

SHIONOGI
INTEGRATED REPORT
2020

Year ended March 31, 2020

Shape the Future of Healthcare



External recognition

ESG index



FTSE4Good



FTSE Blossom
Japan



2020 CONSTITUENT MSCI JAPAN
ESG SELECT LEADERS INDEX

2020 CONSTITUENT MSCI JAPAN
EMPOWERING WOMEN INDEX (WIN)



Somo Sustainability Index

External recognition related to IR and sustainability



Corporate Governance
of the Year 2019



2019 Award for Excellence
in Corporate Disclosure
— Industries —
The Securities Analysts
Association of Japan

Award for Excellence in
Corporate Disclosure
Ranking First in the
Pharmaceutical Sector



A- Rating for
“Climate Change”
and A List Company for
“Water security”
in Surveys conducted by CDP



Outstanding Health &
Productivity Management
2020

Other

Included by the Government
Pension Investment Fund
among a selection of companies
with “Most-Improved
Integrated Reports”
(Three consecutive years:
from FY2017)

Commitment to society

United Nations Global Compact

Human Rights	Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2:	make sure that they are not complicit in human rights abuses.
Labour	Principle 3:	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	Principle 4:	the elimination of all forms of forced and compulsory labour;
	Principle 5:	the effective abolition of child labour; and
	Principle 6:	the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7:	Businesses should support a precautionary approach to environmental challenges;
	Principle 8:	undertake initiatives to promote greater environmental responsibility; and
	Principle 9:	encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Principle 10:	Businesses should work against corruption in all its forms, including extortion and bribery.

WE SUPPORT



Disclosure and engagement

Financial information

IR Library

<https://www.shionogi.com/global/en/investors/ir-library.html>

Securities report (JP)

<https://www.shionogi.com/jp/ja/investors/ir-library/securities-report.html>

Non-financial information

Sustainability

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

Policies

<https://www.shionogi.com/global/en/company/policies.html>

Basic Views and Guidelines on Corporate Governance

<https://www.shionogi.com/global/en/company/cg/basic.html>

Environment Report

<https://www.shionogi.com/shionogi/global/en/investors/ir-library/annual-report-integrated-report.html>

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.

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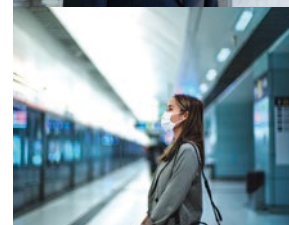
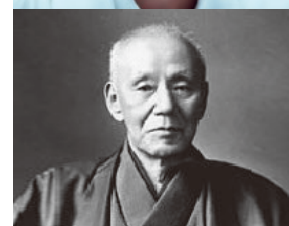
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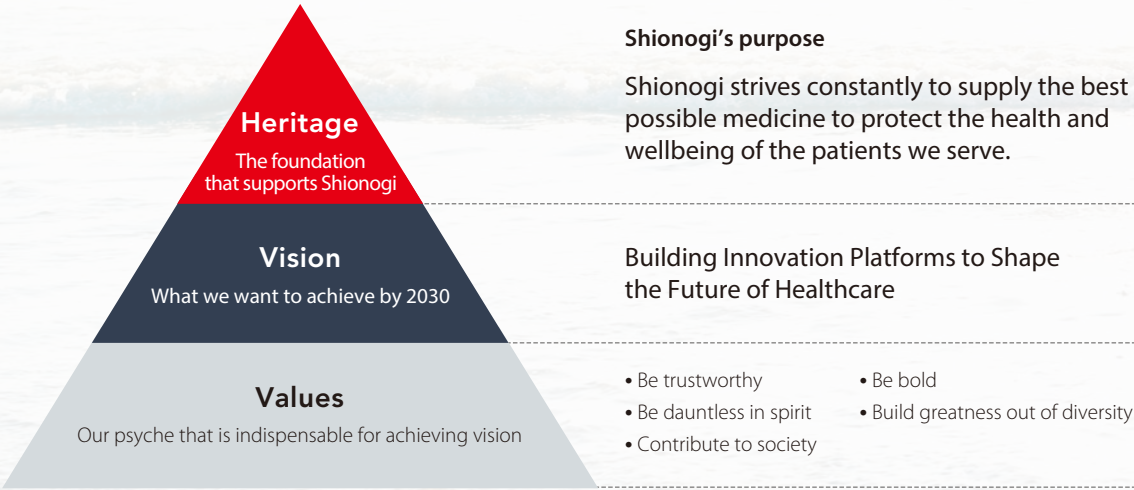
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Our Philosophy — Transformed Corporate Philosophy for the Group



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.

Formulated in 1957

Our Stakeholders



Message from the President

In order to continue growing during this time of change in the pharmaceutical sector environment as well as in peoples' lifestyles and values, we need to compare our Vision and Values with the needs of society and our customers, and then respond in a flexible manner.

We therefore gathered our next generation of leaders in 2018 to work together on the Oneness project to identify exactly what kind of company we want Shionogi to be in 2030 and beyond. After much discussion with the project members, we realized again that our corporate purpose is an eternal and unwavering philosophy. We defined our Company Policy as our Heritage, i.e. the foundation that supports us in all our activities, and we then went on to formulate a new Vision and new Values for Shionogi.

Vision What we want to achieve by 2030

Shionogi is evolving from a conventional drug discovery-based pharmaceutical company to become a HaaS* company that provides healthcare services, aiming to provide solutions to patient problems and social issues. Based on this concept, we developed the Vision of Building Innovation Platforms to Shape the Future of Healthcare.

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

Values Our psyche that is indispensable for achieving vision

We defined five Values that are key to achieving our Vision and describe how every employee needs to operate. Shionogi is trustworthy, unafraid of change and embracing of diversity, dauntless in spirit, and bold. These qualities allow the Company to meet the expectations of society and Transform itself to achieve our new Vision. As a corporate citizen, Shionogi is resolving social issues and helping to create a more prosperous society.

Shionogi will grow alongside all our stakeholders, while continuing to develop the Company's unique character through our operations based on this new Corporate Philosophy (of Heritage, Vision, and Values).



Isao Teshirogi, Ph.D.
President and CEO

Message from Oneness members

The members of the Oneness project met multiple times over the course of more than a year to carefully consider what kind of company we want Shionogi to be. Keeping an open mind to all possibilities, we mulled over each word through many rounds of discussion to arrive at our final resolution for the Vision and Values.

After we had formulated the Vision and Values, Shionogi came together as a single global operation to communicate these concepts to all Group companies around the world. For example, at Shionogi Inc. in the US, all employees took part in a series of workshops that featured lively discussions on the topic of What Are Shionogi's Platforms? The Vision and Values are now reflected in the New Medium-Term Business Plan STS2030 as well as organizational and individual targets, showing how the Company is weaving them into our everyday work.



Enhancing our strengths as a drug discovery-based pharmaceutical company to shape the future of healthcare

Shionogi's Strengths

Social issues that Shionogi strives to address

Business activities

Innovation skills

Skills in small-molecule drug discovery, cultivating strengths in new modalities

→ p. 11–

Alliances and collaborations

Ability to develop relationships to form positive partnerships

→ p. 13–

Expertise in infectious diseases

Solid track record over more than 60 years

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Human resources

Management training for strong leadership

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Our History of Value Creation

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Heritage Company Policy

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Threat of infectious diseases

→ p. 45–



Better social productivity, healthy lifespans

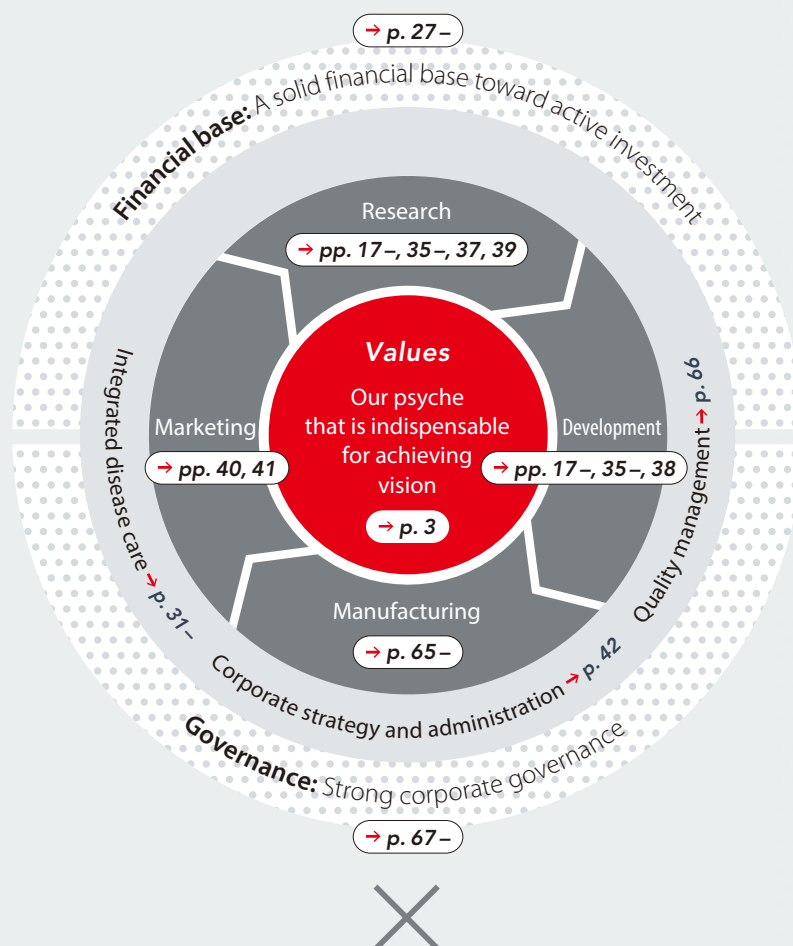
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Sustainability of social security

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Note: See page 43 for more information on Shionogi Group's material issues (Materiality)



Academia



Company



Government



Patient groups, etc.

Diverse partners

→ pp. 18, 33–, 46, 49–, 52–

We are enhancing our strengths as a drug discovery-based pharmaceutical company to create innovative products and services and to deliver value in collaboration with a diverse array of partners.

By delivering value to tackle social issues and address healthcare needs, Shionogi strives to maximize corporate value through growth and development as a company that plays a meaningful role in society and sharing the benefits of growth with all its stakeholders.

Output

Achievement of **Vision** → p. 3 and beyond

SDGs that Shionogi can help to achieve



Society

Help to achieve SDGs
(creating healthy societies)

Tackle social
issues, address
healthcare needs

Customers

Longer healthy lifespans
Better QOL
New value co-creation

Employees

Safe workplaces
Motivating workplaces
where employees
can grow

Business growth

Shareholders and investors

Sustainable growth,
shareholder returns

Innovative
products, services

Delivering value
through
new platforms

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Continued
strength as a drug
discovery-based
pharmaceutical
company

Developing
strategic alliances

Focusing on drug discovery, fostering strengths, and developing profitable structures

1850

Switch from Japanese and Chinese medicines to Western medicines

1878 **Founded**

- Gisaburo Shiono, Sr., founder of the Company, launched Shiono Gisaburo Shoten as a drug wholesaler at the present site of the head office, Doshomachi, Osaka

Founder Gisaburo Shiono, Sr. (1854-1931)

Gisaburo Shiono, Sr. was born in 1854 in Doshomachi, Osaka. He learned the wholesale trade under the guidance of his father Kichibe, and launched his own drug wholesaling business in Doshomachi on his 24th birthday, on March 17, 1878. This wholesaler was the predecessor of Shionogi & Co., Ltd.



1886 **From Japanese and Chinese medicines to Western medicines**

- Shionogi switches its focus to imported Western drugs

1897 • Shionogi starts to deal directly with trading firms in Europe and the US

1900

Turning into a modern pharmaceutical manufacturer—Own innovative drugs, Shiono Seiyakusho manufacturing plant

1909 **From Western medicines to new drugs**

- **Antacidin**, an antacid agent, was launched as the first drug produced
- Registered the corporate emblem FUNDOH

FUNDOH corporate trademark symbolizing "Pursuit of accuracy"

Reliability and trust are necessary qualities for effective company management. From its founding, Shiono Gisaburo Shoten also regarded these qualities as its most valuable "capital."

The corporate emblem of Shionogi is derived from "FUNDOH," a stylized image of a balance weight historically used to dispense products. FUNDOH also symbolizes "accuracy," "honesty," and "trust," meaning we deliver confidence and peace of mind as a pharmaceutical company.



1910 • Constructed the Shiono Seiyakusho manufacturing plant, a plant for in-house R&D that would grow into Shionogi's core competency

1911 • Imported and marketed **Salvarsan** to treat syphilis Shionogi's first move into infectious diseases

1919 • Shiono Gisaburo Shoten and Shiono Seiyakusho were merged and the new company was named Shionogi Shoten Co., Ltd.

1943 • Renamed the Company Shionogi Seiyaku K.K. (now Shionogi & Co., Ltd.)

1950

Shionogi, specialists in antibiotics—Developing expertise in infectious diseases

1957 **Shionogi's Company Policy established**

1959 • Launched macrolide antibiotic **Ilotycin** • Launched sulfonamide drug **Sinomim**

Sinomim, the first proprietary product from Shionogi's own research (1959)

Shionogi continued to work at its research laboratories to discover better sulfonamide drugs. The Company tested around one thousand compounds as potential chemotherapy agents before discovering **Sinomim**.



1970 • Launched cephem antibiotic **Keflex**

1976 • Launched sulfamethoxazole and trimethoprim combination **Baktar**

1981 • Launched glycopeptide antibiotic **Vancomycin**

1982 • Launched oxacephem antibiotic **Shiomarin** • Launched cephem antibiotic **Kefral**

1984 • Launched cephem antibiotic **Kefdale**

1988 • Launched oxacephem antibiotic **Flumarin**

1990 • Launched fluoroquinolone antibiotic **Romebact**

1992 • Launched cephem antibiotic **Seftem**

1993 • Launched cephem antibiotic **Broact**

1997 • Launched cephem antibiotic **Flomox**

* Text in bold indicates drugs for infectious diseases

1850

1900

1950

2000

2000

Completion of corporate restructuring to concentrate on pharmaceutical business— Blockbuster development

- 2000** Started First Medium-Term Business Plan
Concentrated on pharmaceutical business
- Transferred or sold six businesses: drug wholesaling, agrochemical, clinical laboratory, animal health products, industrial chemicals and capsules.
- 2001** • Established joint venture Shionogi-GlaxoSmithKline Pharmaceuticals LLC (now Shionogi-ViiV Healthcare LLC). Started joint R&D into HIV drugs
- 2003** • Launched cancer pain analgesic *OxyContin* (followed by powdered version *OxiNorm* in 2007, injectable version *OxiFast* in 2012, and extended-release *OxyContin* TR tablets in 2017)
- 2005** Started Second Medium-Term Business Plan
Established a constant flow of pipeline products through energizing and globalizing R&D
- Launched *Crestor* for hyperlipidemia (Launched *Crestor OD* tablets in 2016)
 - Launched fluoroquinolone antibiotic *Avelox*
 - Launched carbapenem antibiotic *Finibax*
- Finibax brought to market** (2005)
- Finibax* was launched in 2005 as a carbapenem antibiotic with potent antibacterial activity against *Pseudomonas aeruginosa*. Shionogi out-licensed this drug in the US, Europe, and Asia. Following in the footsteps of *Flumarin* and *Shiomarin*, *Finibax* earned Shionogi the Pharmaceutical Society of Japan Award for Drug Research and Development.
- 
- 2008** • Launched *Pirespa* for idiopathic pulmonary fibrosis
- 2010** Started Third Medium-Term Business Plan
Launch of multiple products developed globally and real growth
- Launched *Rapiacta* for influenza
 - Launched SNRI *Cymbalta*
- 2013** • Launched *Osphena* (ospemifene) in the US for postmenopausal vulvar and vaginal atrophy

2014

Series of new drug launches— Rapid progress as a drug discovery-based pharmaceutical company

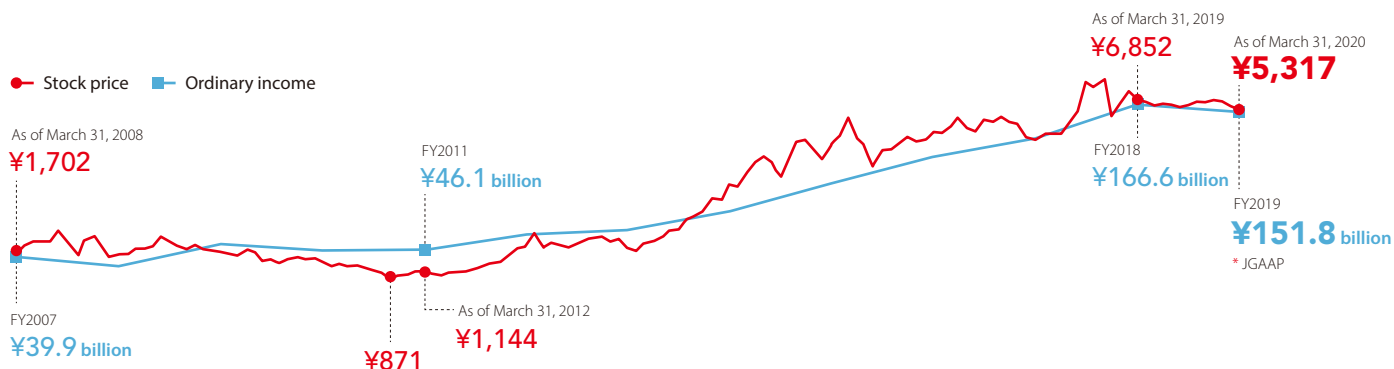
- 2014** Started Fourth Medium-Term Business Plan
Shionogi Growth Strategy 2020 (SGS2020)
Grow as a drug discovery-based pharmaceutical company
- Launched *Tivicay* (dolutegravir) for HIV infection (Launched three-drug combination *Triumeq* (dolutegravir + lamivudine + abacavir) in 2015, two-drug combination *Juluca* (dolutegravir + rilpivirine) in 2018, and two-drug combination *Dovato* (dolutegravir + lamivudine) in 2020)

Winner of the Heroes of Chemistry Award (2016)

In 2016, *Tivicay* earned Shionogi the Heroes of Chemistry Award from the American Chemical Society for innovation in chemistry, and in 2017 the Company went on to claim the Pharmaceutical Society of Japan Award for Drug Research and Development.



- 2015** • Launched allergen immunotherapy *Actair*
• Launched *Mulpleta* for thrombocytopenia
- 2016** Updated the Medium-Term Business Plan, SGS2020
Grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare
- 2017** • Launched *Methapain* for cancer pain
• Launched *Intuniv* for attention-deficit/hyperactivity disorder (ADHD)
• Launched *Symproic* for opioid-induced constipation (OIC)
- 2018** • Launched *Xofluza* for influenza
- 2019** • Launched *Vyvanse* for attention deficit/hyperactivity disorder (ADHD)
• Made UMN Pharma a subsidiary
- 2020** • Launched the siderophore cephalosporin antibiotic *Fetroja* (cefiderocol) in the US
Started the New Medium-Term Business Plan, Shionogi Transformation Strategy 2030 (STS2030)
Transformation into a HaaS company
• Launched SARS-CoV-2 IgG/IgM antibody detection kit (research reagent)



2020

“ Fighting infectious diseases ” for over 100 years

Over the span of some 110 years, Shionogi has been on a mission to treat infectious diseases, starting with the import and sale of *Salvarsan* for syphilis in 1911 and the in-house discovery of the sulfonamide drug *Sinomine* after the War, through to the recent launch of *Fetroja* (cefiderocol) to treat multidrug-resistant Gram-negative bacterial infections.

Service

Shionogi is of service in the global battle against infectious diseases, from the first in-house product through to the present day

After the discovery of penicillin, there were very few new treatments discovered for infectious diseases that were both effective and safe, and tuberculosis and pneumonia continued to top the rankings for cause of death at that time.

Shionogi's management team decided that, given the importance of antibiotics, the Company should move into this field as a matter of priority. Shionogi then embarked on research and development in infectious diseases. The Company poured its energies into in-house research and was rewarded with the development of its first proprietary product, *Sinomine*, in 1959. *Sinomine* was out-licensed to the Swiss company Roche and was used around the world to treat infectious diseases. Today, after more than 50 years on the market, *Sinomine* is still playing a vital role in healthcare, now formulated as the sulfamethoxazole and trimethoprim combination *Baktar*.



Advertising image for *Sinomine* in 1959

Adversity

Many companies have withdrawn from the antibiotics market

Shionogi has developed a series of groundbreaking proprietary products to treat infectious diseases, starting with the world's first oxacephem antibiotic *Shiomarin*. The number of antibiotics launched on global markets peaked in the late 1980s before starting to decline. This trend was driven by many pharmaceutical companies deciding antibiotics lacked appeal as a market, due to high development risk and the lower drug prices and shorter treatment regimens compared with anticancers and other drug types.

The decline was also exacerbated by the problem of antimicrobial resistance (AMR). To ensure doctors still have access to treatments effective against drug-resistant strains, the general consensus was that pharmaceutical companies should not pursue antibiotic sales growth. Drugmakers also found it difficult to formulate accurate production plans because of the significant regional variation in healthcare systems for AMR and the number of patients with drug-resistant infections.

The threat posed by antimicrobial resistance (AMR), where antibiotics are no longer effective against infectious diseases, has come into sharp relief once again with the COVID-19 pandemic. This has led to some positive changes in global trends and action on antibiotics, including 23 of the world's largest pharmaceutical companies setting up the AMR Action Fund.



Oxacephem antibiotic *Shiomarin*

Mission

Shionogi continues to invest in R&D as part of the Company's social responsibilities

The threat posed by infectious diseases and drug-resistant bacteria is an enormous social issue for mankind. In the future, patients may lose their lives if doctors do not have access to new drugs. For this reason, Shionogi continues to invest in the discovery of new drugs to treat a wide range of infectious diseases. The Company has also taken the initiative in efforts to address AMR (see page 47 for more details).

Leveraging expertise built up through many years' experience in antimicrobial drug discovery, Shionogi will make every effort to fulfill its mission of providing treatments for infectious diseases.



AMR Industry Alliance Board set up by seven global pharmaceutical companies, including Shionogi

Operating margin (fiscal 2019)

37.4%

* JGAAP

ROE (fiscal 2019)

18.0%

* JGAAP

Products launched globally
(2014–2020)**5**
products

HIV treatment
Tivicoy



Thrombocytopenia treatment
Mulpleta



Opioid-induced constipation (OIC)
treatment
Symproic



Influenza drug
Xofluza

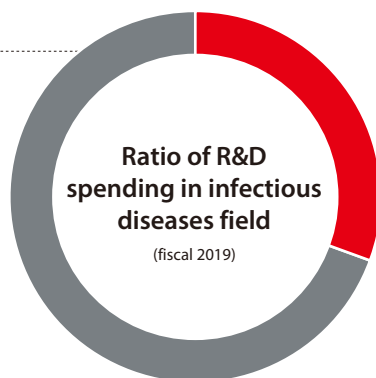


Multidrug-resistant Gram-negative
bacterial infection treatment
Fetroja (cefiderocol)

Original pipeline ratio (fiscal 2019)

67%

CNS, pain, other



Ratio of R&D
spending in infectious
diseases field
(fiscal 2019)

Infectious diseases

30.8%

Note: Labor costs and
indirect spending not included

1. Innovation Skills

World-class capabilities in small-molecule drug discovery

— Applying wide range of technologies to go above and beyond



If Shionogi is to grow in a sustainable manner as a member of society, the Company needs to constantly innovate to help solve social issues and deliver new value to customers and societies.

Innovation involves tackling the problems faced by patients and societies head on and taking the right approach to find the best solution to these problems.

At Shionogi, we will not compromise in our efforts to bring the benefits of our innovation to as many people as possible in a time-efficient manner.

Focus on in-house drug discovery

Shionogi is constantly working on drug discovery with a particular focus on proprietary new drugs. Whereas the original pipeline ratio^{*1} at most pharmaceutical companies is said to be 20–30%, we aspire to a ratio of 50–70%. At the end of March 2020, our original pipeline ratio was 67%. As a drug discovery-based pharmaceutical company, we take pride in this high ratio as we think it is indicative of our strength in in-house drug discovery.

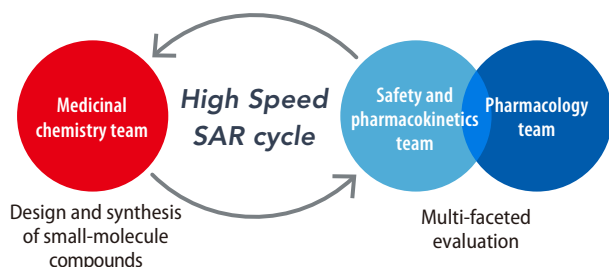
^{*1} Proprietary compounds originated in-house as a percentage of the whole development pipeline (includes results of joint research with partners and development candidates)

Shionogi's drug discovery capabilities lead to innovative new drugs

Shionogi's strength in research stems from our highly efficient SAR^{*2} engine for small-molecule drug discovery. The source of our competitiveness lies in the technological prowess of our teams in medicinal chemistry, pharmacology, and safety and pharmacokinetics, as well as our experience in problem-solving via collaboration between the three teams. Through strong teamwork, we have been able to speedily and efficiently move through the SAR cycle. As a result, during the previous SGS2020 Medium-Term Business Plan, we launched five products originated in-house onto global markets, including the anti-HIV agent *Tivicay* (launched 2014) and the influenza drug *Xofluza* (launched 2018).

^{*2} SAR: Structure activity relationship

Team collaboration in the drug discovery research cycle



Tackling the problems faced by patients and societies

We are enhancing our existing strengths in small-molecule drug discovery and also working on a wide range of therapeutic approaches (modalities) to meet the broad range of patient and societal needs. We aim to increase our drug discovery success rate by using the best drug discovery approach for each target

therapeutic area. That means trying medium-sized molecules such as peptides and nucleic acids, as well as antibodies such as anti-CCR8^{*3} and cells (regenerative medicine). We are building new strengths from the base provided by this SAR engine for small-molecule drug discovery.

Theme for Fiscal 2019:

Progress in peptide drug discovery

Peptides do not readily pass through cell membranes because of their high molecular weight and chemical characteristics, so they can only be used to target extracellular molecules. To tackle this issue, we combined our small-molecule drug discovery capabilities with PDPS^{*4} technology. After extensive research, we have made progress with a technology to optimize candidate peptide structures that results in a dramatic improvement in membrane permeability. This has significantly broadened the scope for the discovery of pharmaceuticals to treat diseases where there are substantial unmet clinical needs, such as conditions with limited treatment options.

R&D into new drugs has become increasingly difficult in recent years, requiring significant resources and long development times. With our in-depth understanding of disease and of patient and societal perspectives, the value that Shionogi can offer is not limited to pharmacotherapy. Medicines are not necessarily the best solution for patients if other options can improve or remove symptoms. We also recognize the social pressure on companies to engage with disease prevention and early-stage care due to significant environmental changes, such as more health conscious societies, growing government-financed healthcare expenditure, and the global disruption from the pandemic. For these reasons, Shionogi is taking a broad view across a whole range of healthcare solutions and is working diligently to create new platforms to deliver new options, such as preventive vaccines using technology from Shionogi Group company UMN Pharma and a digital treatment app under development for ADHD.

^{*3} CCR8: Chemokine (C-C motif) Receptor 8

^{*4} PDPS: Peptide Discovery Platform System

2. Maximizing Value through Alliances and Collaborations

Partnerships rooted in trust

— Working together to create new business models

Building relationships for win-win partnering

Ultimately, Shionogi aims to turn strong relationships of trust into business dealings that are satisfactory on both sides, allowing the development of mutually beneficial business conditions.

Rather than just battling to profit the Company, Shionogi looks for win-win contracts, taking one step back so that agreed terms also benefit the other party. This different negotiating perspective sets us apart and is the backbone of Shionogi today.

What benefits both parties may change as the operating environment evolves, so Shionogi works to deepen partner relationships further even after contracts are signed, keeping abreast of the situation at partner companies and responding flexibly even to changes in contract terms. These positive collaborations have allowed the Company to achieve sustained growth.

Finding win-win conditions by revising the Crestor terms

Shionogi successfully out-licensed the in-house hyperlipidemia treatment *Crestor* in 2013 and earned royalty revenues that drove earnings at the time. However, forecasts showed the *Crestor* patent expiry in 2016 would be a so-called patent cliff that could wipe out over ¥60 billion in operating income in a couple of years.

Rather than abandoning a potentially difficult contract renegotiation in this time of crisis because the contract terms were already fixed, Shionogi instead talked directly with the

licensing partner to understand their issues, based on the relationship of trust that had developed over the years.

We learned that our licensing partner needed funds for immediate investment in new product launches and therefore agreed to modify the contract terms, significantly lowering royalties over the next two years in return for extending the period of royalty payments by seven years to 2023 at the latest.

Although this agreement meant earnings would decline over the near term, the revised conditions ensured that Shionogi would have a source of income to support growth even after the patent expired and that total royalty payments would ultimately be higher.

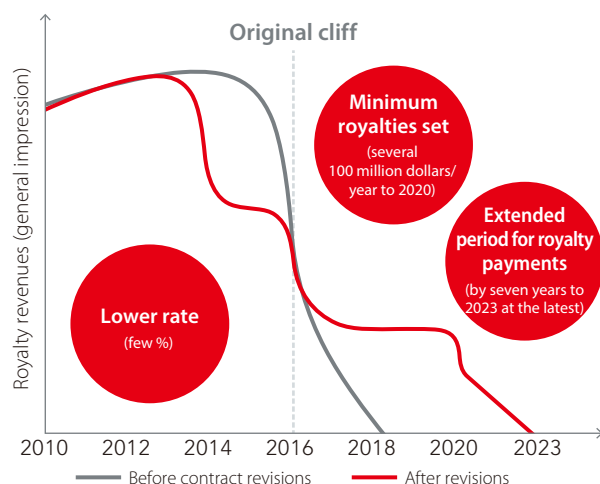
Shionogi was able to successfully overcome the Crestor cliff through these win-win changes to the contract as well as increased earnings from a new growth driver (the innovative HIV treatment *Tivicay*).

Looking ahead to future partnerships

Shionogi has formed crucial partnerships when faced with problems the Company cannot solve on its own. Partnerships have allowed Shionogi to overcome hurdles in drug discovery, expand the product portfolio and drug pipeline, make progress in development, and maximize product value. The Company has also forged alliances to acquire new modalities, create business synergies, and reform IT. As well as these business partnerships, Shionogi is actively involved in collaborative initiatives to address social issues, examples being the Company's participation in the AMR Action Fund to address antimicrobial resistance and collaboration with local governments and academia on ADHD. Shionogi is also partnering in efforts to address the global threat posed by COVID-19. The Company is conducting R&D into therapeutic agents, vaccines and diagnostics in collaboration with academia, other pharmaceutical companies, and companies in other industries.

Looking ahead, Shionogi expects healthcare needs to become more diverse as the external environment changes. In order to satisfy a wider range of needs, Shionogi needs to collaborate with a more diverse array of partners in areas where the Company would be unlikely to achieve results on its own. Shionogi aims to contribute to healthcare through various approaches, while also cultivating our original strengths in drug discovery to attract potential business partners.

Mitigating the patent cliff by modifying the contract





3. Expertise in Infectious Diseases

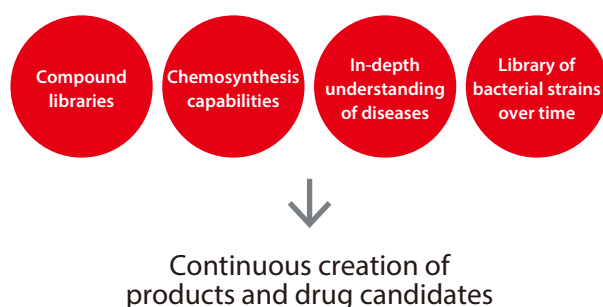
Expertise built up over many years — Making most of strengths in pursuit of total care



Long-term engagement in infectious diseases R&D

Shionogi has conducted research and development in infectious diseases for over 60 years, bringing a huge number of drugs for infectious diseases to market along the way, from *Sinomim* launched in 1959 right up to *Fetroja* (cefiderocol) in 2020. Drawing on compound libraries and other resources developed through many years of research, Shionogi has built a solid platform in infectious diseases drug discovery and has been able to generate a series of products and drug candidates in this field. As more and more pharmaceutical companies withdraw from R&D in the poorly profitable field of infectious disease,

Strengths in anti-infective drug discovery



Shionogi has continued to invest. In the Antimicrobial Resistance Benchmark* 2020 survey, Shionogi was recognized as having the highest annual ratio of R&D investment for anti-bacterial and anti-fungal agents of any of the companies surveyed (based on annual investment as a proportion of net sales).

* Report published by Access to Medicine Foundation that tracks and analyzes what major global pharmaceutical companies are doing to bring antimicrobial resistance (AMR) under control.

Targeting total care for infectious diseases

Shionogi considers protecting people worldwide from the threat of infectious disease to be a pressing social issue. The Company is involved in a wide range of initiatives that go beyond the scope of R&D into therapeutic agents, including disease awareness programs, prevention, diagnostics, and methods to prevent conditions becoming serious.

As well as progressing these initiatives to provide total care for infectious diseases, Shionogi is taking a global leadership role to manage the threat of infectious diseases, including efforts to ensure stable supplies and appropriate use of anti-infectives. Pages 17–20 and 45–50 of this report provide an overview of Shionogi's efforts in infectious diseases, including the Company's response to COVID-19.

Leadership that supports growth

— Developing human resources with problem-solving skills for the future

Building up human resources to support highly efficient management

One of Shionogi's characteristics is its robust management that intensively pursues efficiency to achieve the targets. This robustness is developed through strong leadership training for all tiers of management.

The CEO of the Company personally trains senior management candidates through the President's Management Seminar that was started in fiscal 2012. Each year, around ten candidates are selected to attend this program that runs roughly once a month for 12 months. The goal is to develop diverse human resources with a tenacious approach who can consider issues from a company-wide perspective and have good communication skills. Approximately one half of the current corporate officers and heads of the organization are graduates of this program.

Shionogi also carries out a system of corporate officer rotation across the value chain. This system of experiencing management in a number of divisions was built to allow corporate officers to practice management not as the representative of one division but from a company-wide perspective. Senior management candidates take on roles as presidents, non-executive directors, and auditors of Group companies, where they gain management experience. The CEO personally confirms the content of discussions at Group companies and at the twice-yearly general meeting of shareholders and at business briefing events, the CEO and officers of Group companies engage in

comprehensive discussions, providing them with a forum to hone their business instincts.

New program for manager development

In fiscal 2020, Shionogi launched PJ KANAME, a new program for manager development, as part of the Company's measures to achieve the New Medium-Term Business Plan (STS2030).

The new program is completely different from conventional management training and will be offered to all managers at Shionogi & Co., Ltd. and domestic Group companies. This major development program runs over a two-year period, during which trainees will continuously engage in a number of different assignments.

Roadmap to achieving management targets through the manager development program

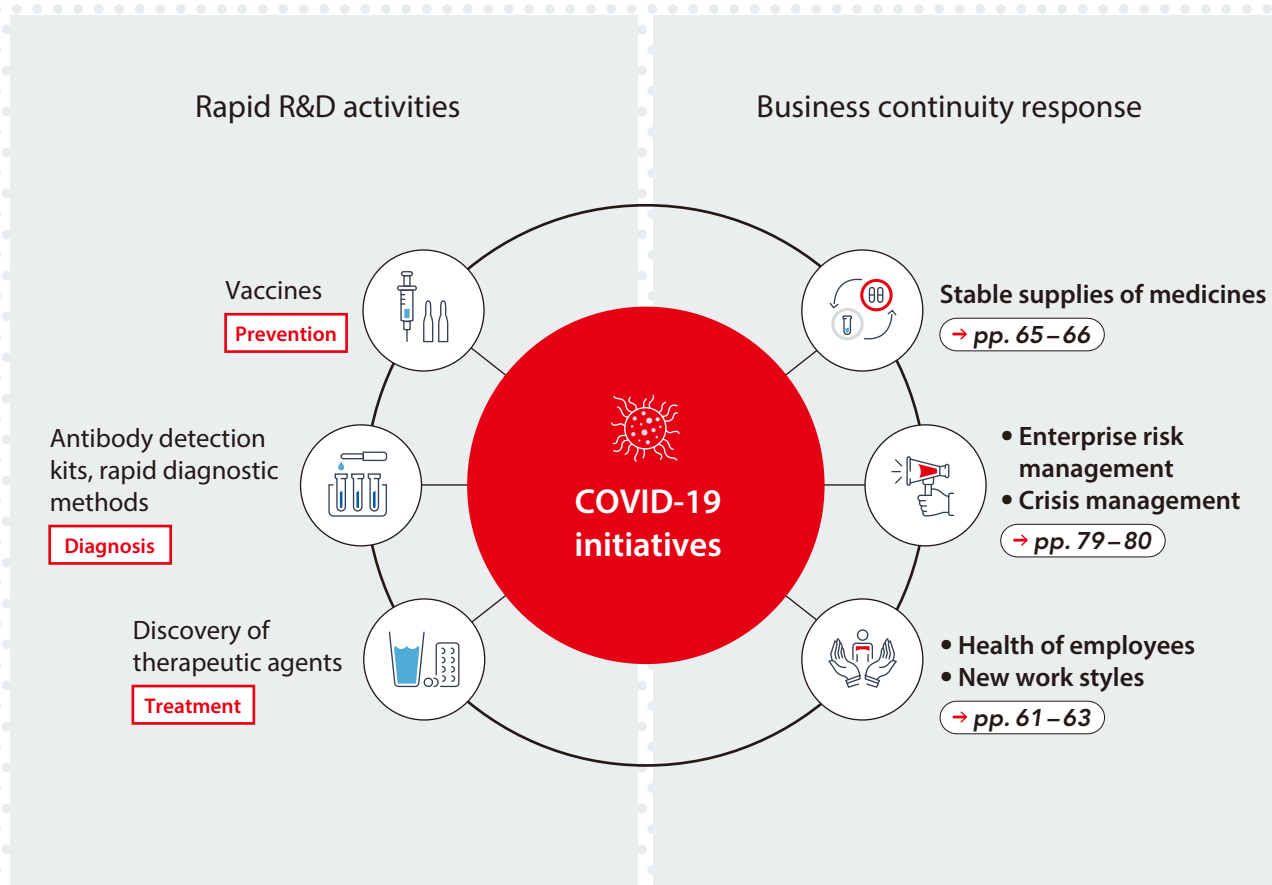


SPECIAL FEATURE 01

Battling the threat of COVID-19 and other infectious diseases

Amid the global threat posed by COVID-19, Shionogi is battling in this time of crisis to make real progress in R&D into therapeutics, vaccines, and rapid diagnostic products. As a leading company in infectious diseases, we aim to achieve a portfolio of solutions that provide “total care” for various infectious diseases caused by a wide range of pathogens.

Response to COVID-19



As a leader in this field, we are working constantly to provide total care for infectious diseases to prepare for the next infectious disease threat

→ pp. 19–20



Prioritizing our response to COVID-19

The pharmaceutical industry in particular is under significant pressure to develop treatments and vaccines as fast as possible to counter the spread of infections with the novel coronavirus (SARS-CoV-2).

While Shionogi continues to ensure the stable supply of pharmaceuticals and business continuity, as a pharmaceutical company with a major focus on infectious diseases, we are also working with public institutions, academia, and partner companies to prioritize R&D into novel therapeutics, vaccines, and diagnostic products for COVID-19. We continue to work in top gear to bring products to market as soon as possible.

Prevention Vaccine development

A global race is underway to develop vaccines to control the novel coronavirus through immunization programs. Shionogi is working with the National Institute of Infectious Diseases (NIID) and Kyushu University on R&D into a recombinant protein vaccine comprising the viral S protein as the antigen, based on a technology from UMN Pharma, which became a wholly owned subsidiary of Shionogi in fiscal 2019. This technology has already been used for a number of products, including vaccines against influenza, and they can be manufactured in large quantities, quickly, and at low cost.

Shionogi aims to start clinical trials by end-2020 and is already building vaccine manufacturing facilities in Japan, funded by grants from various government ministries and agencies, to be able to quickly supply a large number of doses once a vaccine is successfully developed. The goal is to have built a supply system by the end of fiscal 2020 and be in a position to provide doses for 30 million people by end-2021.

Diagnosis Development and marketing of diagnostic reagents

Key factors that will allow us to co-exist with or control this infectious disease, as well as fully resume economic activities, are the ability to accurately identify infected individuals (including asymptomatic carriers) and to rapidly isolate and treat positive cases. Shionogi has in-licensed SATIC,^{*1} a technology for the amplification and detection of specific genes that is rapid, highly sensitive, and convenient and was developed by Nihon University, Gunma University, and Tokyo Medical University. We are applying this technology to develop a kit that can be used for the rapid diagnosis of multiple samples in locations such as hospitals and airports.

^{*1} SATIC: Signal Amplification by Ternary Initiation Complexes

Treatment Discovery of therapeutic agents

Although most of the development projects for COVID-19 involve drug repositioning,^{*2} there have yet to be any reports of efficacious drugs capable of achieving obvious viral suppression. Research into pathogens, such as for infectious disease studies, is performed at strictly regulated facilities and it is vital that systems are in place to maintain those facilities in peacetime to be able to conduct R&D during a pandemic. Shionogi has made a smooth transition to COVID-19 research, leveraging the Company's strengths built up over many years working in this field.

We are researching therapeutic agents in collaboration with Hokkaido University, utilizing our compound libraries and experience in the discovery of various antivirals built up over our history. Shionogi is currently conducting assessments for the final selection of development candidates and aims to start clinical trials during fiscal 2020.

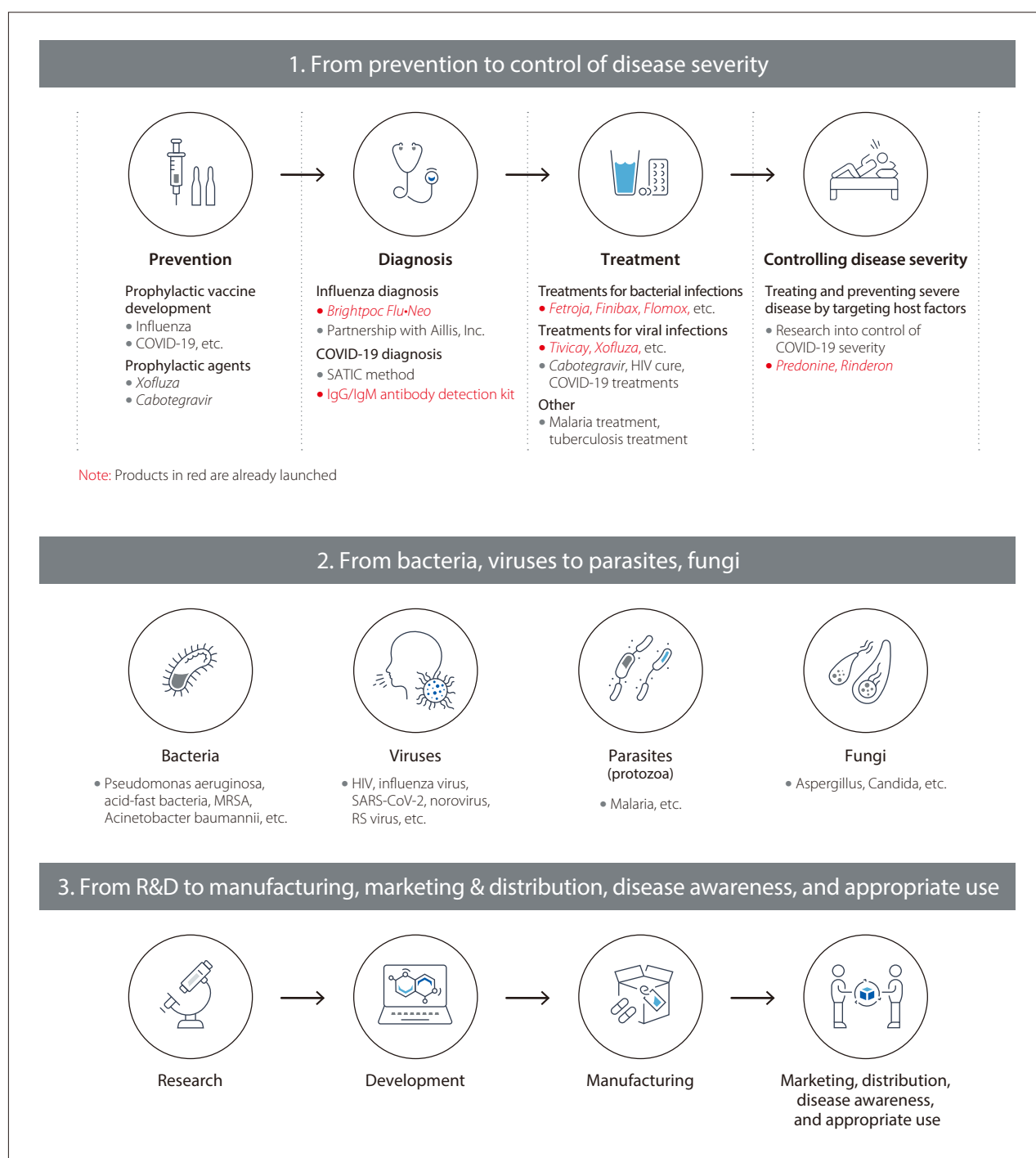
^{*2} A method of development whereby existing drugs undergo testing as potential treatments for new diseases to see if they can be put to another use

Aiming at total care for infectious diseases

The COVID-19 pandemic has caused significant loss of life and enormous socioeconomic damage. The pandemic has shaken the very foundations of our way of life and served as an important reminder of the importance of infection control measures.

Leveraging the key strengths in our integrated value chain from R&D to manufacturing and marketing, Shionogi continues

to engage in R&D into therapeutic agents for a wide range of infectious diseases, and we are also broadening the scope of our work to encompass prevention, diagnosis, and agents to control disease severity. We are also actively involved in efforts to solve the problem of antimicrobial resistance (AMR), in our role as a leading company in infectious diseases.



1. From prevention to control of disease severity

Expanding our business scope

Shionogi will only become a leading company in infectious diseases once we are in a position to provide solutions covering all stages of infectious disease. Based on this concept, we aim to provide “total care for infectious diseases” that starts with R&D into agents to treat infectious diseases, and also includes the earlier stages of raising awareness through disease education, prevention, and diagnosis through to the final stages including control of disease severity and saving lives.

As a new approach in this drive to provide total care, Shionogi made UMN Pharma a consolidated subsidiary in December 2019, with a view to enhancing our expertise, experience, and technologies in vaccines to prevent infectious diseases. We will deliver value to patients suffering from disease, and also create new value for the general population at risk of disease.

2. From bacteria, viruses to parasites, fungi

Dealing with a wide range of pathogens

There are countless pathogens across the globe that cause infectious diseases, and sometimes different pathogens combine together to cause a disease. In order to provide better treatments for infectious diseases, we need to build a wide range of treatment options against pathogens.

Shionogi continues to engage in R&D, while also utilizing partnerships with academia and other companies, in order to deliver products and services to tackle various pathogens.

3. From R&D to manufacturing, marketing & distribution, disease awareness, and appropriate use

Integrated value chain

Multiple departments work together so that the Company can create agents to treat infectious diseases and deliver them to patients.

In order to deliver products and services, the departments in the value chain, particularly in research (drug discovery, CMC), development, manufacturing, and marketing, constantly create new value by developing strategies, partnering, and executing to achieve the Company vision.

As well as products and services, the Company runs disease awareness programs to foster a deeper understanding and knowledge of infectious diseases, which also helps improve awareness of prevention and leads to reduced infections and appropriate use of pharmaceuticals.

Through these initiatives, Shionogi is helping to lessen the negative impact of infectious diseases on social activities and reduce the number of deaths by saving the lives of those who are seriously ill.

Fetroja (cefiderocol): Powerful weapon in the fight against AMR

Shionogi leveraged its strengths in in-house antibiotic research in the search for promising treatment options against infectious diseases caused by gram-negative bacteria that have acquired resistance to existing treatments. The Company discovered cefiderocol, the first ever siderophore cephalosporin antibiotic, and launched this drug in the US in February 2020 (see page 47 for more details).

Fetroja (cefiderocol) could be a powerful weapon in the fight to save the lives of patients with infections for which there are currently no treatment options. Shionogi will continue working to provide this treatment as appropriate to the patients and medical institutions where it is needed.



Decisive business transformation to ensure sustainable growth



Isao Teshirogi, Ph.D.

President and CEO

Targeting long-term growth: Next transformation will build the new Shionogi

In June 2020, we formulated our New Medium-Term Business Plan—**Shionogi Transformation Strategy 2030 (STS2030)**—as a strategy to achieve our 2030 Vision of “Building Innovation Platforms to Shape the Future of Healthcare.” Under the key word, “Transformation,” for STS2030, we are transforming our business and defining strategies to achieve further growth.

Throughout its 142-year history, Shionogi has undergone innovative changes time and again to respond to shifting patterns of disease and differing demands in different eras. One of the major turning points in our history was the first Medium-Term Business Plan, launched in fiscal 2000, when we transformed our business focus. We implemented a major business restructuring, as a result of which sales reduced by half, temporarily. However, we succeeded in divesting businesses that were too small to have meaningful future growth prospects (animal health products, agrochemical, industrial chemicals, clinical laboratory testing, and drug wholesaling), in order to fully focus on our pharmaceutical business. For the next 20 years or so, we were able to achieve more substantial growth, driven by innovation generated from our focused efforts on the pharmaceutical business. On the other hand, however, many people had to leave Shionogi during that transition. We must never forget that the Shionogi of today was born out of such pain.

In this time of unparalleled change, both in the external environment and in the priorities of society, as a company, we

are also facing a difficult period of patent expiries in our HIV portfolio around 2028 (a so-called “patent cliff”). To engineer a return to growth, our current business model—discovering, manufacturing, and marketing (detailing) pharmaceuticals—will not be enough. As advances in information infrastructure drive a diversification of needs in our customer base (patients and healthcare professionals), one of our four key stakeholder groups, we need to increase customer satisfaction by playing an active role in the full range of healthcare services, from pre-symptomatic and preventive care to diagnosis, treatment, and convalescence. We have described this concept as the creation of new “healthcare platforms.” The next-generation Shionogi will forge alliances with a range of partners and work to build these new platforms, with the goal of becoming an indispensable player across the healthcare field. To achieve this, we must cultivate our original strengths as a drug discovery-based pharmaceutical company and develop a distinctive and unrivaled presence in the pharmaceutical industry such that companies with different capabilities and from different industries are highly motivated to collaborate with us. The transformation we are planning will be faster and greater than anything Shionogi has experienced before and will represent a qualitative evolution of our business.

I believe from the bottom of my heart that transformation means continued change, in an environment that is also continually changing, and that maintaining the status quo actually represents going backwards. We are absolutely determined to continue evolving and will fight to realize our vision.

Shionogi’s current position: Looking back at the previous Medium-Term Business Plan

As we approach the start of a new business plan, it is important to take stock of where Shionogi is today, before we embark on our transformation. In the Shionogi Growth Strategy 2020 (SGS2020) plan, which we initiated in April 2014 and which was updated in October 2016, we had the vision to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare.” In pursuit of this vision, we worked to address social issues and especially to help protect people worldwide from the threat of infectious diseases, by launching a series of in-house-discovered products into global markets, including *Symproic*, *Mulpleta*,

2030 Vision

Building Innovation Platforms to Shape the Future of Healthcare

As the Shionogi family we promise to:

- ✓ Imagine new ways to deliver innovation, and catalyze the formation of new healthcare platforms
- ✓ Create innovative products and deliver them worldwide compliantly with high quality at a fair price
- ✓ Embrace social responsibility and contribute to longer, healthier lives everywhere

and the anti-infectives *Xofluza* and cefiderocol. We maintained our original pipeline ratio at over 60%, as befitting a drug discovery-based pharmaceutical company, and proactively used alliances to acquire technologies and other resources. As a result, we were able to foster our next-generation growth drivers to overcome the patent cliff in our HIV portfolio, starting with eight core pipeline projects with the potential to achieve a paradigm shift of disease treatment. We have steadily increased our ability to compete on the world stage through our drug-discovery capabilities, including the discovery of peptide, nucleic acid, and antibody drugs, and a move into the vaccine business. Although our annual R&D budget is only around ¥50 billion, we are leveraging our resources across multiple core projects to develop therapeutics, vaccines, and diagnostics to fight the global threat posed by COVID-19. I believe that our R&D is uniquely positioned in global terms, and that we can compete on the world stage with our drug-discovery capabilities and our ability to conduct R&D with flexibility and clear prioritization.

Moreover, during SGS2020, it became clearer that Shionogi's efficient management is another strength. During a period of solid growth in global sales of the HIV drug *Tivicay* (dolutegravir) and its combination products, with our licensing partner ViiV Healthcare Ltd., Shionogi prioritized management efficiency and improved our cost management capabilities. As

a result, we achieved our targets for ordinary income, return on invested capital (ROIC), and return on equity (ROE) in fiscal 2020, ahead of plan. However, I regret to say that we failed our shareholders with our results in fiscal 2019, the final year of SGS2020. Not only did our run of all-time-high consolidated earnings come to an end, but we also missed net sales and other profit targets for the first time in eight years. The issues clearly arose from gaps in the growth of new products, the growth of overseas businesses, and in per-employee productivity. We recognize as valid the criticism that the Group as a whole lost its sense of urgency due to the steady progress made in profits, ROE, and other key performance indicators (KPI).

After reflecting on the results in fiscal 2019, we considered whether to continue SGS2020 through to fiscal 2020 as originally planned. However, this time of dramatic change, coupled with the evolution of information technologies, has led to a dramatic increase in the critical value of time. In light of this, we felt it was vital to change our behavior as soon as possible and to implement transformation, and yield its results, in the eight short years left before the patent cliff in our HIV portfolio. We therefore made the decision to finish SGS2020 one year earlier than planned, and to formulate and announce our new STS2030.

Commitment to STS2030: Providing healthcare services

At the start of the new STS2030 growth strategy, the first priority is to immediately resolve the pending issues noted above and make strong progress towards building the new business model required to prepare for the HIV portfolio patent cliff. We have positioned the first five years of STS2030 (fiscal 2020–24) as Phase 1, during which we will execute this transformation. (See pages 27–42 for more details on STS2030.)

When formulating STS2030, we recognized the critical changes in the healthcare and societal environment that we need to respond to, as well as our specific challenge to overcome our impending patent cliff, and also defined the enterprise value that is our target for the future. Based on this, we communicated with our stakeholders regarding what we needed to become (vision) and how we should effect this change (strategy).

The pace of change in society overall has accelerated in recent years. COVID-19 has brought about enormous shifts in our lifestyles and social values in a short period of time. Beyond the obvious example of COVID-19, however, other major

KPI achievement in SGS2020

	KPI	FY2020 target (SGS2020 update in 2016)	FY2019 results (JGAAP)
Growth potential	Sales of new products ^{*1}	¥200.0 billion	¥62.9 billion
	Ordinary income	¥150.0 billion	¥151.8 billion
Efficiency	ROIC ^{*2}	Over 13.5%	13.8%
	CCC ^{*3}	Less than 7.0 months	7.7 months
	Original pipeline ratio	Over 50%	67%
Shareholder return	ROE	Over 15.0%	18.0%
	DOE	Over 4.0%	4.7%

Text in red shows FY2020 targets already met

^{*1} From updates to SGS2020 issued on October 31, 2016

^{*2} Return on invested capital = After-tax operating income ÷ (Interest bearing debt + Shareholders' equity + Non-controlling interests) × 100 (%)

^{*3} Cash Conversion Cycle

developments, requiring our attention and response, were already underway, such as the astonishing progress made in AI technologies and changes in the global balance of power. Looking ahead, I think that data will play an increasingly important role in society, for example, by allowing every individual ready access to all types of medical information. It is easy to imagine that this may lead to more sophisticated, personalized, and diversified healthcare needs, accompanied by the accelerated entry into this marketplace of companies from other industries. The question is whether Shionogi is capable of responding to these changes and is capable of changing itself. The basic model of the pharmaceutical business today involves generating profits from innovation over a fixed period, based on patents (broadly speaking, intellectual property) in mature markets like the US, Europe, and Japan, and then reinvesting these profits to generate further innovation. At present, Shionogi primarily engages in this current model. This is because, to make progress in healthcare, we need to maintain a continuous cycle of innovation, and the returns need to be high to compensate for the high risks involved. From the perspective of a single company, however, it is a constant and difficult battle to overcome the next patent cliff. In addition, from the standpoint of sustainability of the pharmaceutical business in the broader context of societal priorities, it is becoming increasingly important to balance the appropriate amounts to be paid for innovation with

the need to control the total amount of healthcare spending required to maintain social welfare. Against this backdrop, Shionogi will evolve from a drug discovery-based pharmaceutical company (one that mostly discovers, develops, and supplies prescription drugs) into a HaaS^{*4} company that provides a much wider range of healthcare products, increasingly integrated into more complete services. Our goal is to continuously supply new value to society at acceptable cost and thus to make our business more sustainable and to provide more comprehensive solutions to the needs of patients and society.

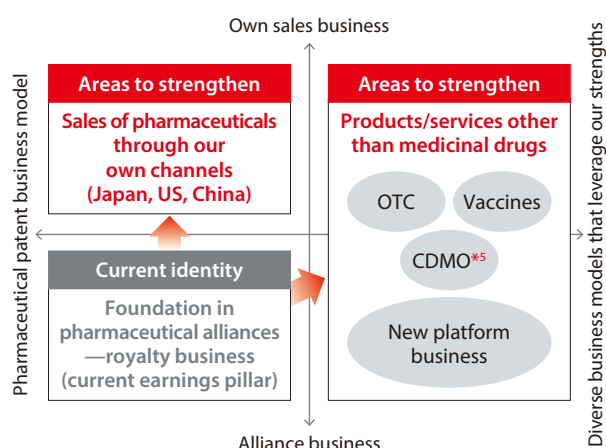
As we set out in this new direction, we also need to transform our business models in order to grow. As mentioned earlier, our current business model is primarily based on patent-based royalties. One of the models we aim to expand in the future is selling pharmaceuticals through our own channels. We will ramp up our ability to generate income ourselves, particularly in Japan, the US, and China. Another business model is the provision of products/services other than prescription pharmaceuticals; this is a model that does not rely on patents. As well as expanding our OTC drug, vaccine, and contract manufacturing businesses, we also aim to launch new businesses to deliver new healthcare services. One of the most important themes in STS2030 is achieving a smooth transformation of our business model, where we will grow by balancing our own sales capabilities with sales through alliance partners, and by

Direction for the new Shionogi



^{*4} **Healthcare as a Service:** Provide a range of healthcare services in line with customer needs, rather than only supplying pharmaceuticals.

STS2030—Changing business models to achieve growth



*5 CDMO: Contract Development and Manufacturing Organization

balancing businesses that utilize patents with businesses not dependent on patents that nevertheless utilize our strengths. The goal is to build an integrated suite of business models by 2030, producing steadily and stably growing earnings that are not materially disrupted by patent expiries.

Our human resources are the key factor that will allow Shionogi to transform for our future growth and the achievement of our STS2030 plan. The only way for Shionogi to survive in this challenging world, competing with a mix of different industries, is for every single member of the Shionogi family, including executives, to maximize their talents, exhibit their individuality, and combine their expertise to enhance our strengths. As well as expanding training programs for individual employees that produce tangible results, we will also improve our management training to produce line managers who support employee growth, understand their responsibilities and the need to develop their teams, and are capable of leading the way to the best outcomes for the organization.

To create a sustainable society

By working to resolve social issues through our business activities, Shionogi will help society to become more sustainable and to achieve the Sustainable Development Goals (SDGs), while continuing to grow as a company. In fiscal 2019, Shionogi signed the United Nations Global Compact, that comprises ten principles relating to human rights, labor, the environment, and anti-corruption. We support and practice the concepts in the UN Global Compact and accept our responsibilities as a global citizen.

In order to respond to global societal needs, we have incorporated a broader range of issues explicitly into our corporate priorities, and set new non-financial targets. One of the most pressing global issues remains freeing people from the threat of infectious diseases, and we are working on measures to address the big three infectious diseases (HIV, tuberculosis, and malaria), AMR*6, and viral infections. The advent of the new coronavirus and the subsequent social disruption and global-scale threat is an opportunity for us to re-emphasize, and to demonstrate, how Shionogi's long-term efforts to address infectious diseases can contribute to achievement of SDGs and how much these initiatives are needed by the society. We are bringing together resources from across the Company to help address the social problems caused by COVID-19, prioritizing the development of vaccines, therapeutics, and diagnostics in order to help societies restore safety and confidence by bringing this pandemic to an end as soon as possible. For the other material issues, we will responsibly address and step up our response to various environmental, social, and governance (ESG) issues, thereby contributing to the creation of sustainable societies and driving the company's growth. Based on that approach, Shionogi will make a concerted effort to be a relevant company for all stakeholder groups well into the future.

*6 Antimicrobial resistance



Strengthen corporate governance: Entering the second generation of our system of governance

Shionogi fully understands that it relies heavily on four main stakeholder groups, namely, shareholders and investors, customers, society, and employees. Optimally balancing their needs is crucial to increasing corporate value. The ethos of our management approach is to ensure balanced relationships with our stakeholder groups while responding flexibly to any changes in their interests and needs. Over the 142 years since the founding of Shionogi, we have been through several difficult periods, as have other companies, but by maintaining balanced relationships with these four groups, we have enjoyed the support of our stakeholders even when business was bad, allowing us to grow into the company we are today.

Fiscal 2020 brings the retirement of all the outside directors appointed when the outside director system was introduced (fiscal 2009), so in one sense we are entering the second generation of our system of governance. In order to enhance our management further and promote diversity, we have nominated an outside director to act as chairperson of the Board of Directors, appointed female directors to two of the five positions, and ensured the Board is made up of directors with a diverse skill set and balanced age range, from their 40s to 70s. We are working to evolve our corporate governance and management even further, welcoming a greater diversity of views and opinions from the outside directors, including globally experienced or digital native concepts, and fostering lively discussions.

Sharing the benefits of growth with shareholders

Our shareholder return policy is designed to maximize corporate value while balancing investment in growth and to share the benefits of medium- to long-term profit growth with shareholders. We will continue to promote this policy. Earnings may fluctuate from year to year, but we realize that Shionogi is in a period of sustained growth. We have increased our dividend for eight consecutive fiscal years, and look to continue this trend for as long as we can. We are also monitoring market conditions so we can be flexible on shareholder returns, including share buybacks, retirement of treasury stock, and unwinding of cross-shareholdings, and are working to improve capital



efficiency. In light of the above, we added earnings per share (EPS) to the previous targets of dividend on equity (DOE) and return on equity (ROE) as our indicators for shareholder returns under STS2030.

A final word

As a HaaS company, Shionogi will continue to follow our basic policy, “striving constantly to supply the best possible medicine (healthcare solutions) to protect the health and wellbeing of the patients we serve.” Through this, we aim to grow alongside a developing society. Toward the goal of our 2030 Vision: “Building Innovation Platforms to Shape the Future of Healthcare,” I would like to declare right here that no Shionogi director or employee should fear change; instead we should welcome diversity and transform Shionogi so we are not bound by preconceived ideas. In this way, we will work to address ESG issues through our operations and contribute to the development of more sustainable societies.

Isao Teshirogi, Ph.D.
President and CEO

— MESSAGE

Achieving our vision through active investment and awareness of capital costs



Kohji Hanasaki, Ph.D.

Senior Executive Officer, Senior Vice President,
Corporate Strategy Division

Financial policy under the New Medium-Term Business Plan (STS2030)

Q: Can you describe how you set KPIs?

We aim to grow sales in STS Phase 1, with a particular focus on strengthening our own sales capabilities overseas. We are also working to capture new growth drivers, invest in R&D, and make other growth investments to achieve our key performance indicators (KPIs). Furthermore, even during this phase of growth and investment, we will maintain core operating profit margin at the high levels characteristic of Shionogi. Finally, as we work to build new platforms, we also aim to maintain a high original pipeline ratio, as this is a metric that attracts potential business partners including those from different industries.

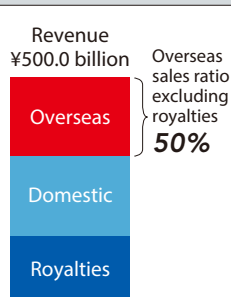
As for indicators for shareholder returns, we will continue to use dividend on equity (DOE) attributable to owners of the parent and return on equity (ROE) attributable to owners of the parent, and we have now added earnings per share (EPS) as a new indicator. We will use DOE to determine dividend levels and EPS to define shareholder returns including share buybacks, and will implement shareholder returns that are balanced with investment in growth using internal reserves.

Q: Can you explain your views on business investment and concepts built into the financial policy?

In terms of business investment, we have proposed investing ¥500 billion in overseas businesses and new business start-ups

STS Phase 1 KPIs and targets

KPI	FY2024 target	FY2030 target
Growth		
Revenue	¥500.0 billion	¥600.0 billion
Core operating profit	¥150.0 billion	¥200.0 billion
Core operating profit margin	Over 30%	
Overseas sales ratio	Over 50%	
Original pipeline ratio	Over 60%	
Shareholder return		
EPS	Over ¥480	
DOE	Over 4%	
ROE	Over 15%	



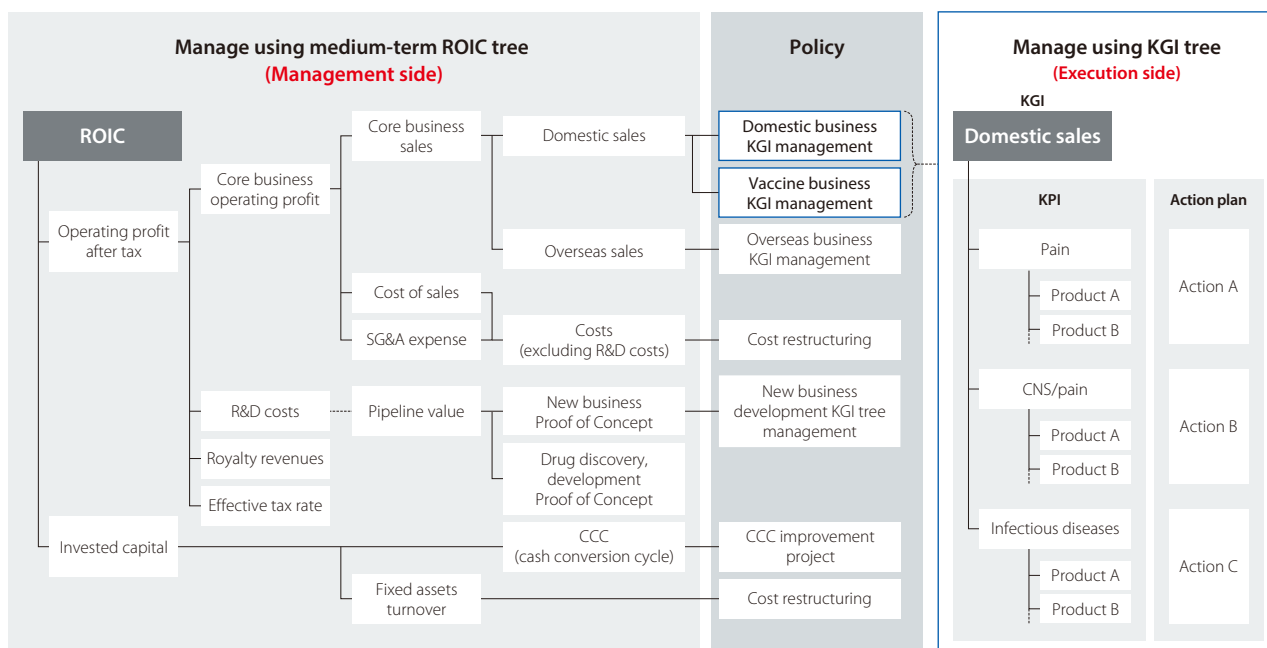
Fund-raising and usage during STS Phase 1

- Generate positive operating cash flows from royalty revenues
- Use cash in hand and generate positive cash flows from asset conversion to cash
- Use debt financing

- Normal business investment
- Shareholder return
- Business investment to acquire next growth drivers

Flexible shareholder returns

Overall picture of ROIC management



by fiscal 2024, the final year of STS Phase 1, and are researching and analyzing a number of investment projects.

We are considering investments to acquire sales networks or product portfolios and pipelines that meet more customers' needs, so that we can strengthen our sales capabilities overseas, particularly in the United States and China. In Japan, we aim to enhance our product portfolio based on the disease strategy and, at the same time, review the scale of our infrastructure, with the goal of improving productivity. For both overseas and domestic investment, we will mainly look at the core therapeutic areas of infectious diseases and CNS/pain disorders and build competitive sales structures in each region. We will also build new capabilities, particularly in digital applications, in order to grow as a HaaS company. We plan to make well-balanced investments to further our existing earnings drivers and also discover new growth drivers.

Management that takes capital costs into account

Q: Can you detail your strategy and initiatives to improve capital efficiency?

We think that ROE is the indicator to use when making commitments on capital efficiency to external stakeholders. We have managed the business with a view to improving ROE since 2000. Under the previous Medium-Term Business Plan, however, we broke ROE down so the indicator was more closely coupled with individual employee work, and we used return on invested capital (ROIC) as the target at the operational level. This provided a more widespread understanding of how we should make operating profit margin and the capital turnover ratio more efficient.

Having achieved an understanding of ROIC internally and

a certain level of awareness of capital costs, we dropped ROIC as an external KPI in STS2030, but internally we are still managing the business with the aim of improving capital efficiency based on this ROIC concept. From fiscal 2020, management will continue to use ROIC trees to get an understanding of the overall picture, while those involved in business execution will set key goal indicators (KGIs) as numeric targets for the departments responsible and will adopt a "KGI tree" formula to link KGIs to action indicator KPIs. As a result, we still get an overview of the full picture and can ensure there are no omissions or duplications, as with an ROIC tree, but we also improve usability in the workplace and promote capital efficient management using ROIC.

Accounting standards

Q: What is the purpose of changing to IFRS and what impact has this had?

The first objective behind the introduction of International Financial Reporting Standards (IFRS) is to develop more global internal governance systems as overseas sales start to account for a higher percentage of the whole. By unifying accounting standards across the Company, we will better align financial reporting processes and make financial analysis and actions based on this analysis faster to complete. The second objective is to promote rigorous economic decision-making and better capital efficiency internally. We need to have more accurate forecasts on future cash flow from assets to achieve this. Therefore, we have built an organization to ensure constantly optimized capital allocation. Under this structure, each drug candidate and product is evaluated by the Integrated Disease Care Division and Corporate Strategy Division, so the value of each candidate or product is analyzed dispassionately.

Overview of STS2030

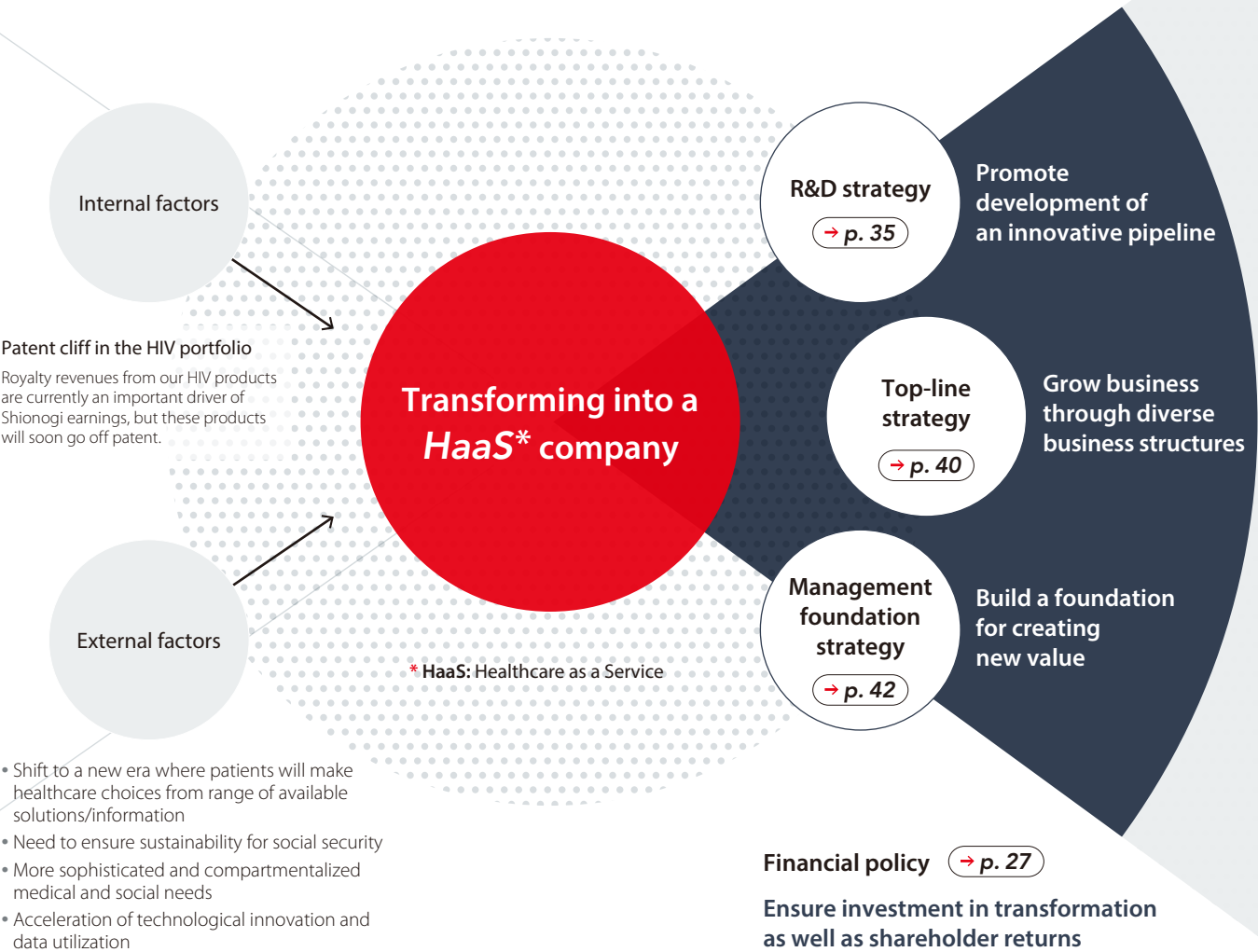
Realize our transformation into a HaaS company by continuously enhancing our strengths as a drug discovery-based pharmaceutical company

Why | Rationale behind HaaS goals

As we shift to a new era where patients will make healthcare choices, Shionogi will transform into a HaaS company that can deliver solutions for diverse and fluid healthcare needs and respond flexibly to change. We also aim to build a sustainable and stable earnings base and develop a business that is not reliant on patents.

How | Business strategy

We will develop disease strategies that address a wide range of problems, encompassing all aspects of the disease in question, with a focus on first-class therapeutic drugs. We will deliver new value, working with a more diverse array of partners not limited to pharmaceuticals.



What | Image of Shionogi as a HaaS company

2030 Vision

Building innovation platforms to shape the future of healthcare

New disease strategies

→ p. 31



Value creation through partnering

→ p. 33

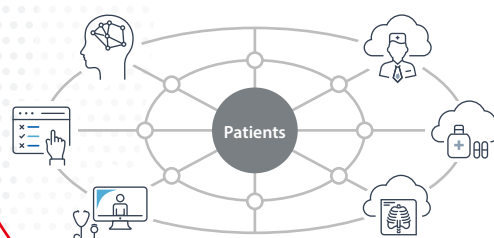
Achieve disease strategy through partnering that leverages strengths

Licensing business model	Current earnings pillar, also important in future Shionogi's R&D capabilities x mega-pharma company sales force
Diverse business model that achieves platforms	Build multiple structures (e.g., joint ventures, consortia, business partnerships)

Healthcare services



Capable of delivering solutions optimized for the individual to meet a range of needs



Platforms

Shionogi is working to rapidly adapt and implement strategies beyond just treatment to resolve various customer healthcare needs, constantly fine-tuning what type of HaaS company we want to be.

— MESSAGE

New disease strategy to deliver maximum value to patients



Takuko Sawada

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

Creating patient-centric value

As Shionogi transforms into a HaaS company under STS2030, we need to think from the patient's standpoint more than ever if we are to go beyond simply supplying prescription drugs and start providing healthcare services. There is an enormous difference between improving treatment quality for the main disease symptoms versus improving treatment quality for most symptoms including peripheral ones associated with the disease.

For COVID-19, convenient diagnostics and effective vaccines are needed, but vaccines are unlikely to prevent infections completely, so therapeutics are also needed. Antivirals may improve clinical symptoms by eliminating or reducing the viral pathogen. On top of this, when the immune cells release cytokines to attack the virus, uncontrolled cytokine release can result in a "cytokine storm" that causes symptoms to become more severe and prolonged. This is a huge problem from a clinical perspective. Doctors also face the issue of managing superinfections in intubated patients. To deliver value relevant to all aspects of COVID-19, we need to look at more than just effective antivirals. We also need pharmaceuticals that control COVID-19 severity and treat superinfections. Other elements to factor in include rapid diagnostics and preventive agents, as well as mechanisms for the provision of appropriate information.

Shionogi is already working on programs against COVID-19 (see page 17 for more details), providing information and R&D into antivirals and various other products. This has been driven by discussions on delivering value that is patient-centric and

addresses all aspects of the disease.

We are looking to step up our efforts to offer total care, including solutions for the wide range of problems that accompany diseases.

Disease strategy concept

Shionogi proposed a disease strategy concept in STS2030 to spell out this idea of patient-centric total care. When thinking about delivering value to patients, we need to consider the entire process along the "patient journey," starting with the discovery of symptoms and disease through to treatment in hospital and the daily experience in terms of behaviors, thoughts, and feelings. Based on these considerations the disease strategy comprises two key elements.

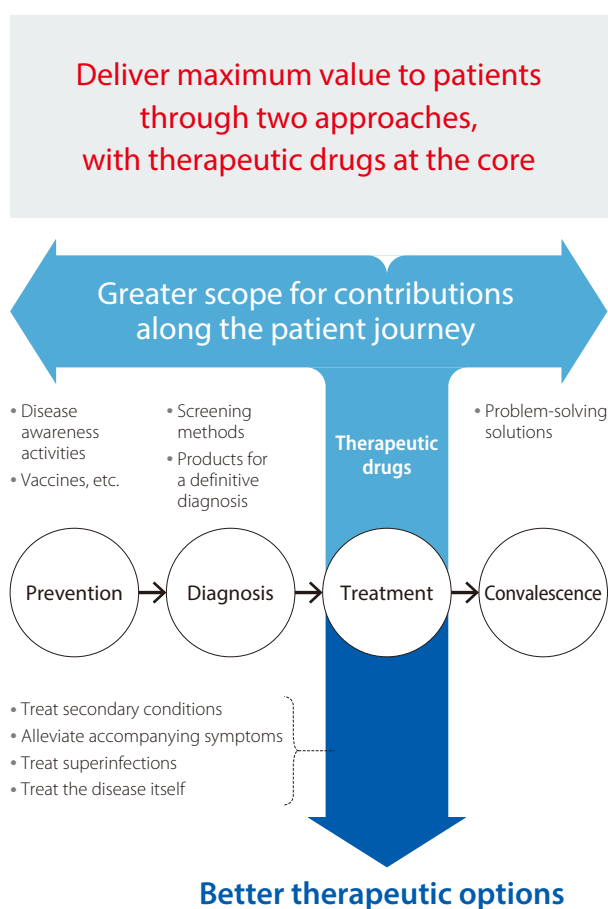
The first element involves bringing together a portfolio of key products and services that deliver value to the patient, with reference to how the patient behaves and what thought processes they go through, as well as what types of feelings they experience, during the journey from the presymptomatic and prevention stages to diagnosis and treatment. Examples that illustrate this point well include providing products and services for diagnosis and prevention, and programs to provide information.

The second element is to enhance treatment options, as discussed before. With the example of infectious disease, the idea is for Shionogi to make a real contribution to the patient's treatment by bringing together a range of solutions to alleviate the symptoms caused by the disease and manage superinfections

or secondary conditions that may emerge.

A key feature with this concept is to consider an integrated strategy to deliver maximum value to patients, rather than simply maximizing sales of our own products. We aim to provide proprietary products plus supporting programs to promote proper drug use and make sure our products are prescribed to those patients that really need them, as well as enhanced follow-up through greater use of DX and other solutions. The idea is that economic growth will flow through as a natural consequence of these initiatives.

Disease strategy overview



Establishment of the Integrated Disease Care Division

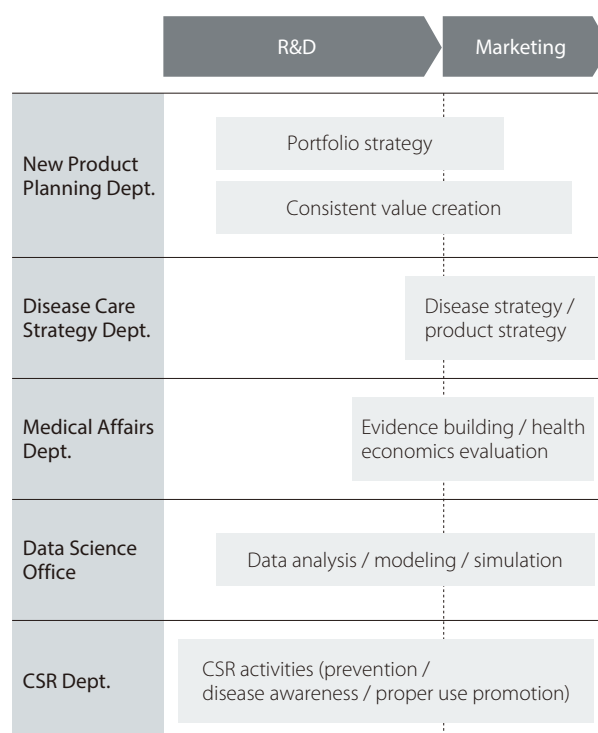
To implement this disease strategy, Shionogi needs systems to ensure the delivery of consistent value from the R&D stages onwards. Furthermore, the Disease Care Strategy, Medical Affairs, CSR, and other departments, which are responsible for creating value through communication with patients and stakeholders supporting patients after product launch, need to work together, discussing the value delivered. To achieve this, Shionogi established the Integrated Disease Care Division, bringing together functions from a number of different divisions, with the goal of creating a solid organizational structure to effectively deliver the required products and information to more patients that really need them.

The Integrated Disease Care Division is recruiting representatives from the various departments within the Division to develop disease strategy proposals. The Division has brought together younger employees who are the future of the Company, and lively discussions are taking place on how to create new value without being constrained by conventional viewpoints. We are working with various departments to maximize value as part of Shionogi's transformation into a HaaS company under STS2030.

Overview of the Integrated Disease Care Division

Structured to effectively deliver required products/information to more people globally

Cross-value chain, customer-oriented, evidence-focused, data-driven



SPECIAL FEATURE 02

Shaping the future of healthcare —

Working to establish a total healthcare platform in the Chinese growth market

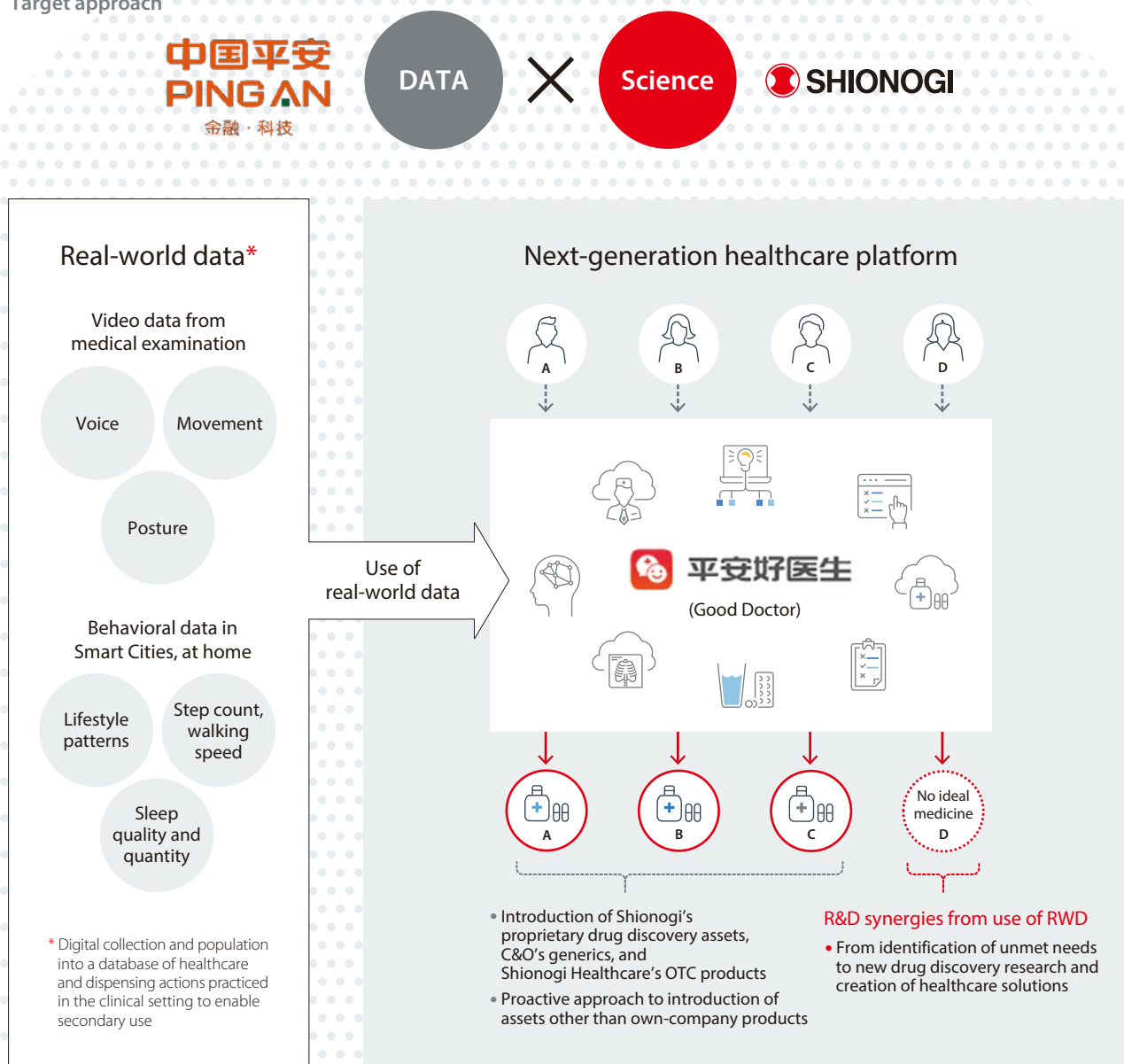
Rapid advances in information technology are driving significant changes in how healthcare is provided.

For example, the foundations are being laid for the delivery of personalized treatment through aggregation and analysis of big data on individual patient health profiles.

New systems are also being worked out to allow patients to receive medical examinations and guidance on drug compliance without having to visit a medical facility and for pharmaceuticals to be delivered directly to the patient's home.

Shionogi is responding to these changes and working to build healthcare platforms, creating value with partners that have complementary capabilities and aligned visions for the future of healthcare, as part of the Company's goal of developing HaaS to shape the future of healthcare.

Target approach



Establishment of the joint venture

Ping An Insurance (Group) Company of China has the strategic goal of becoming the world's leading technology-driven personal financial and lifestyle services provider, with a focus on customer experience. As well as its insurance business, Ping An Insurance is also focusing on IT-driven healthcare businesses, and is creating and developing new businesses, by leveraging the capabilities of Ping An Insurance as well as of their affiliated and invested companies. Ping An owns the Ping An Good Doctor healthcare ecosystem, a unique web-based health and wellbeing management service platform that utilizes big data on lifestyles accumulated through Ping An Insurance's other businesses. This platform may help to build and improve healthcare and medical services along with clinical standardization and management services, including AI-driven medical inquiries, diagnosis and advice, supporting the activities of physicians, medical appointment management, and drug delivery. Good Doctor has grown rapidly into China's largest online healthcare platform, with over 300 million registered users as of the end of 2019 and 67 million active users each month.

Shionogi and Ping An Insurance share the same vision for the future of healthcare services, and both companies have agreed to leverage their strengths to build a next-generation healthcare platform together. This has led to the establishment

of Ping An Shionogi. The two companies will work to build platforms by combining their strengths, namely science-based drug discovery and expertise in manufacturing and quality control for Shionogi, and expertise in IT-driven big data aggregation and AI analysis for Ping An Insurance.

Future outlook for Ping An Shionogi

Ping An Shionogi will adapt flexibly to various environmental changes and aims to shape the future of healthcare by continuing to provide the best solutions to meet the changing needs of individuals for better lives and health. First, quality generic drugs and OTC products, which form part of the product portfolios at Shionogi Group company C&O Pharmaceutical Technology and Shionogi Healthcare, will be provided to patients as appropriate via an online diagnosis platform. In parallel, Ping An Shionogi will work on the launch of new drugs to satisfy unmet needs in the Chinese market, as well as the origination of new healthcare solutions and completely new medicines based on healthcare data.

Furthermore, the solutions originated through this innovative healthcare platform will also be launched into markets in Asia, Japan, Europe, and the US, making further contributions to better lives and health for people all around the world.

MESSAGE From the CEO of Ping An Shionogi

Creating new business not bound by accepted practice or conventional thinking

Shionogi has developed a new Vision in STS2030 and is committed to transforming its operations to achieve this Vision. The partnership with Ping An Insurance is aimed at building new business platforms by bringing together the two companies' complementary strengths. It is one of the business ventures that will allow Shionogi to realize the goals laid out in STS2030.

Ping An Shionogi combines Shionogi's demonstrated expertise (disease insight and R&D know how) with Ping An Insurance's healthcare data, online medical consultation platform, and AI technologies, creating a business model which is new and different from conventional approaches in the pharmaceutical industry. This will allow the delivery of healthcare solutions optimized for the individual and lead to the realization of HaaS across our society. Our employees are leading the transformation of the Group, taking on new challenges that go beyond old notions of our business. With



Tatsumori Yoshida

Corporate Officer,
Chairman and CEO
Ping An Shionogi Company Ltd.
Ping An Shionogi (Hong Kong)
Company Ltd.

the new business model, they are also relishing the opportunity to support Shionogi's medium-to-long term growth.

As part of Shionogi, we aim to achieve the following goals through this partnership:

- (1) Realize true Healthcare as a Service (HaaS) operations by combining our business in new, generic, and OTC drugs with a new pharmaceutical sales and distribution model across Asia (particularly in China)**
- (2) Establish a base for creating novel healthcare solutions including new drugs**

We want our Company to deliver new value to society by combining the strengths from our different industries, finding synergies, and creating a new business not bound by accepted practice or conventional thinking.

Pioneering the future of healthcare with our skills in product creation

R&D disease strategy

Basic Policy

Focusing on infectious and psychoneurological diseases as core fields, we will pursue other therapeutic areas with social and medical needs, while establishing a new R&D management system for flexible prioritization

Infectious diseases

Provide total care for infectious diseases to meet social and healthcare needs

- Prioritizing our response to COVID-19 (→ p. 17)
- Aiming at total care for infectious diseases (→ p. 19)

Psycho-neurological diseases

Paradigm shift in the treatment of psycho-neurological diseases

- Objective diagnostics/stratification through biomarker discovery and real-world data/big data analysis (→ p. 33)
- Discovery of innovative drugs with new mechanisms of action (→ p. 52)

New growth areas

Pursue therapeutic areas with high social and medical needs

We will pursue drug discovery in other disease areas in addition to those listed at left, in order to keep contributing. Our researchers are all skilled scientists who are passionate about solving the problems faced by patients and their families. Making full use of limited resources and never giving up, Shionogi's strengths in R&D have even led to the discovery of compounds in the field of oncology, including an inhibitor of regulatory T-cells and S-540956. Shionogi will respond to unmet medical needs and reshuffle priorities flexibly according to the potential candidates which may "blossom" later on.

MESSAGE

Oncology has not been a key area in our drug discovery efforts thus far, but joint research with Osaka University led to the discovery of a new target molecule CCR8, which has significant potential. Through our ability to flexibly shift resources, we are focusing on this drug discovery program. We are making every effort to fulfill the hopes of all those patients who are not suited to conventional therapies.

Hidekazu Tanaka

Principal Scientist, Oncology 2 Group
Laboratory for Innovative Therapy Research



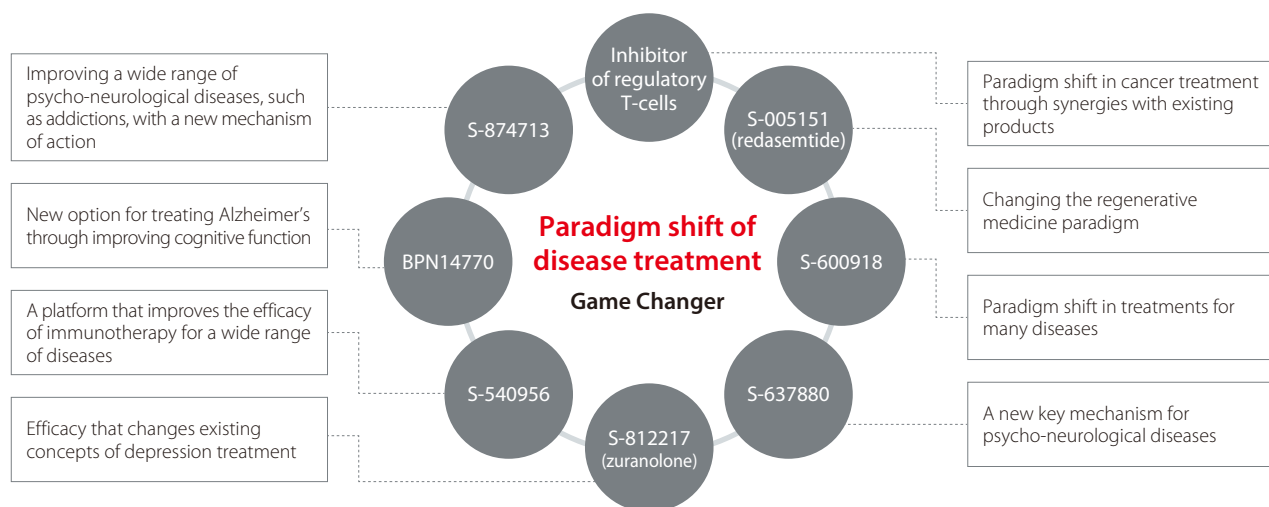
Core pipeline

Striving for innovative value, not incremental improvements

Shionogi is progressing development in eight core pipeline projects, aiming to deliver innovative value that clearly embodies new approaches, not just incremental improvements. Each pipeline project is a potential game changer that could cause

a paradigm shift in treatment of that disease. Shionogi is also working to maximize product value at the earliest stage possible, by careful consideration of mechanisms of action and more parallel development for multiple indications. By developing these pipeline projects, the Company aims to manage the patent cliff in the HIV portfolio and achieve sustained growth.

The outcome we envision from our core pipeline



Creating products and services for diseases with high unmet medical needs

From drug discovery to HaaS

Timeless core competencies

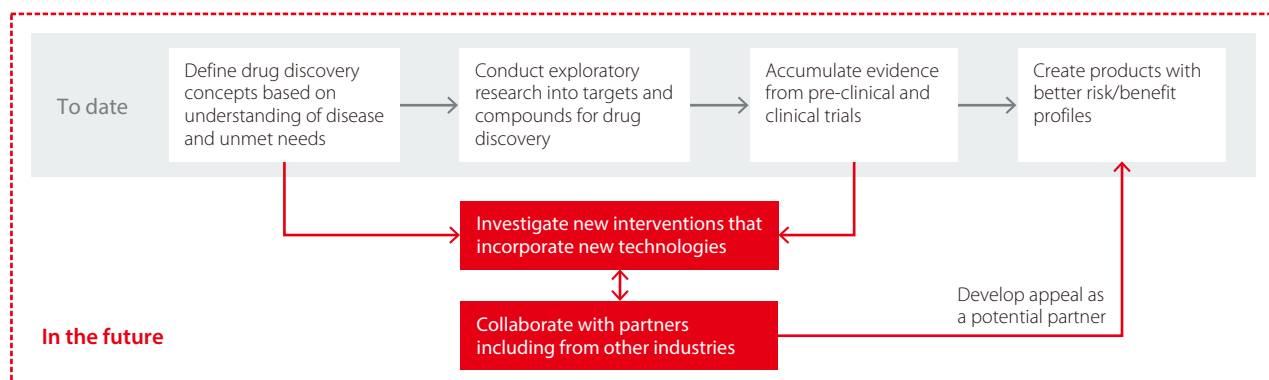
Shionogi has engaged in innovative research to create original pharmaceuticals to support patient health and QOL since *Sinomim* in 1959. Under the previous Medium-Term Business Plan, SGS2020, Shionogi was positioned as a drug discovery-based pharmaceutical company, targeting growth through new drugs originated in-house. Drug discovery will still be a core competency at Shionogi and a key part of the Company's value to society even after the transformation into a HaaS company as proposed in STS2030.

To realize the HaaS concept, Shionogi needs to enhance its strengths in identifying unmet medical needs through an in-depth understanding of disease, develop logical theories, and build evidence to unlock the science. Creating HaaS solutions involves determining what healthcare services we are providing,

with pharmaceuticals at the core. Partnership, rather than working alone, will be vital during this process. One key factor is whether Shionogi is seen as an attractive potential business partner. Solidifying Shionogi's position as a drug discovery-based pharmaceutical company will be increasingly important in this regard. Shionogi has already created pharmaceuticals in collaboration with academia and other partners, and this has fostered our open-mindedness as an organization. This quality will be a key element to bring to future partnerships with a wide range of organizations including from other industries.

Shionogi marked the 140th anniversary of the Company's founding in 2018. Shionogi aims to continue enhancing its core competencies in R&D to support healthcare in order to still be addressing social needs on its 150th and even 200th anniversaries.

Shionogi's initiatives to achieve STS2030



Pharmaceutical research



Constant stream of innovative products at the heart of our healthcare platforms

Ryuichi Kiyama, Ph.D.

Senior Executive Officer, Senior Vice President, Pharmaceutical Research Division

Restructuring the Pharmaceutical Research Division to achieve our Vision

The Pharmaceutical Research Division is being restructured to better position the Company to achieve its Vision. One of the changes involves giving consideration to a business exit strategy at the research stages, instead of researchers expecting other departments to handle the end stages of the lifecycle as long as they create good products. Under STS2030, as well as stepping up drug discovery, Shionogi also needs to create new businesses and platforms. The Company has therefore set up two new pioneering departments, the Laboratory for Advanced Medicine Research and the Laboratory for Innovative Therapy Research.

This organizational restructuring and personnel reassignment merely open the door to potential change. It is the researchers themselves that will breathe new life into their work and transform the organization. As Shionogi becomes a HaaS company, our researchers are expected to think through social and patient problems even more, working proactively and with conviction to deliver solutions. The Division is therefore reshaping the organizational landscape to draw out our researchers' passion for their work as they take on new challenges.

Enhancing existing strengths in research

Shionogi's strengths still lie in drug discovery. The Company maintains an original pipeline ratio of over 60% through this focus on in-house drug discovery. Shionogi's product creation capabilities are a point of differentiation that can attract potential business partners including those from different industries.

The Division is cultivating an eye for unsolved social issues and scientific thinking to develop approaches that provide real solutions. We will look at a wide range of therapeutic approaches (or modalities) to resolve diverse patient needs and make further advances in our small-molecule drug discovery engine that has been so effective in bringing innovative new products to market.

Overcoming the HIV patent cliff

It will not be possible to overcome the huge patent cliff looming around 2028 through one product alone. The Company realizes that it needs to build up its product pipeline, including maximizing the value of the eight core projects currently in the pipeline; turn vaccines and other new fields into platforms as quickly as possible; and transform itself into an organization capable of continuously creating innovative new pipeline projects.

MESSAGE

To turn the Vision into reality, our Laboratory's mission is to create a strong research base from which we can build our healthcare business and continuously create unique and innovative therapeutic and preventive approaches. We need very advanced research capabilities to achieve this, and we are working to develop Shionogi researchers who can work alongside our partners to shape the future of healthcare.

Mina Yamamoto

Vice President, Laboratory for Innovative Therapy Research



Pharmaceutical development



Understanding value from the patient's perspective and developing products that embody this value through agile and appropriately targeted global operations

Toshinobu Iwasaki, Ph.D.

Senior Executive Officer, Senior Vice President, Drug Development and Regulatory Science Division

Maximizing product value from the patient's perspective

To deliver new value to patients and societies as a HaaS company, Shionogi must drill down into the issues and develop the best products to solve them. Shionogi is creating medicines with maximized product value, but sometimes the products delivered do not fully meet patient needs. Although Shionogi talks about customer focus, business perspectives may dictate the value delivered.

To achieve Shionogi's Vision, the Global Development Division recognizes the need to better understand value from the patient's perspective. The Division aims to develop products that embody this value through agile and targeted global operations.

Parallel Investigation into multiple diseases

To maximize product value, as well as taking a patient-centric approach, the Pharmaceutical Research and Integrated Disease Care Divisions must be involved from the early stages in scientific discussions with specialists in Japan and overseas before any development plans are drafted. Novel compounds are increasingly difficult to develop. Rather than searching for multiple compounds, it may be better to investigate the use of one compound in multiple applications. The Global Development Division has worked out a development strategy to run parallel clinical studies (PoC trials) on multiple diseases to determine at an early stage which diseases may be a suitable target, given the profile of that particular compound.

When S-600918 was originated in-house, chronic cough was the original development target. The mechanism of action showed potential effects for sleep apnea, so studies for this target indication were initiated as well. Another example is redasemtide. The compound was being developed for epidermolysis bullosa and stroke, but evidence emerged suggesting potential effects in knee osteoarthritis and chronic

liver disease. Physician-led clinical testing is currently being planned for these two target indications as well.

Targeting more diseases to maximize value

S-600918	Redasemtide (S-005151)
<p>In progress</p> <ul style="list-style-type: none"> • Refractory chronic cough • Neuropathic back pain • Sleep apnea syndrome 	<p>In progress</p> <ul style="list-style-type: none"> • Epidermolysis bullosa • Acute ischemic stroke <p>Preparations in progress</p> <ul style="list-style-type: none"> • Liver cirrhosis • Knee osteoarthritis • Cardiomyopathy

Becoming a highly productive organization

Resources are limited, so we will focus on productivity even more. The Division will introduce new methodologies to improve development efficiency, such as digital studies or clinical trials using real-world data, and efficient working practices to generate results faster. A rigorous focus on the quality of data and study design will also support successful trials.

CMC research



Creating unexpected value from Shionogi's production technology to drive the development of HaaS

Yasuyoshi Isou, Ph.D.

Corporate Officer, Senior Vice President, CMC R&D Division

Three elements driving evolution of the CMC R&D Division

The CMC R&D Division is committed to shaping the future of healthcare through a continued focus on world-class, cutting-edge scientific research and technology development characterized by originality and utility. We are leveraging our strengths in three areas:

- (1) Provide solutions for research and development with high probability of success
- (2) Create completely new added value through product research
- (3) Improve industrial productivity

We aim to enhance these areas while also creating greater added value in order to improve product value as we work to deliver HaaS.

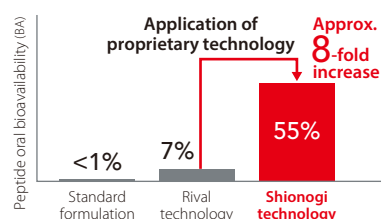
As well as R&D, the CMC R&D Division needs to work closely together with other groups inside and outside the Company, such as the Integrated Disease Care Division, Shionogi Pharma, and technology licensing partners, in order to accurately identify and respond to stakeholder needs.

Working towards sustainable growth from fiscal 2020

We are developing our technology capabilities and supplementing areas where we lack particular skills for process development that facilitates progress in development projects, with an eye to achieving sustainable growth from fiscal 2020 and beyond. We have been able to increase product value utilizing technologies developed through our work with small-molecule drugs. Examples include the development of a more stable formulation of cefiderocol API applying an original formulation technology. Looking ahead, we will expand the scope of our work from small-molecule to medium-sized molecule modalities and even to macromolecules, including vaccines and novel biopharmaceuticals using UMN Pharma's expertise. We will also develop devices and materials to enable new routes of administration or drug-delivery systems (DDS). In order to maximize product value through this type of creative added value, we will build platforms by taking a proactive approach to partnering. As a result, we aim to supply new solutions to a broader range of social issues.

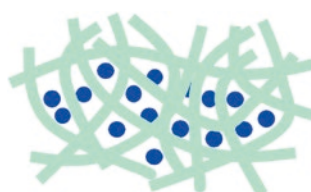
Examples of completely new added value

(1) Development of oral formulations for peptides and medium-sized molecules



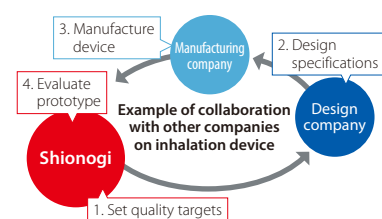
We are developing a technology to improve oral absorption of peptides. We have discovered a way to achieve an eight-fold increase in oral bioavailability by applying our own proprietary technology that uses interactions at the absorption site in the intestine.

(2) Basic research on sustained-release injectables with a view to application in various modalities



We are researching sustained-release formulations to reduce the medication burden for patients. We are using a type of polymer that swells due to water absorption and then gradually releases the small-molecule API held within the polymer structure. Our research is investigating the potential application of this technique in a sustained-release injectable formulation.

(3) Building frameworks for device development through partnering



We are moving forward with the development of devices that make possible a wide range of administration routes. We are working to build frameworks that will allow us to work with the best partners and create the best products, by sharing our experience and expertise in pharmaceutical quality and making it easier for organizations from other industries to work with us.

Promoting diverse business structures and partnering

Japan



Building new business models to transform organizational efficiency

Kazuhiro Hatanaka

Senior Executive Officer, Pharmaceutical Commercial Division

Transforming the Japan business to achieve the Company Vision

Japan business vision	
Become an indispensable partner in infectious diseases and CNS/pain	
Emphasize customer access and understanding to solve healthcare problems	
Execute disease strategy	Rebuild domestic sales structures
<ul style="list-style-type: none"> • Establish Integrated Disease Care Division Provide total care from prevention to diagnosis, treatment, and convalescence 	<ul style="list-style-type: none"> • Information-delivery methods tailored to each customer • Respond to diversifying customer needs

Under STS2030, the Japan business aims to become an indispensable partner in infectious diseases and CNS/pain. To achieve this, Shionogi is executing a disease strategy and rebuilding sales structures.

Executing a disease strategy

In our focus areas of infectious disease and CNS/pain, we think it is important to provide information relevant to the disease as a whole, rather than taking the conventional route of only providing product information. During sales activities for therapeutic agents, we need to provide information as part of a total package that spans everything from prevention to diagnosis, treatment, and convalescence. By executing this disease strategy, we aim to respond to the needs of physicians, healthcare professionals, and other customers. In order to provide a total package of services, the Pharmaceutical Commercial Division must work hand-in-hand with the newly established Integrated Disease Care Division.

Developing more channels to provide information to customers

We expect societies to use digital applications more and more in the future. The effective use of digital data will be crucial to

improving productivity when providing information on pharmaceutical products. However, we will still find opportunities for face-to-face communication with customers. The Pharmaceutical Commercial Division is therefore accelerating moves to reorganize and establish IT infrastructure in order to combine real-world and digital applications and transform into a highly efficient organization. By working in closer partnership with Stream-I, our joint venture with M3, Inc., Shionogi will beef up its digital approaches to provide the right information to meet customer needs, including to those who we could not previously access with predominantly face-to-face communication. Moreover, we need to have an in-depth understanding of regional characteristics because of the slight differences in healthcare systems in different parts of the country. To respond to different customer needs in different regions, Shionogi must be able to satisfy true customer needs through information provision that combines both real-world and digital applications as described above. To achieve this, in fiscal 2020, the four regional functions in the domestic sales operations were reorganized into seven sales regions to make the sales force more mobile and improve customer access and information provision in line with regional characteristics. These changes are aimed at transforming the Company into a more efficient organization that is striving to resolve customers' issues.

Respond to customers' increasingly diverse needs

We will improve our disease knowledge and detailing skills for all aspects of CNS/pain and infectious diseases, including COVID-19, to be able to respond to customer needs. This will allow our MRs to fully understand customer problems and be able to propose patient-focused solutions, such that customers view Shionogi MRs as trustworthy advisors.

Overseas



Providing new value by transforming our global business

John Keller, Ph.D.

Senior Executive Officer, Senior Vice President, Global Business Division

Transforming our global business to achieve our vision

Global business transformation is one of STS2030's key strategic themes. To that end, we need to transform our business in key regions such as the US, Europe, and China.

In the US and Europe, we will commercialize both drugs that we have discovered, as well as those from alliances, to build a strong sales presence focused on hospitals and specialist physicians. The seed for the expansion of our own sales presence in the US and Europe is the antibacterial agent cefiderocol. In China, we will establish both a sales and an R&D presence, as well as create entirely new healthcare platforms, in collaboration with Ping An Insurance Company of China, Ltd. We have great opportunities ahead of us to open up new prospects and new markets.

Expansion of business in Europe and the US, beginning with cefiderocol

The SARS-CoV-2 pandemic has heightened social awareness of the threat by untreatable infectious diseases, and this increased awareness is driving receptivity to understanding the role and value of cefiderocol in Europe and the US.

Cefiderocol's sales in the US have exceeded our initial targets, and we have made a great start. However, this is only the first step in expanding our business in the US. To achieve our goals, we need to continue to broaden the knowledge of cefiderocol. Furthermore, we will seek to expand our product portfolio to strengthen our presence in hospitals and specialty focus areas, building a synergistic portfolio and laying the groundwork for our upcoming pipeline products as we build an ever stronger and more effective commercial presence.

In major EU countries, such as Italy, Spain, and France, the prevalence of drug-resistant Gram-negative bacterial infections is substantially higher than in the US, and thus the medical need for cefiderocol is even greater. We will utilize our tightly focused specialized sales platform, and continue to build

strong professional relationships with healthcare providers, to establish our position as a leading company in the field of infectious diseases in Europe, contributing to the achievement of our global goals.

Toward expansion of business in China

In order to achieve our vision, it is essential to expand our business in China, the world's second largest market. Through our recent collaboration with Ping An Insurance Group, we will integrate the strengths of both companies to build a new business platform that further evolves and develops the drug discovery-based pharmaceutical company model. Leveraging Ping An's Good Doctor platform, we will contribute to top-line growth, utilizing first our existing generic and OTC products, and then following soon after with the registration and launch of our new global drugs in China.

We expect that this joint venture can contribute to the health of all people and to shaping the future of healthcare by continuously discovering, developing, and providing new healthcare solutions, from new drugs arising from AI-driven R&D, to newly efficient manufacturing systems, through to previously unimagined healthcare products arising from the fusion of cutting-edge technologies.

Building a productive organization capable of creating new value

Basic policy

Create value by transforming structure and the processes that shape structure and developing the right human resources to administer processes

To become a HaaS company as targeted under STS2030, Shionogi needs to build highly productive organizational infrastructure that is capable of creating new value. The Corporate Strategy Division is drafting and implementing strategies to transform the business to achieve this Vision,

while the Administration Division is developing systems to improve implementation of the Vision. Both Divisions are working closely together on programs to strengthen the foundations of the business.



Transformation through strategy development and execution to evolve into a HaaS company

Kohji Hanasaki, Ph.D.

Senior Executive Officer, Senior Vice President, Corporate Strategy Division

For Shionogi to evolve into a HaaS company, the Company needs to hone its expertise as a drug discovery-based pharmaceutical company and also tackle new fields at a faster pace than experienced before. The Corporate Strategy Division is working to develop and implement company-wide strategies for optimal allocation and utilization of business resources, as well as promoting innovation and strengthening stakeholder engagement, in order to achieve the Company Vision. Specifically,

the Division is looking to utilize all functions across the Company in the transformation of Shionogi as a HaaS company capable of sustained growth, including strategic planning and execution for management, finance, and supply chains; increased brand value through promotional activities; further ESG management; maximized intellectual property value; stronger risk management; and greater business innovation through digital applications.



Increasing the speed and quality of decision-making and stepping up human resources development to achieve transformation

Noriyuki Kishida

Senior Executive Officer, Senior Vice President, Administration Division

Shionogi needs to increase the speed and quality of its business decision-making if the Company is to tackle new areas. Shionogi is therefore building a new decision-making system that consolidates the control of all the information and review processes needed for each individual decision, to allow the Company to move effectively through the PDCA cycle, to reflect on and clarify the relationship between process and outcomes, and to improve the Company's capabilities and determination to take on business risk.

Furthermore, our employees are the Company's most important "capital" for the creation of new value for society. The Shionogi Way is our newly formulated vision for Shionogi's human resources that states "Be the best you can be to take on new challenges." In order to realize the Shionogi Way on the path to achieving the goals in STS2030, we are stepping up human resources development by implementing a range of different programs, including more programs to support personal development and training for management tiers.

Shionogi Group's Material Issues (Materiality)

Identifying material issues

In keeping with the Company Policy of “striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve,” Shionogi is working to address healthcare needs and tackle social issues through our business activities. In this way, Shionogi strives to grow and develop as a company that plays a meaningful role in society, sharing the benefits of growth with all its stakeholders. To achieve this, we have carried out a materiality assessment to identify priority issues for the Shionogi Group.

As well as formulating a new Vision and New Medium-

Term Business Plan (STS2030) that takes into account the changing operating environment, new business direction, and demands from society through 2030, Shionogi has reviewed the material issues that need to be addressed and has revised the materiality map for material issues to create new value for customers and society. The entire Shionogi Group is working together on the material issues while delivering value to society and recognizing the importance of growing and developing with society into the future.

Materiality assessment process



Sustainability Management Office newly established

In April 2020, the Sustainability Management Office was newly established under the Corporate Planning Department within the Corporate Strategy Division to manage activities to address material issues and as part of the business strategy to help to achieve SDGs.

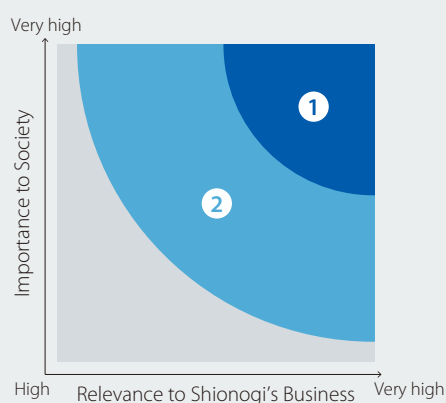
The Sustainability Management Office adopts an outward-looking perspective as it works to draft company-wide strategies to develop Shionogi as a company with a meaningful role in society; provide information to help Shionogi to improve its business activities and communicate how far initiatives have progressed; and reflect feedback from stakeholder engagement in management.

In fiscal 2020, we formulated an action plan to address ESG issues, setting up multiple cross-departmental working groups to address such topics as human rights policy, robust risk management, and science-based target (SBT) setting. The entire company is involved in initiatives to address these issues.

The Sustainability Management Office is the engine driving a cycle of ongoing improvements at Shionogi, with the goal of achieving sustainable growth at the Company and helping to realize a sustainable society.



Materiality Map



We have identified:

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

① Material issues to create new value for customers and society

Protect people worldwide from the threat of infectious diseases	Implementing new initiatives in infectious diseases Addressing the problem of antimicrobial resistance (AMR) Promoting proper use of anti-infectives Tackling the world's three major infectious diseases	p. 45 p. 47 p. 48 p. 49
Improve social productivity and extend healthy lifespans	Addressing social issues related to developmental disorders Tackling social issues related to pain Responding to a super-aging society Using our assets to enable various therapeutic approaches in cancer treatment	p. 51 p. 53 p. 54
Contribute to sustainable social security	Supplying products at prices commensurate with their value Providing medical care optimized for the individual Extending healthy life expectancy through total care for disease	p. 55 p. 56

② Material issues to realize a sustainable society and support Shionogi's growth

Improve access to healthcare	Compassionate use of investigational drugs Intellectual property and access to healthcare Improving access to healthcare in Africa Improving access to pharmaceutical information	p. 57 p. 58
Secure human resources to support growth	Cultivating human resources to underpin competitiveness Promoting diversity and inclusion Health management Occupational health and safety	p. 59 p. 61 p. 63
Respect human rights	Respecting human rights	p. 64
Reinforce supply chain management	Reinforcing supply chain management	p. 64
Supply socially responsible products and services	Initiatives for stable supply Responding to COVID-19: To supply drugs without delay Ensuring quality and safety in products and services	p. 65 p. 66
Strengthening governance	Corporate governance structure Messages from Outside Director and Outside Auditor Stakeholder engagement Strengthening risk management	p. 67 p. 77 p. 78 p. 79
Ensuring compliance	Strict compliance	p. 81
Protecting the environment	Initiatives on AMR Responding to climate change Promoting resource conservation and circulation	p. 83 p. 84

SDGs that Shionogi can help to achieve



Protect People Worldwide from the Threat of Infectious Diseases

Implementing new initiatives in infectious diseases

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

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

Entry into the vaccine business

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



UMN Pharma factory

Hopes for vaccines as part of total care for infectious diseases

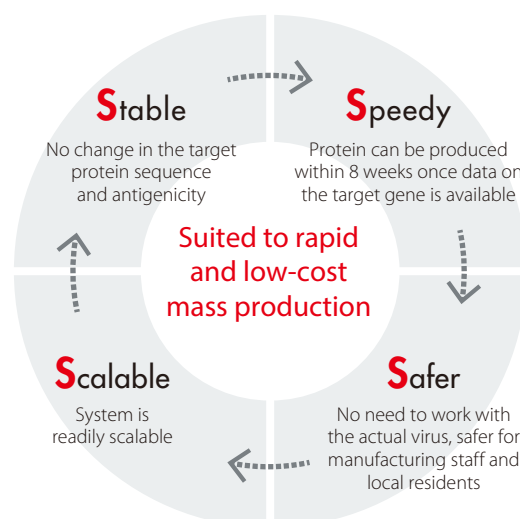
Vaccines prevent infections by activating a specific immune response through the administration of safe antigens that correspond to the source of the target infection. Ever since the first smallpox vaccine created by Edward Jenner, vaccines have been used against a number of infectious diseases and are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

Ideal vaccine profile and UMN's proprietary technologies

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

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

Advantages of BEVS



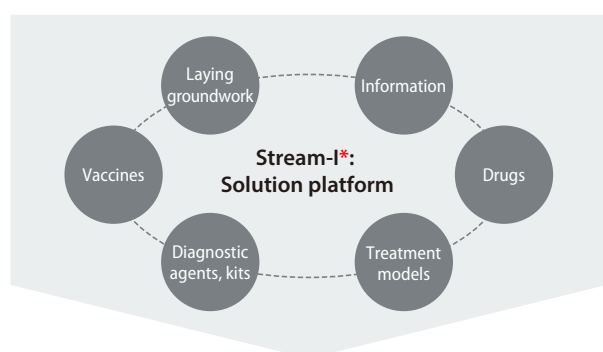
next-generation vaccines.

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

Total care for infectious diseases —Initiatives to address influenza

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

Schematic diagram of Stream-I solution platform



Solve a wide range of problems,
from prevention to treatment



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

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

New initiatives for diagnosis

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

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

Capital alliance with Aillis, Inc.:

New non-invasive method to support influenza diagnosis

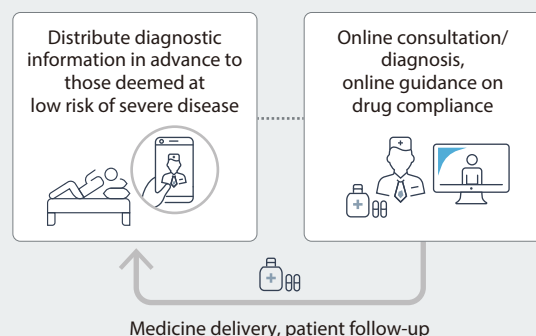
Shionogi has invested in Aillis which is developing medical equipment for accurate and early diagnoses using artificial intelligence (AI) technology in order to support the diagnosis of influenza. The alliance gives Shionogi priority rights in the negotiation of future licensing agreements for this technology.

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

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

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

Flow chart for online healthcare



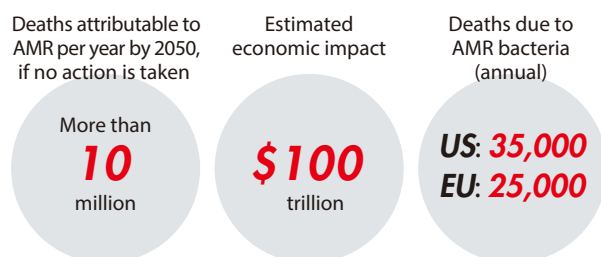
Addressing the problem of antimicrobial resistance (AMR)

Social issues related to AMR

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

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

Current status of AMR



Shionogi and Industry Efforts to Combat AMR

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

Participation in the AMR Action Fund

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



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

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

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

Cefiderocol launch

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

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

WHO Priority Pathogens List for R&D of New Antibiotics

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

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

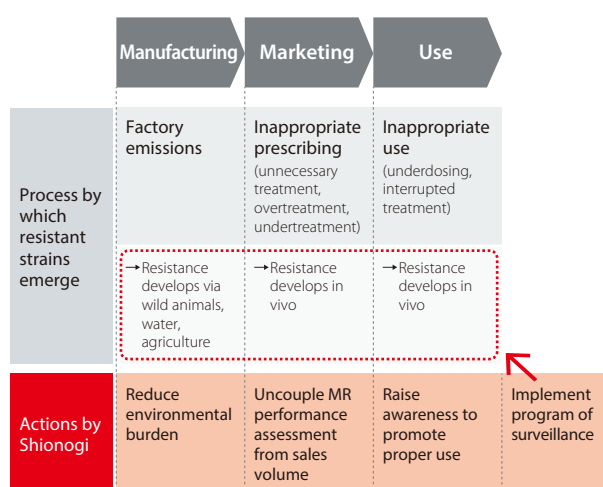
Shionogi has a policy governing the supply of unapproved drugs and has established a system that will give patients access to cefiderocol treatment, if they need it, but are in countries where the drug has not yet been launched despite already being approved (see page 57 for more details).

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

Promoting proper use of anti-infectives

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

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



Manufacturing: Reduce environmental burden

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

Marketing:

Uncouple performance assessment from sales volume

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

Surveillance: Implement program of surveillance

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

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

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

Use: Raise awareness and educate

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

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

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

External assessment

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



Main points for assessment

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

Tackling the world's three major infectious diseases

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

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

Shionogi initiatives in the three major infectious diseases

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

HIV

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

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

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

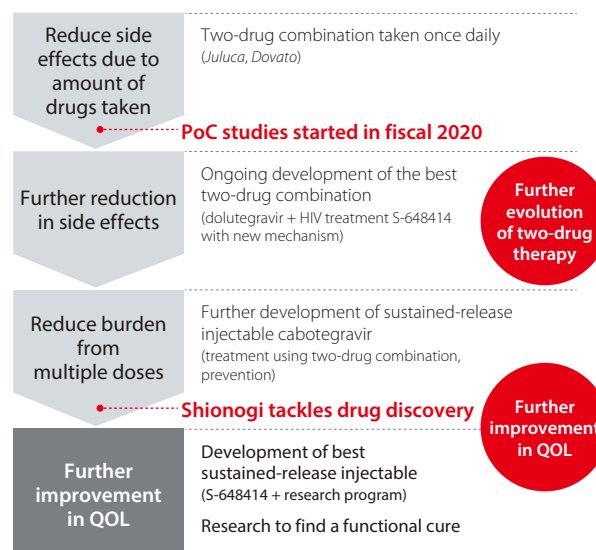
Until now, treatment for HIV infection involved a lifelong regimen of at least three different types of drugs. Therefore, the goal has been to improve patient QOL by reducing side effects and less frequent drug dosing, while also maintaining efficacy. *Tivicay* is highly efficacious and not susceptible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



Dolutegravir family

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

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



Further contributions through long-acting injectable cabotegravir

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

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



Advantages of cabotegravir



Preparing to submit approval filing for PrEP indication

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

Further drug discovery:

Working towards better QOL and a cure for HIV

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

Tuberculosis (TB) and nontuberculous mycobacterial (NTM) diseases

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

Stepping up efforts through new partnership with Hsiri

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

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

Malaria

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

Drug discovery in partnership with Nagasaki University

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

Other: R&D into anti-fungal drugs

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

Initiatives to combat neglected tropical diseases (NTDs)

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

Improve Social Productivity and Extend Healthy Lifespans

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

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

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

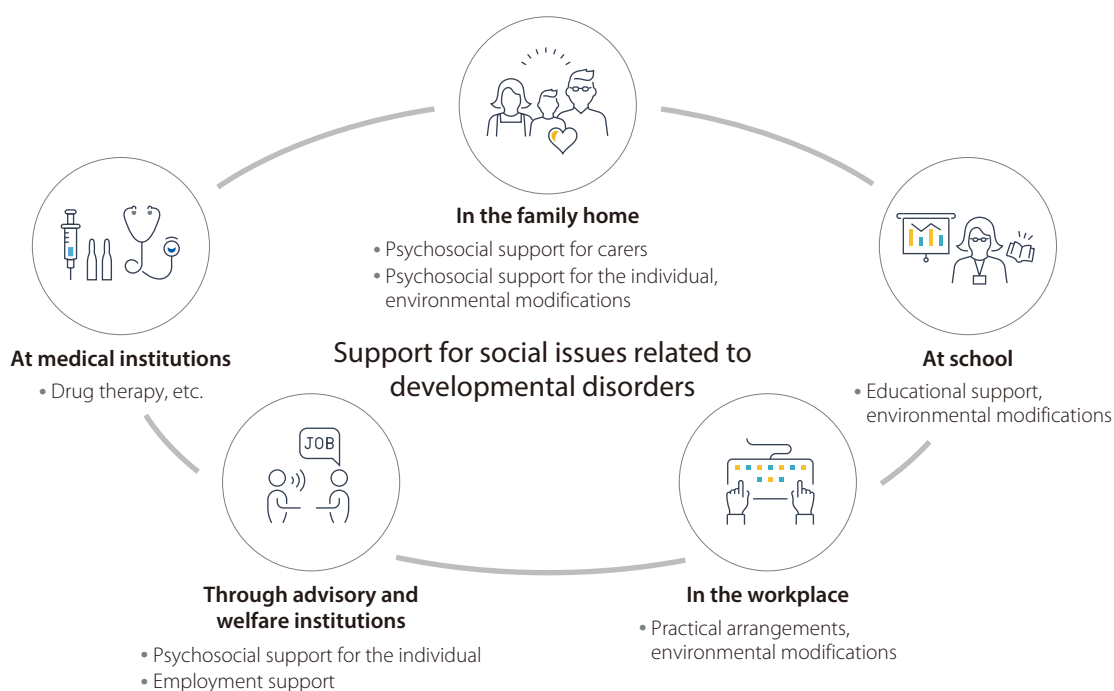
Addressing social issues related to developmental disorders

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

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

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

Example of support for people with development disorders



Initiatives to support children with developmental disorders

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

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



Childcare workshop, Osaka Prefecture



Educational seminar, Iwate Prefecture

Programs in fiscal 2019

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

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

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

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

Expanding treatment options for ADHD

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

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

Delivering new therapeutic modalities

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

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

Tackling social issues related to pain

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

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

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

Programs for chronic pain

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

The next generation of treatment options

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

Programs for cancer pain

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

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

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

Initiatives to promote proper use of medicines

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

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

Responding to a super-aging society

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

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

slow progression and improve cognitive function.

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

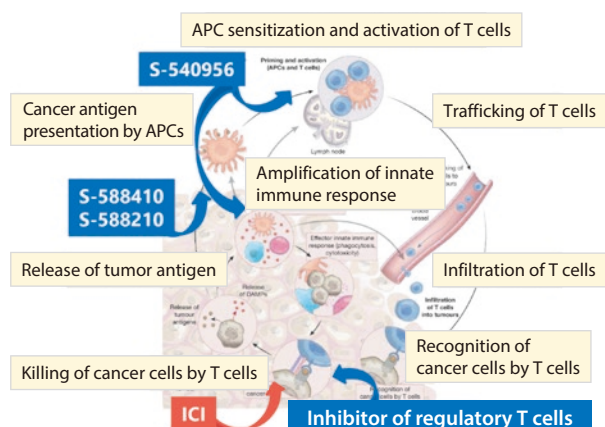
Using our assets to enable various therapeutic approaches in cancer treatment

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

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

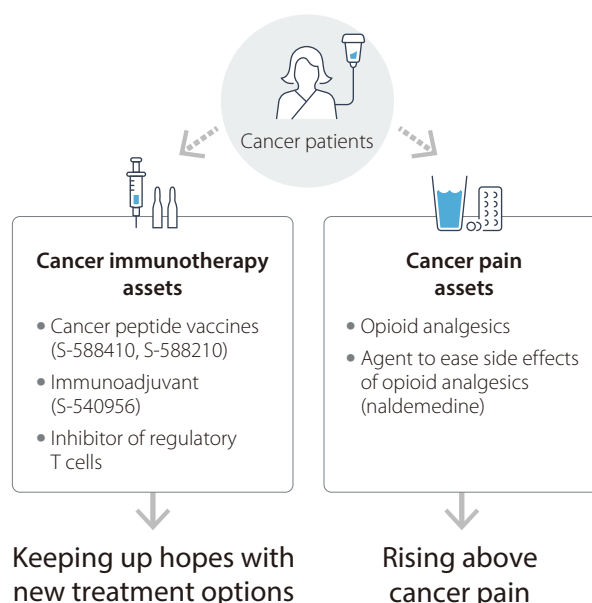
cancer at various different steps. These assets include the cancer peptide vaccines S-588410 and S-588210, the adjuvant S-540956 that exhibits high lymph node transfer and T-cell response, and an inhibitor of regulatory T cells discovered through joint research with Osaka University. We expect these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

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



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

New therapeutic options for cancer treatment



Contribute to Sustainable Social Security

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

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

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

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

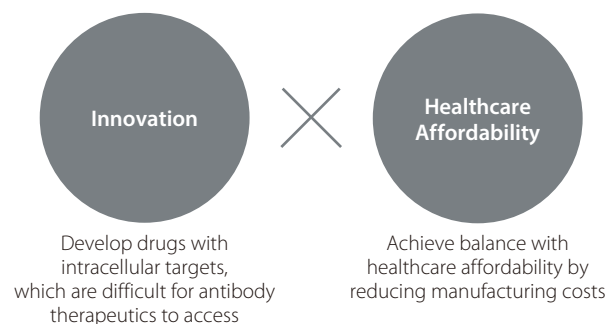
Supplying products at prices commensurate with their value

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

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

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

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



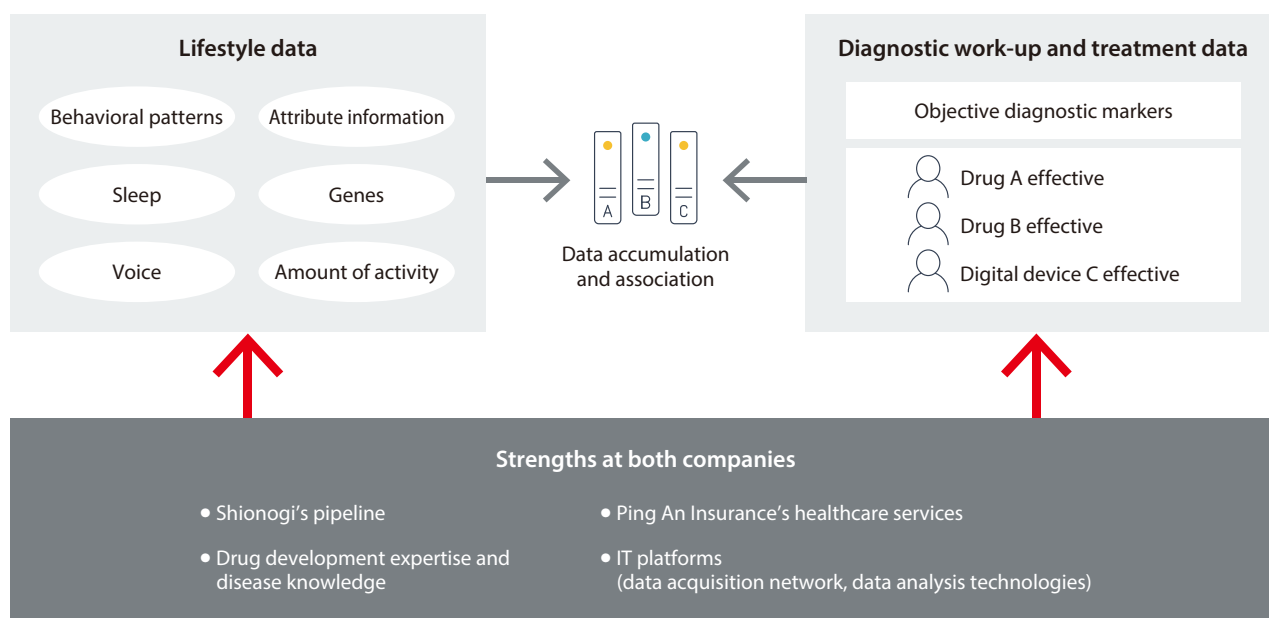
Providing medical care optimized for the individual

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

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

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

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



Extending healthy life expectancy through total care for disease

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

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

Improve Access to Healthcare

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

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

Shionogi Global Health Access Policy Statement

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



Shionogi Group's materiality

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



Shionogi Global Health Access Policy Statement

Compassionate use of investigational drugs

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

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

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

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

Intellectual property and access to healthcare

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

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

Improving access to healthcare in Africa

Mother to Mother SHIONOGI Project

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



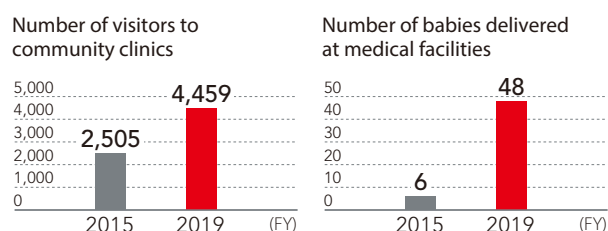
First Term Project

(Narok County, Republic of Kenya, October 2015)

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

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

Results up to and including fiscal 2019



Second Term Project

(Kilifi County, Republic of Kenya, April 2020)

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



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



Establishment of mechanisms for improving community nutrition and water hygiene behavior



Strengthening of health system management

Improving access to pharmaceutical information

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

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

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



The new packaging for *Sedes*

Secure Human Resources to Support Growth

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

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

Cultivating human resources to underpin competitiveness

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

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

Vision for Shionogi's Human Resources: Shionogi Way

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

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

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

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

* Shionogi Career Development Center

Shionogi Education and Training Center "PORT"

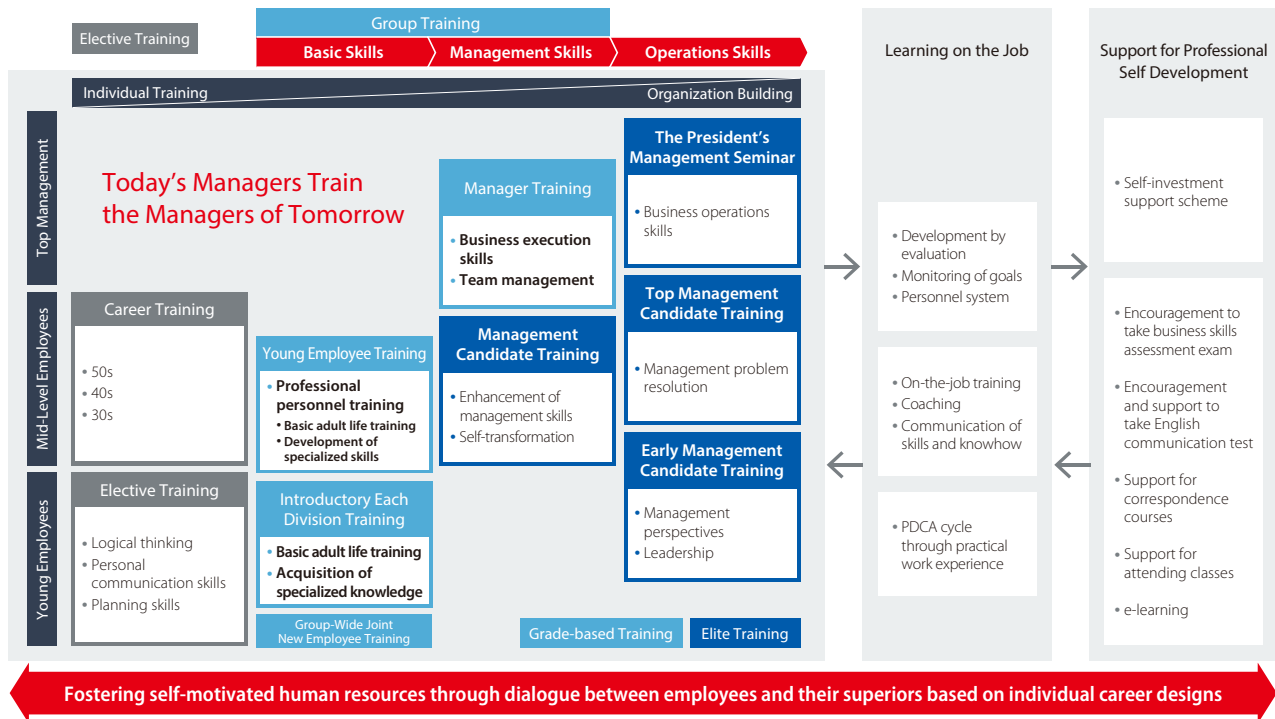
In December 2019, the Shionogi Education and Training Center was completed adjacent to the Shionogi Pharmaceutical Research Center (SPRC) as a new base for training and exchanges, including those from outside the Company. Consisting of training and accommodation buildings designed in the form of a ship,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



Shionogi Education and Training Center "PORT"

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

Outline of Human Resources Development



Strengthening managers

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

Development of innovating human resources

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



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

Support for career development

Future Career Projection (career design sheets)

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

Self-investment support scheme

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

Engagement survey

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

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

Promoting diversity and inclusion

Diversity Vision (Establishment in December 2018)

Diversity Vision

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

We will

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



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

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

Supporting work-life balance

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

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

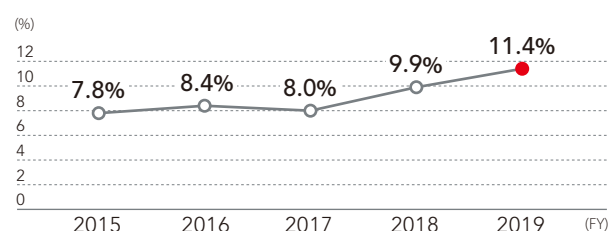
Gender equality initiatives

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

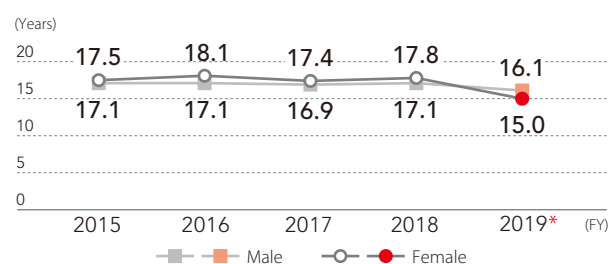
In the West Japan Diversity Study Group, which the Company joined in 2017, we are working with other companies to promote understanding of sexual minorities.

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

Ratio of female managers



Average years of service



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

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

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

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



Major initiatives related to disability

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

Diversity & inclusion-related training for employees

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

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

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



Efforts to utilize human resource diversity

Building diverse careers through in-house and side businesses

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



Keiko Takasu

Laboratory for Drug Discovery and Disease Research, Pharmaceutical Research Division

Career development by secondment to another company

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



Maraki Nasu

Shionogi Digital Science Co., Ltd.

Health management

Formulation of Shionogi Health Policy

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

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

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

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

Shionogi Group Smoke-Free Declaration

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

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

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

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

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

Result and target of smoking cessation measures



Occupational health and safety

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

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

Ways of working during COVID-19 pandemic

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

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

Respect Human Rights / Reinforce Supply Chain Management

Respecting human rights

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

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

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

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

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

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

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

 Approach to Human Rights

Reinforcing supply chain management

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

Cooperation on PSCI Principles

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

Supplier risk management and audit performance

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

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

Supply Socially Responsible Products and Services

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

Initiatives for stable supply

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

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

Responding to COVID-19: To supply drugs without delay

Supply chain management

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

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

Strengthening of production system

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



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

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

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

MESSAGE

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



Akihisa Uesugi

Shionogi Pharma Co., Ltd.

Ensuring quality and safety in products and services

Quality assurance and response to counterfeit drugs

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

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

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

Efforts toward pharmacovigilance

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

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



Shionogi Group Quality Policy



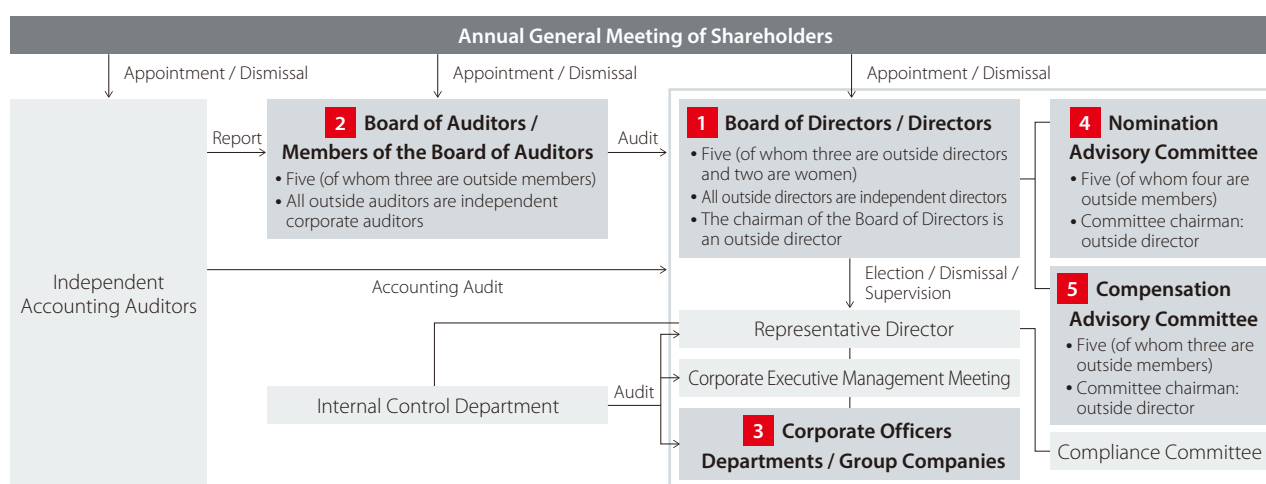
Shionogi Group Drug Safety Policy



Detailed information on "Initiatives to improve manufacturing quality," "Measures to stop counterfeit medicines," and "Raising awareness of safety"

Strengthening Governance

Corporate governance structure



1 Board of Directors

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

2 Audit framework

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

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

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

3 Business execution framework

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

4 Nomination Advisory Committee

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

5 Compensation Advisory Committee

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

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

Features of Shionogi's Corporate Governance

Giving consideration to balancing the needs of four stakeholder groups

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

Diversity of the Board of Directors and Board of Auditors

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

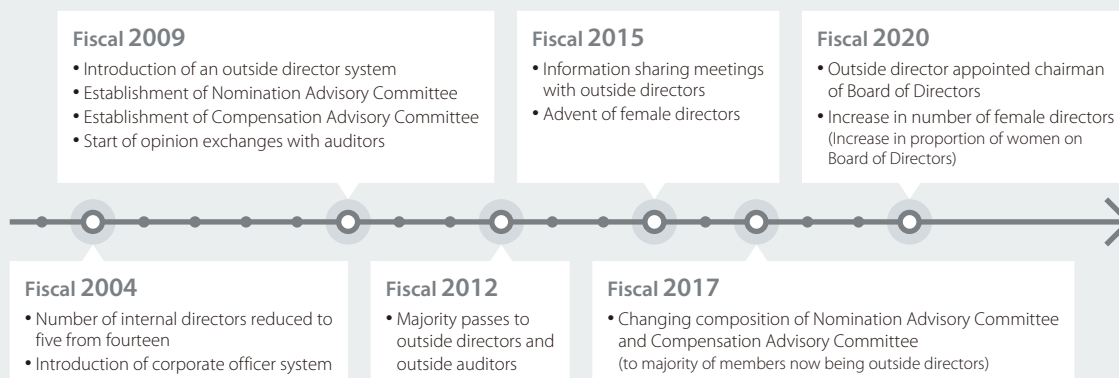
Emphasis not only on complying but also on explaining

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

Management transparency

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

Main system strengthening in recent years



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

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

Outline of tasks

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

Principal activities for the year

No. of meetings held, other

(Times)

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

* Received Corporate Governance of the Year award

1 Deliberations at the Board of Directors

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

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

Example of Deliberation Details:**Resolution on Strategic Capital and Business Alliance with Ping An Insurance Company of China, Ltd.**

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

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

Received Corporate Governance of the Year Award*

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

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



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

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

Comment by judging committee member Mr. Kunio Ito

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

2 Outside officer/ president opinion exchange meetings

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

3 Outside officer information exchange/ study sessions

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

Members of Boards

Directors



① Isao Teshirogi, Ph.D.

President and CEO

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

② Takuko Sawada

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

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

③ Keiichi Ando

Independent Outside Director

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

④ Hiroshi Ozaki

Independent Outside Director

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

⑤ Fumi Takatsuki

Independent Outside Director

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

Auditors



① Akira Okamoto

Standing Members of the Board of Auditors

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

② Ikuo Kato

Standing Members of the Board of Auditors

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

③ Takaoki Fujiwara

Independent Outside Auditor

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

④ Shuichi Okuhara

Independent Outside Auditor

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

⑤ Tsuguoki Fujinuma

Independent Outside Auditor

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

Corporate Officers

Senior Executive Officers

Kohji Hanasaki, Ph.D.
Kazuhiro Hatanaka
Noriyuki Kishida

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






Corporate Officers

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

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

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

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

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

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

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



Analysis/evaluation of effectiveness

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

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

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

Summary of Analysis and Evaluation Results for Fiscal 2019

Framework

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

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

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

Roles and Responsibilities

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

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

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

Operation

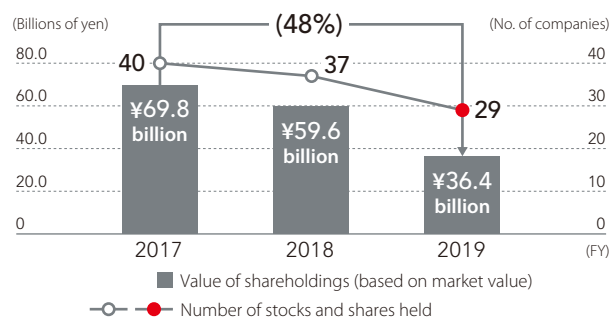
Regarding the further stimulation of discussion at Board of Directors' meetings, which had been flagged as an issue, basic information was provided and lectures held to give outside directors more of an understanding of pharmaceutical companies, and preliminary briefings on the agendas of Board of Directors'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

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

Cross-shareholdings

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

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



Remuneration for directors and corporate auditors

Process for determining remuneration

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

Remuneration framework

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

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

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

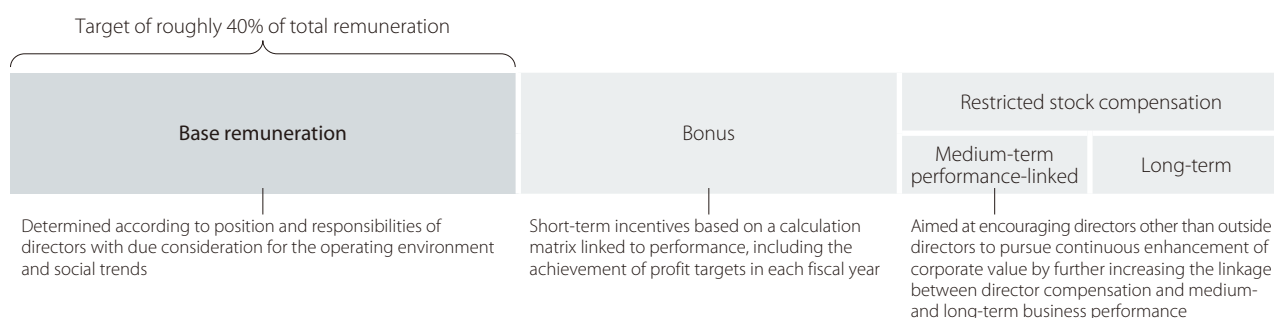
Performance targets include net sales and operating income, driven mostly by new products and core businesses, as well as return on equity (ROE) and the growth rate of total shareholders return (TSR) relative to competitor companies. These indicators were determined after a comprehensive evaluation of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

Remuneration track record

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

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

Structure of directors' remuneration



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

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

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

Messages from Outside Director and Outside Auditor



Fumi Takatsuki
Independent Outside Director

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

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

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



Shuichi Okuhara
Independent Outside Auditor

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

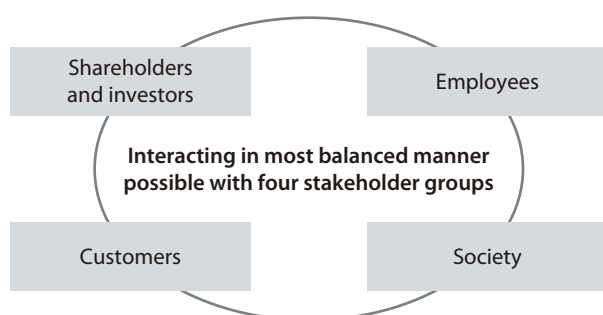
Shionogi is now transforming its business model from traditional pharmaceutical company to "HaaS" company. In that situation, it is necessary to focus on what hidden risks are and what we should NOT do. Engaging internal discussion or looking around competitors' cases are always helpful to find them.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

Stakeholder engagement

Creating corporate and social value through engagement

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

Shionogi-style "engagement"



Engagement with shareholders and investors

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

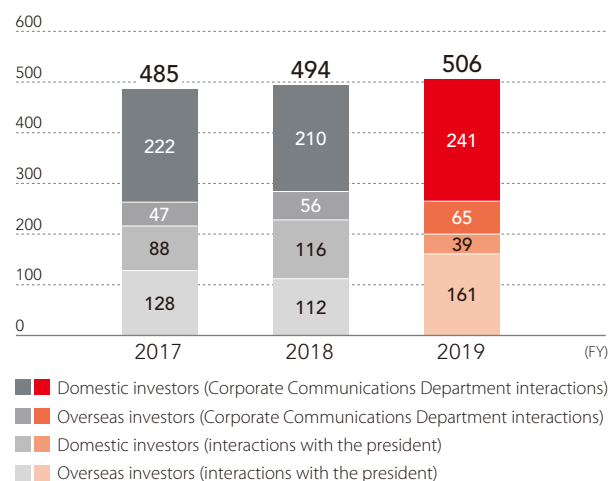
Including "sound criticism from a fair vantage point," valuable opinions and requests received from investors are promptly shared with management and the frontlines, leading to an increase in corporate value.

IR activities during the COVID-19 pandemic

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

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

Numbers of dialogues with investors



Key IR activities in fiscal 2019

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

Key external evaluations of IR activities in fiscal 2019

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

Comprehensive disclosure of information via our website

Commitment to Fight COVID-19



Key content

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

Strengthening risk management

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

Response to COVID-19

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

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

Establishing a stronger system in light of COVID-19

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

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

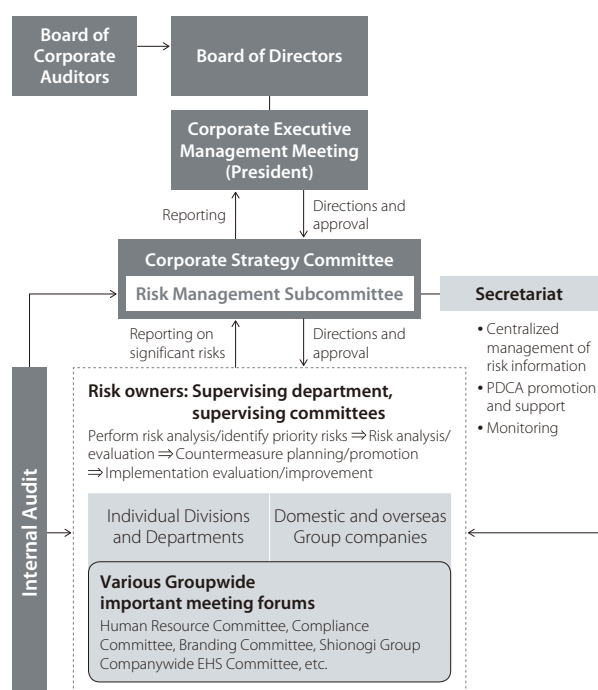
Risk Management Aiming to Achieve the Business Plan

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

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

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

Risk management structure



Business and other risks

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

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

Ensuring Compliance

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

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

 Shionogi Group Compliance Policy

Concept Chart



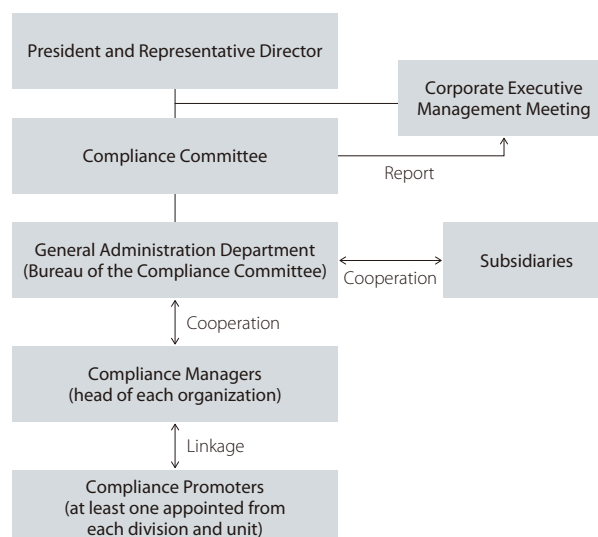
Strict compliance

Compliance promotion structure

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

 Compliance promotion structure and activities

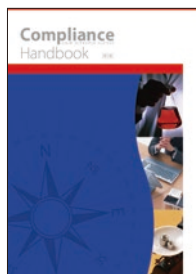
Compliance Promotion Structure (As of April 2020)



Company-wide instilling of compliance

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

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



Compliance Handbook

 Shionogi Compliance Handbook

Contents

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

Compliance Risk Management (CRM)

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

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

Shionogi Global Compliance Week

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

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

Internal reporting system

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

Ensuring high ethical standards and transparency in business activities

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



Ensuring high ethical standards and transparency in business activities

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

Protecting the Environment

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

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

Medium- to Long-Term Targets

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

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

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

*2 Emission reduction targets based on Science Based Targets

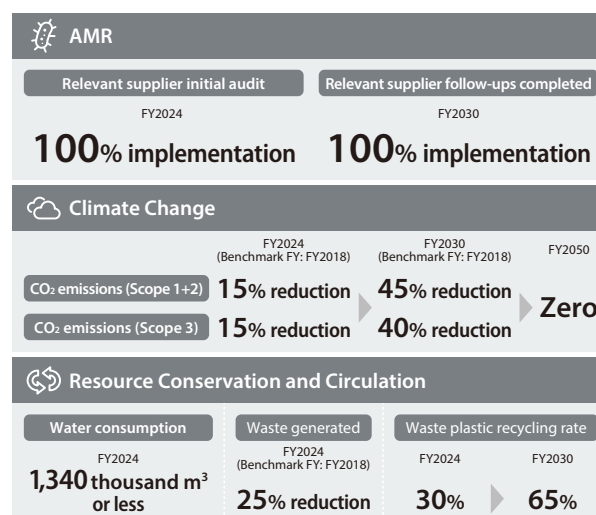
*3 Please refer to the website below for details on CDP



Initiatives on AMR

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

Shionogi Group EHS Activity Targets (Environmental Category)



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

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



Responding to climate change

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

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

CO₂ emissions



Governance

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

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

Strategies

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

*⁴ Intergovernmental Panel on International Climate Change

*⁵ Representative concentration pathway scenarios

Risk Management

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

Promoting resource conservation and circulation

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

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

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

Water consumption



Waste generated



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

 Environment Report

Consolidated Financial Highlights

Shionogi has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2020.

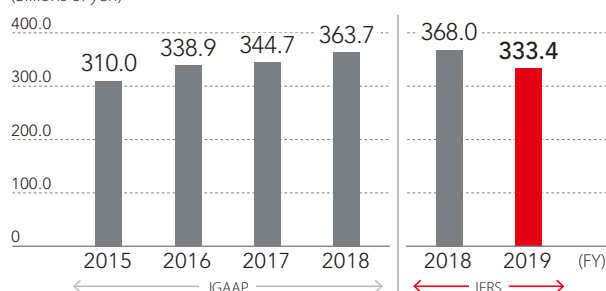
The financial figures are shown for both JGAAP and IFRS for the fiscal year ended March 31, 2019.

Sales and profits down in fiscal 2019

- Revenue fell 9.4% year on year to ¥333.4 billion.
⇒ Among the main components of revenue, exports and overseas subsidiary sales were ¥30.8 billion (up 1.1% year on year), but overall revenue fell due to a decline in domestic prescription drug sales, royalty income, and milestone income.
- Operating profit and profit attributable to owners of parent also declined.

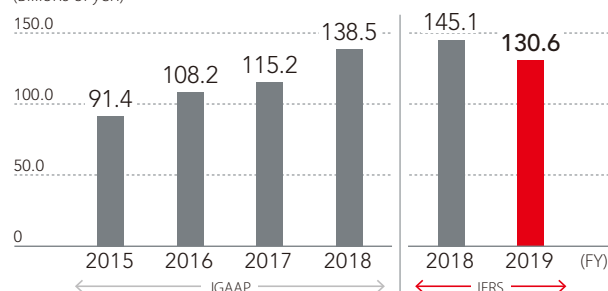
Revenue

(Billions of yen)



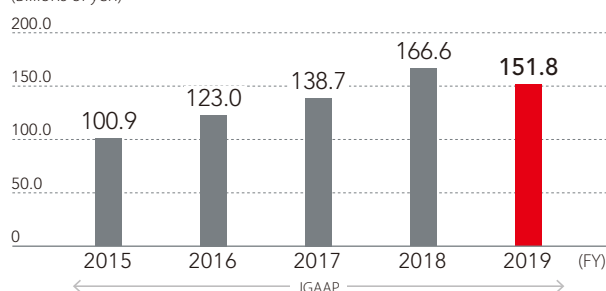
Operating profit

(Billions of yen)



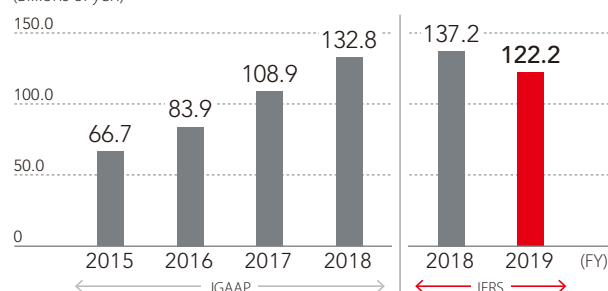
Ordinary income

(Billions of yen)



Profit attributable to owners of parent

(Billions of yen)

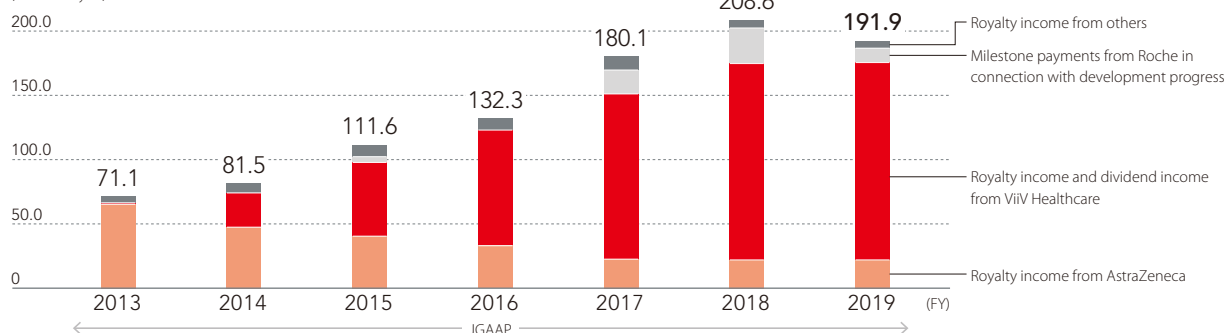


Decline in royalty income

- Royalty income reached ¥127.1 billion (up 2.1% year on year) on the back of a steady increase in global product sales in the HIV franchise.
- Dividend income was stable, underpinned by favorable earnings at ViiV Healthcare's global HIV business.
- Shionogi received milestone payments from Roche in connection with progress in global development for the flu drug *Xofluza*, but the amount was less than in the previous year when multiple payments were received.

Royalty income and dividend income from ViiV Healthcare

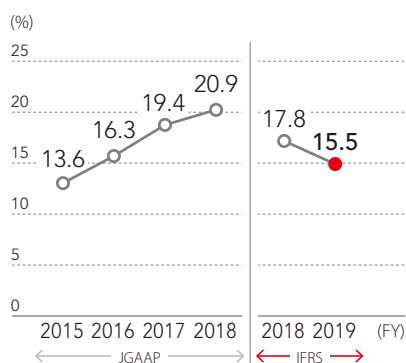
(Billions of yen)



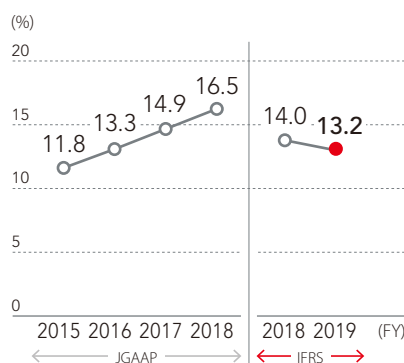
ROE, ROIC, and CCC

Return on equity (ROE),^{*1} return on invested capital (ROIC),^{*2} and cash conversion cycle (CCC)^{*3} were set as key indicators for the quantitative targets of growth, efficiency, and shareholder returns in the previous Medium-Term Business Plan (SGS2020) updated in October 2016. In the fiscal year ended March 31, 2020, ROE was 15.5% (down 2.3 points year on year), ROIC was 13.2% (down 0.8 point), and CCC was 7.7 months (a 1.1 month improvement from the previous year). Moving forward, we will work to achieve the management indicators set out in STS2030.

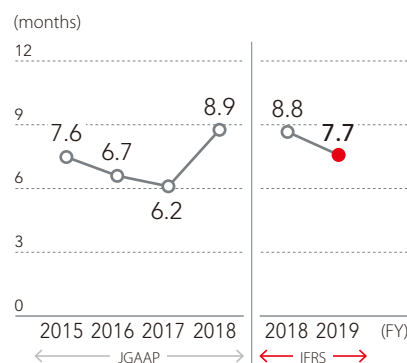
ROE



ROIC



CCC



^{*1} Profit attributable to owners of parent ÷ (Shareholders' equity + accumulated other comprehensive income) × 100 (%)

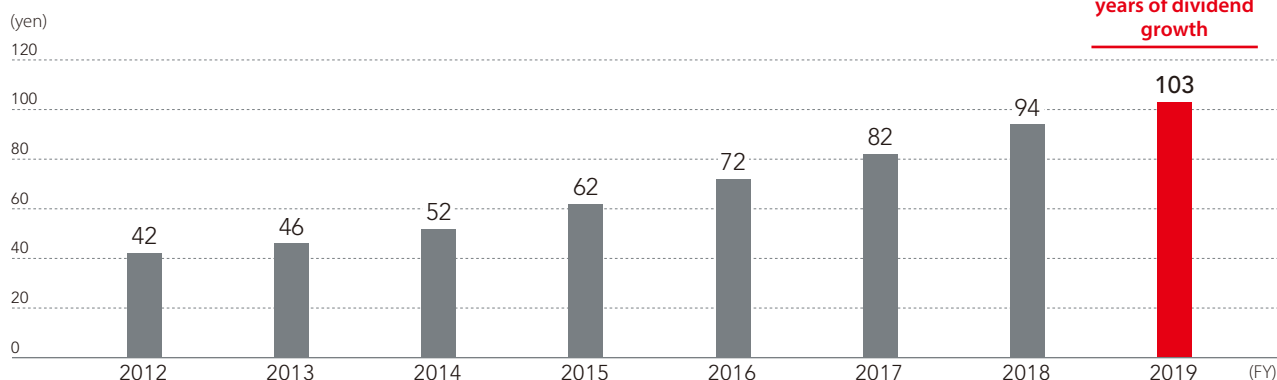
^{*2} After-tax operating income ÷ (Interest bearing debt + Shareholders' equity + Non-controlling interests) × 100 (%)

^{*3} The number of days between investing cash (for raw materials, product purchases, etc.) and the time when that is ultimately converted into cash again. (This indicator is used for capital efficiency.)

Working hard to ensure that shareholders also can experience growth

- Continuous dividend increases
- Flexible share buybacks and retirement of treasury shares
- Fiscal 2019: Approx. 7.79 million shares acquired and 5.20 million treasury shares retired (resolution passed on March 30, 2020 and shares retired on April 6)

Dividends per share



Eight consecutive years of dividend growth

Consolidated 11-Year Financial Summary

	Second Medium-Term Business Plan	Third Medium-Term Business Plan						
	Accelerating progress Expansion of R&D and establishment of global structure	SONG for the Real Growth Progress toward global growth					Aim to grow as a drug discovery-based pharmaceutical company	
JGAAP	2010	2011	2012	2013	2014	2015	2016	

For the years ended March 31:

Net sales	¥ 278,502	¥ 282,350	¥ 267,275	¥ 282,903	¥ 289,717	¥ 273,991	¥ 309,973
Cost of sales	76,263	81,737	77,753	78,574	77,993	82,189	74,758
Selling, general and administrative expenses	149,801	153,720	142,518	144,764	149,848	141,436	143,808
Operating income	52,438	46,892	47,003	59,565	61,875	50,365	91,406
Ordinary income	50,522	45,176	46,093	58,922	62,225	77,880	100,869
Profit before income taxes	58,540	33,135	41,494	58,306	63,188	82,051	97,452
Profit attributable to owners of parent	38,625	20,026	27,101	66,727	40,618	44,060	66,687
Net cash provided by operating activities	52,901	56,528	54,724	59,276	79,496	45,604	102,290
Net cash used in investing activities	(826)	(13,947)	(38,290)	(19,959)	(20,040)	(31,696)	(32,894)
Net cash used in financing activities	(4,978)	(27,011)	(27,749)	(37,687)	(53,798)	(46,211)	(18,525)
Research and development expenses	51,808	50,921	53,599	53,021	53,605	48,870	49,787
Capital investments	12,546	17,967	13,233	11,447	8,962	8,163	9,943
Depreciation and amortization	18,047	17,966	16,282	11,912	12,912	12,672	12,578

As of March 31:

Property, plant and equipment, net	¥ 62,447	¥ 70,220	¥ 74,282	¥ 78,473	¥ 78,976	¥ 77,022	¥ 78,673
Intangible assets	119,065	99,593	106,694	70,464	72,824	80,328	71,626
Total assets	540,761	523,242	522,161	574,882	580,566	595,067	631,599
Total long-term liabilities	131,955	115,325	92,899	53,041	33,721	48,427	45,739
Total net assets	341,976	328,096	347,198	423,633	467,836	478,883	513,877

Per share amounts:

Profit attributable to owners of parent	¥ 115.33	¥ 59.80	¥ 80.93	¥ 199.25	¥ 121.29	¥ 132.67	¥ 204.83
Net assets	1,019.71	979.69	1,027.83	1,254.44	1,385.11	1,456.70	1,564.73
Dividend	36	40	40	42	46	52	62

Other:

Equity ratio	63.2	62.7	65.9	73.1	79.9	79.7	80.7
Return on equity [ROE]	11.9	6.0	8.1	17.5	9.2	9.4	13.6
Payout ratio	31.2	66.9	49.4	21.1	37.9	39.2	30.3

Notes: 1. From the fiscal year ended March 31, 2015, the Company has adopted a new accounting standard for research and development expenses (business research expenses). This change has been reflected in figures for the fiscal year ended March 31, 2014.

2. In the fiscal year ended March 31, 2019, the Company changed the presentation method for tax effect accounting. The change has been reflected in figures for the fiscal year ended March 31, 2015, and subsequent periods.

3. International Financial Reporting Standards (IFRS): Accounting standards defined by the non-government organization International Accounting Standards Board (IASB) headquartered in London.

4. IFRS adopted from the fiscal year ended March 31, 2020

Shionogi Growth Strategy 2020 (SGS2020)

	2017	2018	2019
	(Millions of yen)		
	¥ 338,890	¥ 344,667	¥ 363,721
	77,777	73,911	54,880
	152,934	155,537	170,303
	108,178	115,219	138,537
	123,031	138,692	166,575
	122,695	137,378	170,343
	83,879	108,866	132,759
	111,903	129,790	145,684
	(31,643)	(51,238)	(36,349)
	(57,411)	(53,893)	(87,011)
	59,907	59,945	68,325
	9,659	5,678	7,900
	13,362	15,972	16,479
	(Millions of yen)		
	¥ 78,788	¥ 75,956	¥ 74,653
	91,125	75,060	54,769
	661,499	711,463	778,741
	44,692	34,056	17,203
	526,211	604,840	672,429
	(Yen)		
	¥ 259.88	¥ 342.71	¥ 424.31
	1,638.46	1,911.36	2,144.33
	72	82	94
	(%)		
	79.0	84.5	85.7
	16.3	19.4	20.9
	27.7	23.9	22.2

International Financial Reporting Standards (IFRS)	2019	2020	2020
		(Millions of yen)	(Thousands of U.S. dollars)
For the years ended March 31:			
Revenue	¥ 367,960	¥ 333,371	\$ 3,063,794
Cost of sales	55,591	(56,782)	(521,847)
Selling, general and administrative expenses	87,668	(95,094)	(873,955)
Research and development expenses	52,058	(47,949)	(440,671)
Operating profit	145,081	130,628	1,200,523
—	—	—	—
Profit before tax	174,043	158,516	1,456,823
Profit attributable to owners of parent	137,191	122,193	1,123,000
Net cash provided by operating activities	165,000	131,940	1,212,572
Net cash used in investing activities	(56,256)	(29,144)	(267,845)
Net cash used in financing activities	(89,912)	(88,174)	(810,353)
Capital investments	7,900	9,954	91,481
Depreciation and amortization	14,431	14,115	129,725
		(Millions of yen)	(Thousands of U.S. dollars)
As of March 31:			
Property, plant and equipment, net	¥ 70,986	¥ 71,350	\$ 655,738
Intangible assets	47,804	46,536	427,686
Total assets	938,540	871,526	8,009,621
Total equity	813,087	764,611	7,027,031
Non-current liabilities	29,303	25,795	237,071
		(Yen)	(U.S. dollars)
Per share amounts:			
Basic earnings per share	¥ 438.47	¥ 395.71	\$ 3.64
Equity attributable to owners of parent per share	2,598.16	2,516.79	23.13
Dividend	94	103	0.95
		(%)	
Other:			
Ratio of equity attributable to owners of parent	86.2	87.7	
Return on equity attributable to owners of parent (ROE)	17.8	15.5	
Payout ratio	21.4	26.0	

Consolidated statement of profit or loss

	Year ended March 31, 2019	(Millions of yen) Year ended March 31, 2020	(Thousands of U.S. dollars) Year ended March 31, 2020
Revenue (Note 5)	¥ 367,960	¥ 333,371	\$ 3,063,794
Cost of sales	(55,591)	(56,782)	(521,847)
Gross profit	312,369	276,589	2,541,947
Selling, general and administrative expenses (Note 6)	(87,668)	(95,094)	(873,955)
Research and development expenses	(52,058)	(47,949)	(440,671)
Amortization of intangible assets associated with products (Note 13)	(4,273)	(3,255)	(29,923)
Other income (Note 7)	1,394	4,291	39,437
Other expenses (Note 7)	(24,680)	(3,951)	(36,314)
Operating profit	145,081	130,628	1,200,523
Finance income (Notes 8, 16)	32,371	30,504	280,344
Finance costs (Note 8)	(3,409)	(2,616)	(24,044)
Profit before tax	174,043	158,516	1,456,823
Income tax expense (Note 9)	(37,124)	(36,322)	(333,814)
Profit	136,918	122,194	1,123,009
Profit attributable to			
Owners of parent	137,191	122,193	1,123,000
Non-controlling interests	(272)	1	9
Earnings per share		(Yen)	(U.S. dollars)
Basic earnings per share (Note 10)	¥ 438.47	¥ 395.71	\$ 3.64
Diluted earnings per share (Note 10)	434.71	395.28	3.63

Note: See notes to Consolidated Financial Statements Year ended March 31 with Independent Auditor's Report.

Consolidated statement of comprehensive income

	Year ended March 31, 2019	(Millions of yen) Year ended March 31, 2020	(Thousands of U.S. dollars) Year ended March 31, 2020
Profit	¥ 136,918	¥ 122,194	\$ 1,123,009
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income (Notes 16, 21)	22,581	(62,544)	(574,804)
Remeasurements of defined benefit plans (Notes 21, 24)	(13,889)	503	4,630
Total of items that will not be reclassified to profit or loss	8,692	(62,040)	(570,175)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations (Note 21)	(7,721)	(26,247)	(241,221)
Effective portion of cash flow hedges (Notes 21, 29)	(510)	2,474	22,741
Total of items that may be reclassified to profit or loss	(8,232)	(23,772)	(218,480)
Total other comprehensive income (loss), net of tax	460	(85,813)	(788,655)
Comprehensive income	137,378	36,381	334,354
Comprehensive income attributable to			
Owners of parent	137,926	36,594	336,318
Non-controlling interests	(547)	(213)	(1,963)

Note: See notes to Consolidated Financial Statements Year ended March 31 with Independent Auditor's Report.

Consolidated statement of financial position

	As of April 1, 2018 (Transition date)	As of March 31, 2019	(Millions of yen) As of March 31, 2020	(Thousands of U.S. dollars) As of March 31, 2020
Assets				
Non-current assets:				
Property, plant and equipment (Notes 11, 14)	¥ 72,165	¥ 70,986	¥ 71,350	\$ 655,738
Goodwill (Note 12)	10,767	3,358	10,854	99,760
Intangible assets (Notes 13, 14)	42,453	47,804	46,536	427,686
Right-of-use assets (Note 15)	5,320	5,915	4,657	42,808
Other financial assets (Notes 16, 29)	299,586	302,709	202,161	1,857,929
Retirement benefit asset (Note 24)	10,340	—	—	—
Deferred tax assets (Note 9)	378	534	3,048	28,017
Other non-current assets (Notes 14, 20)	6,895	13,586	16,890	155,232
Total non-current assets	447,908	444,895	355,500	3,267,168
Current assets:				
Inventories (Note 17)	30,846	35,125	33,818	310,804
Trade receivables (Notes 18, 29)	82,140	100,951	79,804	733,431
Other financial assets (Notes 16, 29)	110,551	150,530	171,157	1,572,998
Income taxes receivable (Note 9)	59	395	192	1,772
Other current assets (Note 20)	10,083	10,840	22,191	203,944
Cash and cash equivalents (Note 19)	176,135	195,800	208,861	1,919,503
Total current assets	409,816	493,645	516,026	4,742,453
Total assets	857,725	938,540	871,526	8,009,621

Notes: IFRS adopted from the fiscal year ended March 31, 2020

See notes to Consolidated Financial Statements Year ended March 31 with Independent Auditor's Report.

Consolidated Financial Statements

	As of April 1, 2018 (Transition date)	As of March 31, 2019	(Millions of yen) As of March 31, 2020	(Thousands of U.S. dollars) As of March 31, 2020
Equity and liabilities				
Equity				
Share capital (Note 21)	¥ 21,279	¥ 21,279	¥ 21,279	\$ 195,568
Capital surplus (Notes 21, 25)	21,055	21,277	20,432	187,783
Treasury shares (Note 21)	(36,641)	(28,882)	(77,292)	(710,343)
Retained earnings (Note 21)	545,498	613,483	708,291	6,509,438
Other components of equity (Notes 21, 24, 29)	179,365	181,616	91,848	844,115
Equity attributable to owners of parent	730,557	808,774	764,560	7,026,561
Non-controlling interests	4,257	4,313	51	471
Total equity	734,814	813,087	764,611	7,027,031
Liabilities				
Non-current liabilities				
Bonds and borrowings (Notes 22, 29)	18,393	—	—	—
Lease liabilities (Notes 15, 29)	5,731	6,006	4,791	44,039
Other financial liabilities (Notes 23, 29)	4,202	4,354	4,179	38,409
Retirement benefit liability (Note 24)	8,865	18,136	16,089	147,865
Deferred tax liabilities (Note 9)	6,291	444	373	3,431
Other non-current liabilities (Notes 27, 28)	393	360	362	3,328
Total non-current liabilities	43,876	29,303	25,795	237,071
Current liabilities:				
Bonds and borrowings (Notes 22, 29)	10,000	918	—	—
Lease liabilities (Notes 15, 29)	2,636	3,306	3,361	30,892
Trade payables (Notes 26, 29)	7,698	9,442	10,763	98,922
Other financial liabilities (Notes 23, 29)	10,470	17,008	17,557	161,355
Income taxes payable (Note 9)	18,402	34,016	21,886	201,141
Other current liabilities (Note 28)	29,826	31,457	27,551	253,208
Total current liabilities	79,034	96,149	81,119	745,518
Total liabilities	122,910	125,452	106,915	982,590
Total equity and liabilities	857,725	938,540	871,526	8,009,621

Notes: IFRS adopted from the fiscal year ended March 31, 2020
See notes to Consolidated Financial Statements Year ended March 31 with Independent Auditor's Report.

Consolidated statement of changes in equity

(Millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of April 1, 2018	¥ 21,279	¥ 21,055	¥ (36,641)	¥ 545,498	¥ 179,365	¥ 730,557	¥ 4,257	¥ 734,814
Profit				137,191		137,191	(272)	136,918
Total other comprehensive income, net of tax (Note 21)					734	734	(274)	460
Comprehensive income				137,191	734	137,926	(547)	137,378
Purchase of treasury shares (Note 21)			(50,020)			(50,020)		(50,020)
Disposal of treasury shares (Note 21)		(1,481)	19,174			17,693		17,693
Cancellation of treasury shares (Note 21)		(38,604)	38,604			—		—
Dividends (Note 21)				(27,669)		(27,669)		(27,669)
Increase by business combination						—		—
Changes in ownership interest in subsidiaries		288				288	604	892
Transfer from other components of equity to retained earnings (Note 21)				(1,516)	1,516	—		—
Other		40,019		(40,020)		(0)	(1)	(1)
Balance as of March 31, 2019	¥ 21,279	¥ 21,277	¥ (28,882)	¥ 613,483	¥ 181,616	¥ 808,774	¥ 4,313	¥ 813,087
Profit				122,193		122,193	1	122,194
Total other comprehensive income, net of tax (Note 21)					(85,598)	(85,598)	(214)	(85,813)
Comprehensive income				122,193	(85,598)	36,594	(213)	36,381
Purchase of treasury shares (Note 21)			(50,012)			(50,012)		(50,012)
Disposal of treasury shares (Note 21)		(509)	1,602			1,092		1,092
Cancellation of treasury shares						—		—
Dividends (Note 21)				(31,134)		(31,134)		(31,134)
Increase by business combination (Note 32)						—	90	90
Changes in ownership interest in subsidiaries		(755)				(755)	(4,187)	(4,942)
Transfer from other components of equity to retained earnings (Note 21)				4,169	(4,169)	—		—
Other		420		(420)		0	49	49
Balance as of March 31, 2020	¥ 21,279	¥ 20,432	¥ (77,292)	¥ 708,291	¥ 91,848	¥ 764,560	¥ 51	¥ 764,611

Note: See notes to Consolidated Financial Statements Year ended March 31 with Independent Auditor's Report.

Consolidated Financial Statements

(Thousands of U.S. dollars)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of March 31, 2019	\$ 195,568	\$ 195,545	\$ (265,440)	\$ 5,638,118	\$ 1,669,115	\$ 7,432,906	\$ 39,640	\$ 7,472,546
Profit				1,123,000		1,123,000	9	1,123,009
Total other comprehensive income, net of tax (Note 21)					(786,682)	(786,682)	(1,973)	(788,655)
Comprehensive income				1,123,000	(786,682)	336,318	(1,963)	334,354
Purchase of treasury shares (Note 21)			(459,631)			(459,631)		(459,631)
Disposal of treasury shares (Note 21)		(4,685)	14,728			10,043		10,043
Cancellation of treasury shares						—		—
Dividends (Note 21)				(286,137)		(286,137)		(286,137)
Increase by business combination (Note 32)						—	829	829
Changes in ownership interest in subsidiaries		(6,942)				(6,942)	(38,484)	(45,426)
Transfer from other components of equity to retained earnings (Note 21)				38,318	(38,318)	—		—
Other		3,865		(3,861)		4	450	455
Balance as of March 31, 2020	\$ 195,568	\$ 187,783	\$ (710,343)	\$ 6,509,438	\$ 844,115	\$ 7,026,561	\$ 471	\$ 7,027,031

Note: See notes to Consolidated Financial Statements Year ended March 31 with Independent Auditor's Report.

Consolidated statement of cash flows

(Millions of yen) (Thousands of U.S. dollars)













	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Cash flows from operating activities			
Profit before tax	¥ 174,043	¥ 158,516	\$ 1,456,823
Depreciation and amortization	14,431	14,115	129,725
Impairment losses	17,168	100	919
Finance (income) costs	(32,963)	(29,233)	(268,668)
(Increase) decrease in trade and other receivables	(18,570)	21,371	196,408
(Increase) decrease in inventories	(3,637)	1,158	10,647
Increase (decrease) in trade and other payables	4,922	(5,747)	(52,819)
Other	3,711	(9,202)	(84,574)
Subtotal	159,106	151,078	1,388,462
Interest and dividends received	30,086	29,565	271,713
Interest paid	(693)	(348)	(3,207)
Income taxes paid	(23,499)	(48,354)	(444,395)
Net cash provided by operating activities	165,000	131,940	1,212,572
Cash flows from investing activities			
Payments into time deposits	(123,651)	(200,827)	(1,845,673)
Proceeds from withdrawal of time deposits	91,064	174,672	1,605,302
Purchase of property, plant and equipment	(6,547)	(8,945)	(82,210)
Proceeds from sale of property, plant and equipment	751	3,427	31,504
Purchase of intangible assets	(18,848)	(2,823)	(25,950)
Payments for acquisition of a subsidiary (Note 32)	—	(4,525)	(41,592)
Purchase of investments in associates	(5,742)	(4,252)	(39,077)
Purchase of investments	(11,964)	(99,630)	(915,641)
Proceeds from sale of investments	20,725	119,485	1,098,115
Payments for acquisition of businesses	(937)	—	—
Other	(1,104)	(5,725)	(52,621)
Net cash used in investing activities	(56,256)	(29,144)	(267,845)
Cash flows from financing activities			
Repayments of long-term borrowings (Note 22)	(10,000)	—	—
Repayments of lease liabilities (Note 22)	(3,022)	(3,544)	(32,574)
Purchase of treasury shares (Note 21)	(50,270)	(50,159)	(460,981)
Dividends paid (Note 21)	(27,639)	(31,122)	(286,027)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(3,367)	(30,944)
Proceeds from sale of interests in a subsidiary to non-controlling interests	1,020	—	—
Other	—	18	173
Net cash used in financing activities	(89,912)	(88,174)	(810,353)
Effect of exchange rate changes on cash and cash equivalents	832	(1,560)	(14,346)
Net increase in cash and cash equivalents	19,664	13,060	120,028
Cash and cash equivalents at beginning of period (Note 19)	176,135	195,800	1,799,474
Cash and cash equivalents at end of period (Note 19)	¥ 195,800	¥ 208,861	\$ 1,919,503

Note: See notes to Consolidated Financial Statements Year ended March 31 with Independent Auditor's Report.

Environmental Data

Shionogi calculates energy consumption and greenhouse gas (GHG) emissions using calorie conversion factors and CO₂ emission factors for fuels and electricity used each fiscal year. Due to differences in calculation methods and boundary of calculation, the energy consumption and GHG emissions thus calculated differ from the figures presented in the Non-financial data section of this Integrated Report (p. 97) and in the Environment Report.

GHG emissions and energy consumption data in fiscal 2019 marked with  were subject to third-party assurance by KPMG AZSA Sustainability Co., Ltd.

Indicators		Unit	2015	2016	2017	2018	2019	
Greenhouse gas (GHG)								
Total of Scope 1, 2 and 3	(Location-based)	tons-CO ₂	313,354	355,504	287,356	209,171	226,883	
	(Market-based)	tons-CO ₂	309,948	349,397	286,898	204,031	218,614	
Total of Scope 1 and 2	(Location-based)	tons-CO ₂	102,125	101,827	90,595	87,850	85,208	
	(Market-based)	tons-CO ₂	98,719	95,720	90,136	82,711	76,939	
Scope 1		tons-CO ₂	46,778	46,106	43,456	41,349	37,519	
	(Intensity per unit of sales)	tons-CO ₂ /1 million yen	0.1509	0.1361	0.1261	0.1137	0.1120	
Scope 2		tons-CO ₂	55,347	55,721	47,139	46,501	47,690	
	(Intensity per unit of sales)	tons-CO ₂ /1 million yen	0.1786	0.1644	0.1368	0.1278	0.1424	
Scope 2	(Market-based)	tons-CO ₂	51,941	49,614	46,681	41,362	39,421	
	(Intensity per unit of sales)	tons-CO ₂ /1 million yen	0.1676	0.1464	0.1354	0.1137	0.1177	
Total of Scope 3 ^{*1}		tons-CO ₂	211,229	253,677	196,761	121,321	141,675	
Category 3		tons-CO ₂	3,093	3,015	2,876	2,798	5,732	
Other categories		tons-CO ₂	208,135	250,661	193,885	118,523	135,943	
Energy consumption								
Total energy consumption		GJ	1,829,055	1,818,374	1,733,999	1,677,537	1,651,304	
	(Intensity per unit of sales)	GJ/1 million yen	5.901	5.366	5.031	4.612	4.930	
Gasoline		kl	2,044	1,812	1,749	1,598	1,382	
Other fuel oils (kerosene, light oil, heavy oil A)		kl	239	330	54	87	49	
Liquefied petroleum gas (LPG)		tons	616	875	808	830	580	
Liquefied natural gas (LNG)		tons	8,970	8,530	8,067	7,932	7,113	
Town gas		thousand Nm ³	6,991	6,978	6,860	6,138	5,771	
Electricity		thousand kWh	93,898	94,428	90,497	89,107	93,245	
Steam		GJ	0	0	0	0	15,863	

^{*1} Until fiscal 2018, data were only tabulated for Shionogi & Co., Ltd., but with the spin-off of the manufacturing function as a subsidiary (establishment of Shionogi Pharma Co., Ltd.), from fiscal 2019 data are tabulated for Shionogi Group companies in Japan. The impact of this change is minor.

Calculation methods for environmental performance data

Boundary of calculation	Scope 1 and 2:	Shionogi Group (excluding overseas related companies [administrative offices]): Shionogi Group companies in Japan and the Nanjing Plant of C&O Pharmaceutical Technology (Holdings) Limited
	Scope 3:	Shionogi Group companies in Japan (Shionogi & Co., Ltd. in or before fiscal 2018)
	Energy consumption:	Shionogi Group (excluding overseas related companies [administrative offices]): Shionogi Group companies in Japan and the Nanjing Plant of C&O Pharmaceutical Technology (Holdings) Limited

Calculation methods


Indicators		Calculation methods
Scope 1		CO ₂ emissions resulting from fuel use
		Calculation methods: Based on the "Greenhouse Gas Emissions Accounting and Reporting Manual (Ver. 4.6)" of the Ministry of the Environment and the Ministry of Economy, Trade and Industry of Japan
		CO ₂ emission factors: Based on the "Greenhouse Gas Emissions Accounting and Reporting Manual (Ver. 4.6)" of the Ministry of the Environment and the Ministry of Economy, Trade and Industry of Japan
Scope 2		CO ₂ emissions resulting from purchase of electricity and steam
		Calculation methods: Based on the "Greenhouse Gas Emissions Accounting and Reporting Manual (Ver. 4.6)" of the Ministry of the Environment and the Ministry of Economy, Trade and Industry of Japan
		Electricity (Japan) (location-based): Substitute values from "Emission Factors by Power Suppliers (for the calculation of GHG emissions by specified emitters) (FY2018 results)" published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry of Japan (January 7, 2020)
		Electricity (Japan) (market-based): Adjusted emissions factors from "Emission Factors by Power Suppliers (for the calculation of GHG emissions by specified emitters) (FY 2018 results)" published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry of Japan (January 7, 2020)
		Electricity (overseas) (both location-based and market-based): Emissions factors (2016) of the International Energy Agency (IEA)
Scope 3	Category 3	CO ₂ emissions resulting from procurement of fuels required for the generation of electricity purchased ^{*2}
		Calculation methods: Based on the "Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain (Ver. 2.3)" of the Ministry of the Environment and the Ministry of Economy, Trade and Industry of Japan, calculated using "7. Emission Unit Values per Use of Electricity and Heat" in the "The Database on Emissions Unit Values for Calculation of Greenhouse Gas Emissions, etc., by Organizations Throughout the Supply Chain (Ver. 3.0)" of the Ministry of the Environment of Japan
	Other categories	Total of Categories 1, 2, 4, 5, 6, 7 and 12, excluding Categories 8, 9, 10, 11, 13, 14 and 15 that are not included in our own corporate activities or are reported under other categories
Energy consumption		Calculation methods: Based on the "Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain (Ver. 2.3)" of the Ministry of Economy, Trade and Industry and the Ministry of the Environment of Japan
	Total energy consumption	Total calorie-converted values for purchased energy (gasoline, other fuel oils, LPG, LNG, town gas, electricity, steam)
		Calculation methods: Based on the Regulations for Enforcement of the Act on the Rational Use of Energy
		Calorie conversion factors: Based on the Regulations for Enforcement of the Act on the Rational Use of Energy
	Gasoline	Amount of gasoline purchased, including fuel for sales force vehicles
	Other fuel oils	Amount of kerosene, light oil, heavy oil A purchased
	Liquefied petroleum gas (LPG)	Amount of LPG purchased from gas suppliers
	Liquefied natural gas (LNG)	Amount of LNG purchased from gas suppliers
	Town gas	Amount of town gas purchased from gas suppliers
	Electricity	Amount of electricity purchased from power suppliers
	Steam	Amount of steam purchased from steam suppliers

^{*2} Usage of steam etc. is only for C&O's Nanjing plant. (Steam is not used under the boundary of calculation for Scope 3 (Shionogi Group companies in Japan).)



Independent Assurance Report

To the President and CEO of Shionogi & Co., Ltd.

We were engaged by Shionogi & Co., Ltd. (the “Company”) to undertake a limited assurance engagement of the environmental performance indicators marked with “” (the “Indicators”) for the period from April 1, 2019 to March 31, 2020 included in its SHIONOGI INTEGRATED REPORT 2020 (the “Report”) for the fiscal year ended March 31, 2020.

The Company’s Responsibility

The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the “Company’s reporting criteria”), as described in the Report.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have performed. We conducted our engagement in accordance with the ‘International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information’ and the ‘ISAE 3410, Assurance Engagements on Greenhouse Gas Statements’ issued by the International Auditing and Assurance Standards Board. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing the Company’s responsible personnel to obtain an understanding of its policy for preparing the Report and reviewing the Company’s reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing analytical procedures on the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company’s reporting criteria, and recalculating the Indicators.
- Visiting one of the Company’s laboratories selected on the basis of a risk analysis.
- Evaluating the overall presentation of the Indicators.

Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Report are not prepared, in all material respects, in accordance with the Company’s reporting criteria as described in the Report.

Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.



KPMG AZSA Sustainability Co., Ltd.

Osaka, Japan

November 18, 2020

Non-financial Data

	Mar. 31, 2016	Mar. 31, 2017	Mar. 31, 2018	Mar. 31, 2019	Mar. 31, 2020	Remark
Information on the number of employees (Information about only Shionogi & Co., Ltd. unless otherwise stated)						
No. of employees						
Consolidated	5,896 persons	5,511 persons	5,120 persons	5,233 persons (4,554 persons)	5,222 persons (4,527 persons)	The figure in parentheses is calculated for domestic consolidated companies.
Shionogi & Co., Ltd.	4,055 persons	3,911 persons	3,677 persons	3,596 persons	2,667 persons	
Rate of female employees	28.8%	28.8%	27.8%	28.1% (32.2%)	24.1% (32.2%)	The figure in parentheses is calculated for domestic consolidated companies.
Average age						
Total	41.4 years old	41.7 years old	41.4 years old	41.7 years old	41.3 years old	Excluding seconded persons
Male	42.1 years old	42.2 years old	41.9 years old	42.2 years old	41.9 years old	
Female	39.8 years old	40.6 years old	40.0 years old	40.4 years old	39.2 years old	
Length of service						
Total	17.2 years	17.4 years	17.3 years	17.3 years	15.9 years	Excluding seconded persons
Male	17.1 years	17.1 years	16.9 years	17.1 years	16.1 years	
Female	17.5 years	18.1 years	17.4 years	17.8 years	15.0 years	
Average salary	8,901,271 yen	9,276,750 yen	9,193,748 yen	9,042,130 yen	9,431,304 yen	
No. of new recruits						
Total	99 persons	91 persons	110 persons	101 persons	94 persons	Recruits who will enter the company on April 1 of the following fiscal year
Male	57 persons	61 persons	71 persons	59 persons	56 persons	
Female	42 persons	30 persons	39 persons	42 persons	38 persons	
Turnover rate of recruits enrolled for three years	0.0%	6.5%	6.5%	3.0%	4.5%	Recruit who entered the company on April 1 three years ago
Turnover rate of employees	1.4%	1.4%	1.9%	1.6%	1.9%	Excluding retired persons
No. of labor union members	3,396 persons Rate of union members: 100%	2,948 persons Rate of union members: 100%	2,758 persons Rate of union members: 100%	3,012 persons Rate of union members: 100%	2,806 persons Rate of union members: 100%	
Employment rate of people with disabilities	2.1%	2.3%	2.2%	2.0% (2.5%)	2.0% (2.6%)	As of the end of March. The figure in parentheses is calculated for special cases in affiliated companies. Shionogi Smile Heart Co., Ltd. established in April 2018 and certified as a special subsidiary company in July 2018.
Rate of female managers	7.8%	8.4%	8.0%	9.9% (10.0%)	10.7% (11.4%)	As of April 1 of the following fiscal year. The figure in parentheses is calculated for domestic consolidated companies. Target: 10% (Domestic consolidation at the end of March 2021)
Rate of female heads of organizations	5.6%	6.7%	7.7%	8.6%	14.3%	As of April 1 of the following fiscal year
Rate of female corporate officers	2/13	2/12	1/14	1/13	0/10	As of April 1 of the following fiscal year
Rate of female members of the Board	15.4%	16.7%	7.1%	7.7%	0.0%	
	16.7%	16.7%	16.7%	16.7%	16.7%	As of April 1 of the following fiscal year
Information on labor management (Shionogi & Co., Ltd.)						
Annual regular working hours for employees	1,852 hours	1,860 hours	1,860 hours	1,852 hours	1,845 hours	
No. of paid holidays	Up to 24 days	Up to 24 days	Up to 24 days	Up to 24 days	Up to 21 days	The number of legal annual holidays based on the Labor Standards Act is up to 20 days.
Average No. of paid holidays taken by employees	13.4 days	13.6 days	12.0 days	12.5 days	12.6 days	
Acquisition rate of childcare leave						
Female	100%	100%	100%	100%	100%	Rate of employees who have taken childcare leave during the year when their baby was born
Male	14.8%	17.4%	21.0%	24.2%	32.8%	
No. of employees who have taken nursing care leave						
Female	7 persons	4 persons	4 persons	2 persons	4 persons	Total number
Male	0 persons	0 persons	0 persons	0 persons	1 persons	
No. of employees who have worked on short work hours due to child rearing						
Female	181 persons	173 persons	162 persons	119 persons	136 persons	Total number
Male	4 persons	2 persons	1 persons	1 persons	1 persons	
Volunteer leave	0 persons	0 persons	1 persons	0 persons	1 persons	From FY 2014
Leave for bone marrow transplant donors	1 persons	1 persons	0 persons	0 persons	1 persons	From FY 2014
Frequency rate	0.12	0.25	0.39	0.81	0.19	
Severity rate	0.0001	0.004	0.003	0.018	0.0002	
Legal violation / Administrative guidance	0 case	0 case	0 case	4 cases	0 case	
Health (Shionogi & Co., Ltd.)						
Smoking rate	18.7%	17.1%	16.4%	15.2%	14.2%	
Rate of stress check attendance	—	94%	94%	96%	95%	
Participation rate in a healthy walk	37.1%	35.4%	42.2%	41.5%	41.5%	
Rate of health checkup attendance	100%	100%	100%	100%	100%	
Rate of employees on leave due to mental disorders	0.7%	0.5%	0.4%	0.4%	0.5%	
Environment (Domestic consolidated companies)						
CO ₂ emissions (Scope 1 and 2)	69,420 tons-CO ₂	67,764 tons-CO ₂	64,370 tons-CO ₂	61,866 tons-CO ₂	59,630 tons-CO₂	
Energy consumption (Thousand)	1,697 GJ	1,657 GJ	1,581 GJ	1,522 GJ	1,485 GJ	
Water use (Thousand)	1,567 m ³	1,528 m ³	1,389 m ³	1,315 m ³	1,263 m³	
Amount of waste generated	3,944 tons	3,820 tons	3,486 tons	3,824 tons	3,062 tons	
Recycling rate	71%	79%	78%	81%	83%	
Landfill rate	2.5%	1.3%	1.0%	0.8%	1.0%	
Type 1 chemicals designated under the PRTR Act						
Amount handled	377 tons	289 tons	251 tons	274 tons	203 tons	
Amount released	61 tons	63 tons	35 tons	43 tons	34 tons	
Amount transferred	235 tons	148 tons	177 tons	156 tons	131 tons	
No. of complaints about the environment	1 case	1 case	2 cases	1 case	0 case	

Corporate Data (As of March 31, 2020)

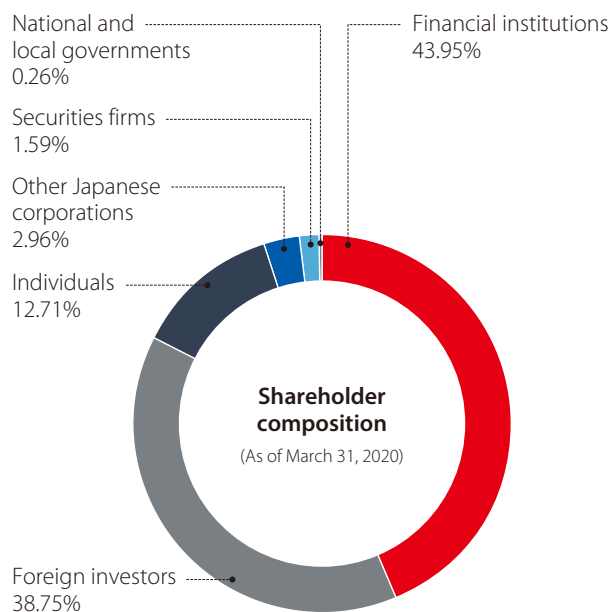
Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,280 million
Number of Employees	5,233
Fiscal Year-End	March 31
Website	https://www.shionogi.com/global/en/

Stock Information (As of March 31, 2020)

Stock (Securities) Listings: Tokyo (#4507)
(Shares listed in 1949)

Stock Status: Common Stock Authorized:
1,000,000,000 shares
Issued: 316,786,165 shares
Number of shareholders: 36,955

Shareholder Composition



Note: Treasury shares included in Individuals.

Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	38,091	12.53
Japan Trustee Services Bank, Ltd. (Trust account)	19,167	6.30
Sumitomo Life Insurance Company	18,604	6.12
SMBC Trust Bank Ltd. (as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485	3.12
BNYM TREATY DTT 15	8,566	2.82
Nippon Life Insurance Company	8,409	2.76
Japan Trustee Services Bank, Ltd. (Trust account 7)	6,955	2.28
JP MORGAN CHASE BANK 385632	6,700	2.20
Japan Trustee Services Bank, Ltd. (Trust account 5)	5,208	1.71
Japan Trustee Services Bank, Ltd. (Trust account 9)	5,148	1.69

Notes:

1. The Company owns 13,002,082 shares of treasury shares but the Company is not included in the major shareholders listed above (top 10).
2. The percentage of total is calculated as the proportion of shares to 303,784,083 shares of total issued stock (excluding 13,002,082 shares of treasury shares).



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