their capabilities in an independent manner based on their capabilities, rather than a conventional personnel system, and President Teshirogi mentioned the issue of verifying and sustaining these and other aspects over the medium to long term.

While I think the HaaS that President Teshirogi is promoting is wonderful, I am also concerned that some employees may feel uncomfortable with the idea that they thought they joined a drug-discovery type company. How should the mindset and targets be set, including the personnel system? I would appreciate it if Professor Ito could give us his opinion on this point.

Ito So, SHIONOGI is changing from the single business model of being drug discovery-centered, to a complex platform business. This is an amazing transformation because it is a transformation of the business model itself. Some employees will wait until they are told by the company about their roles, while others will take the initiative and think about, and choose, their roles. To accomplish this grand transformation, I think it's necessary to give the employees an entrepreneurial, or almost entrepreneurial, type of mindset where they want to solve the problems that are out there right now.

What investors are most interested in is the feasibility of transforming the business model. Even if a company has a great management strategy and business model, they will want to know whether the human resources who will carry

it out are following and whether reskilling is being carried out in a way that matches the company's goals, and I think this is a point that will be emphasized in future information disclosure.

Teshirogi I believe that a company's existence is meaningless without growth. The best way to achieve growth is not only quantitatively but also qualitatively, but the first step for a company is to make steady progress toward the numbers it promises to the outside world, toward its medium-term management plan and long-term goals. In our dialogue with investors, it is necessary to talk not only about quantitative growth in terms of operating results, but also about the ongoing progress of the underlying qualitative growth, such as our response to human resource issues, product portfolio, and alliances.

Ito The human resource strategy is considered non-financial, but no matter how great the human resource strategy is as non-financial strategy, investors and other stakeholders will not be convinced without a story of how it is organically linked to HaaS and how it will generate cash flow in the future. Individual autonomy in career development is certainly important, but simply saying, "We are easy to work for," is not going to make the creation of cash flow from the implementation of management strategy very robust. As a result, the promised figures will not be reached and credibility will suffer.

President Teshirogi is well aware of this, and has earned a very high level of trust from investors. And from an IR perspective, too, I believe that he has actually demonstrated very high performance and has achieved results.

Challenges in promoting the HaaS business model

Sato SHIONOGI has stated that it will focus on the infectious disease business, but I think that the infectious disease business is generally volatile and difficult to forecast. Why do you intend to transform yourself into a HaaS

company centered on the infectious disease business?

Teshirogi The first of SHIONOGI's material issues is to protect people from the threat of infectious diseases. It is best

for people to be free from infectious diseases, and it is better if epidemics don't occur. To this end, we believe that the big challenge is to make the infectious disease business what we call a fire extinguisher model, which is useful in times of trouble but is usually kept in a corner.

To achieve this, we are stabilizing the vaccine business, for which there is a certain need every year in terms of preparing for infectious diseases, and we have also started a service to forecast infectious disease outbreaks from sewage and other social infrastructure as part of our HaaS initiative. And since, unfortunately, some infectious disease outbreaks occur every year, we believe that having a portfolio of several therapeutic drugs and the stockpiling of infectious disease drugs by governments, based on their understanding of the infectious disease business, will support the business.

In light of the fear and anxiety that COVID-19 has caused the world, I believe that taking on this business model is significant for humanity and governments. By forming a portfolio that covers a wide range of infectious diseases, I want people to feel the significance of SHIONOGI's existence. I believe that all healthcare businesses have risks, and infectious diseases are not a business model that is special for having a particularly high risk.

Ito When it comes to responding to unmet needs beyond medicine with HaaS, for example, the fire extinguisher model requires a process that integrates everything from pre-symptomatic states and prediction to international cooperation, which requires organizational capability,

particularly DX. Without a database of things like the probability of infectious disease outbreaks from examining air quality and sewage conditions, we cannot make hypotheses, but the capabilities, or skills, we have up to now are not enough, so reskilling is essential for advancing the HaaS business model.

In addition, it is necessary to form dynamic alliances with partners who are knowledgeable in the various specialties. For example, when considering a global alliance, it is necessary to consider how many optimal human resources are being developed, or to recruit such personnel from outside the company on a career basis.

Teshirogi Considering how to promote DX within the company and how much literacy of digital transformation must be raised in order to do so, and the fact that the health information of each individual should be given the most consideration of all personal information, and because it involves very sensitive issues, building data is quite difficult worldwide. I believe that it will be necessary to have not only DX, such as conversion to data, but also the ability to sense the needs of the world.

As stated in the STS2030 Revision, the biggest challenge for SHIONOGI is to respond to globalization. For example, it is not so easy to establish a personnel system that is attractive to human resources around the world. It will be difficult unless we create a diversified world within our headquarters, including consideration of how to communicate our HR, legal, accounting, and other systems as a global headquarters.

Aiming to change the culture of the company through dialogue

Ito Changing the culture of a company, including its personnel system, requires a grand design for the company. In doing so, it will be difficult without aligning the motivation and mentality of individual employees. It is important for supervisors and department heads to be aware of this when they have discussions with employees. Dialogue is time-consuming and difficult, but it is important when making major changes in the organization and culture.

Teshirogi I agree with you, we must do this, even if it takes time. After getting into 2023, we resumed the "Exchange of opinions with the President" meetings, which had been suspended due to the COVID-19 pandemic, and we are visiting each organization to have dialogues with employees. When we announced the STS2030 Revision, we shot a video message for employees, and employees who watched it were able to sense the significance of the

Revision, and I think this kind of engagement is very important.

I believe the balance of dialogue with our four types of stakeholders is important, and I realize that when disclosing our medium-term management plan or introducing the new personnel system, I still keenly feel the need to allocate a quarter of my time to dialogue with employees. In 2023, I also plan to spend time in dialogue with investors and outside experts.

Sato Professor Ito, too, said that the linkage of management and human resource strategies requires making things visible, pointing out issues from various sources, and improving them together. So, yes, dialogue is important.

The president also has important human capital for the company

Ito Human capital management has become quite widespread, but its targets are assumed to be executives and younger employees. However, the president also has important human capital for a company, and I believe that the president's reskilling and use of time as human capital has a significant impact on organizational performance. If the president's allocation of resources in the form of time or capital is inappropriate, good performance will not be achieved. If the president himself is going to change the business model, he must naturally take the initiative in his own reskilling.

Teshirogi I serve as an outside director for a financial institution and a chemical company. Being an outside director is a position where I have the responsibility to speak up and say what needs to be done to make a good company, and I feel that this is the largest experience I have had as far as my own reskilling. I have experienced how the company acts in response to what I say, and I feel the responsibility for what I say. To do this, I need to study the fundamentals of finance and the global chemical market to be able to speak intelligently.

As an outside director, I have had the opportunity to be a part of a company other than my own, with people who work and think very hard, and to be able to contribute to that company is something that I would not have been able to understand unless I had experienced it myself. This has been the best learning experience for me as a president, and has been a very important experience for my self-discipline.

Ito I call 2023 the first year of human capital disclosure. It is important for top management's philosophy to talk

about what kind of company they want to be and what kind of employees they want the company to consist of. I believe that there is happiness not only for the employees but also for the company, and by promoting disclosure and dialogue that can be read as a positive cycle of happiness for both employees and the company, stakeholders will have a deeper trust in SHIONOGI and will be more willing to invest.

Sato Now that Professor Ito has summarized the key point of human capital management, do you, President Teshirogi, have any last words?

Teshirogi If we are to grow globally, the most important thing we must do is to globalize our head office functions, and although this is the area in which SHIONOGI is weakest, we will move quickly and strongly in this area. Because SHIONOGI has always had its head office functions in Japan, when making rules, we need to think about making them globally applicable. If our employees feel that we have globalized our head office functions in a way that goes hand in hand with the growth of the company, then I believe that SHIONOGI is taking a good step toward 2030. I look forward to our employees working even harder.

