



**SHIONOGI & CO., LTD.**

Sustainability Meeting

October 19, 2023

# Presentation

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**Kyokawa:** I will begin. I'm Kyokawa, Vice President, Corporate Communications Department at Shionogi & Co., Ltd.

Thank you for joining us today despite your busy schedule. We are pleased to announce that the SHIONOGI Sustainability Meeting will be held from now on.

First of all, I would like to introduce today's speakers. I will introduce them from the front. Isao Teshirogi, PhD, and Chief Executive Officer.

**Teshirogi:** I am Teshirogi. Thank you.

**Kyokawa:** Next, we have Mr. Keiichi Ando, outside director.

**Ando:** My name is Ando. Thank you.

**Kyokawa:** Next, Noriyuki Kishida, Senior Executive Officer, Senior Vice President, Corporate Supervisory Unit.

**Kishida:** I'm Kishida. Thank you.

**Kyokawa:** Lastly, Yuka Niimi, Vice President, Sustainability Management Department.

**Niimi:** I'm Niimi Thank you.

**Kyokawa:** Now, let me explain the flow of the briefing session today.

## Agenda

1. **SHIONOGI's Value Creation**
2. **Protect People Worldwide from the Threat of Infectious Diseases**
3. **Promoting Sustainable Business in Harmony with Nature and Society**
4. **Management Foundation that Supports SHIONOGI's Sustainability**
  - **Human Capital Management**
  - **Corporate Governance**
    - ✓ **Effectiveness of the Board of Directors**
5. **Summary**

Teshirogi will give a presentation on SHIONOGI's value creation and release from the threat of infectious diseases. Next, Niimi will introduce the promotion of sustainable business in harmony with nature and society, and Kishida will talk about human capital management and corporate governance. Outside director Ando will explain about the effectiveness evaluation, respectively. After that, Teshirogi will give a summary of the event, followed by a Q&A session.

Now let's get started. First, Teshirogi will explain about SHIONOGI's value creation.

**Teshirogi:** Greetings, my name is Teshirogi. First of all, I am sorry, but I become hoarse a little bit; the antigen test was negative, so I hope you can be assured of that. I apologize for my voice that you might have difficulty to hear me.

First, let me give you a brief overview of our value creation. Today's meeting is the first sustainability meeting with the participation of outside directors, including Mr. Ando, the independent director, and I hope that you will ask many questions to us.

## SHIONOGI Philosophy

### 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:

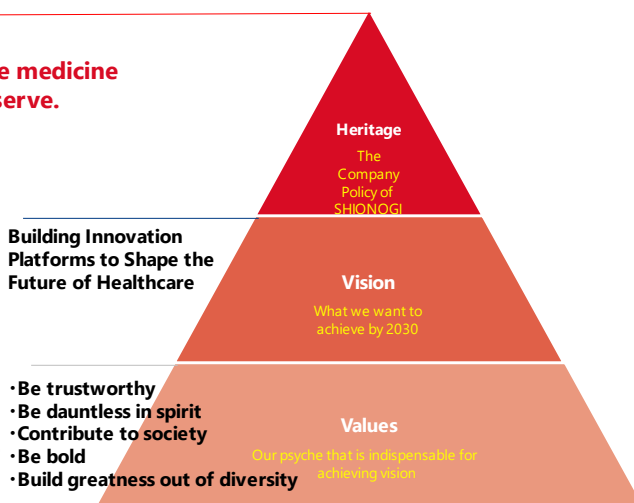
Pursue the search for even better medicines.  
 Produce even better medicines.  
 Promote awareness of these better medicines to more people so that more people will be able to use these medicines.  
 Research, produce and promote in an even more economical manner.

#### For this purpose, SHIONOGI people will need to:

Strive ceaselessly day after day to improve their skills.  
 Strive ceaselessly day after day to improve as human beings.

#### As a result, SHIONOGI people will:

Find even greater satisfaction in their daily work and in their daily lives.  
 Find even greater improvement in the quality of their lives.  
 Find even greater prosperity in their lives. (Established in January, 1957)



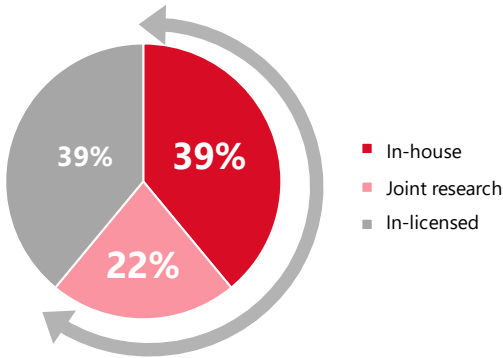
We are rolling out our slogans, Heritage, Vision, and Value in our company as part of our value creation efforts. Heritage is actually really old, dating back to the 1950s. However, I became CEO in 2008, and when I reread this again at that stage, I found that the bottom part, "The people of SHIONOGI," in particular, is very new, even though it was created in the 1950s, and it is written with a strong awareness of employees as stakeholders in the Company. This Heritage, which we consider to be our tradition, has always been written in a way that is fully applicable even in this day and age: We provide good medicines, but we will do so with our employees as our stakeholders in mind. I believe that this is our current heritage.

# Characteristics of SHIONOGI as a Drug Discovery -based Pharmaceutical Company

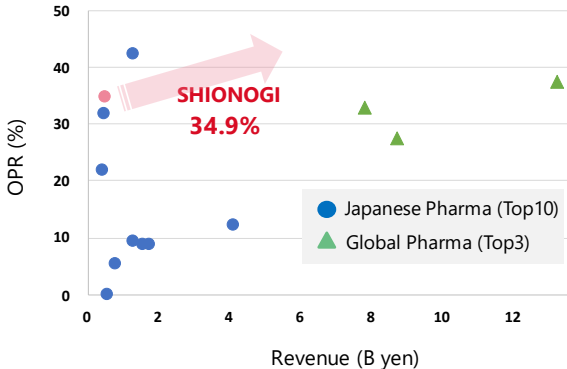
## In-house drug discovery ratio (as of March 2023)

**61%**

It is said that the in-house drug discovery rate for general pharmaceutical companies is 20-30%.



## Comparison of operating profit ratio of major pharmaceutical companies\*



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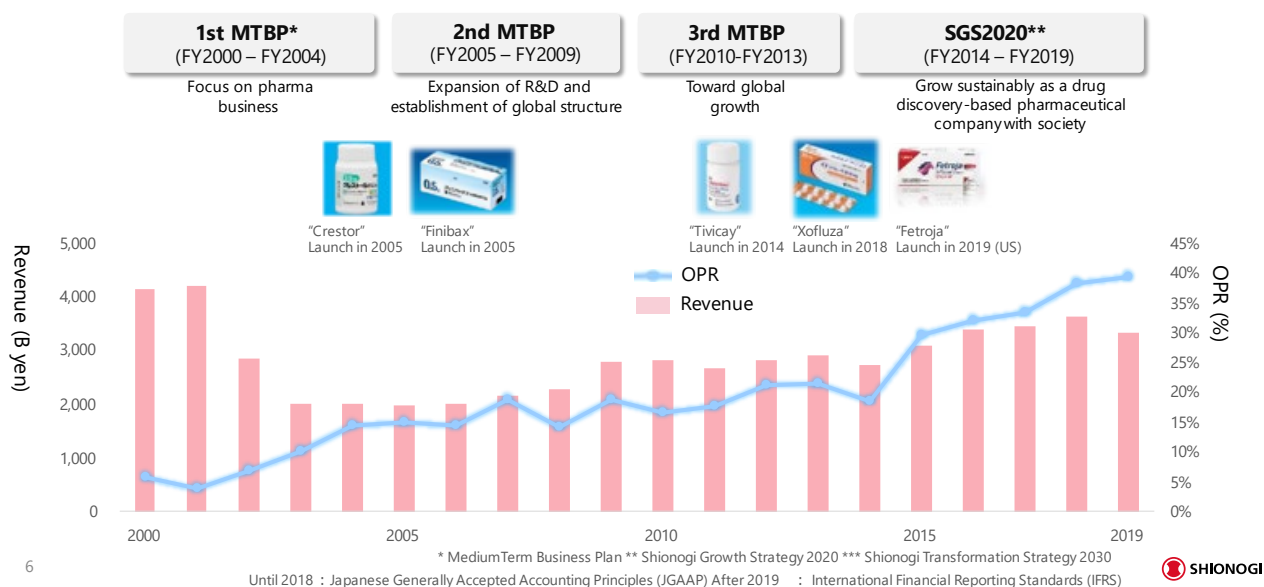
\* From FY2022 annual report of each company



Among the pharmaceutical companies that are growing in size, there are those that have secured seeds from bio-ventures, academia, and other sources, and are developing them skillfully in order to provide them to patients as quickly as possible, even if it is just for a minute or a second. We think it is wonderful that there are companies that have such a style.

However, we want to move into the next era with our own unique characteristics, so we are going to stick to our own drug discovery and R&D to the fullest. Many people from outside the Company, including Mr. Ando, who is here today as an outside director, have encouraged us to think about how we can make the most of this SHIONOGI's unique characteristics and move forward into the next era taking advantage of it. The high operating profit model based on royalties, as typified by a drug against HIV and Crestor before it, is one of our characteristics, and we would like to move on to the next stage of our business, while keeping this area in mind.

# Growth Trajectory into a Drug Discovery -based Pharmaceutical Company



So, as a company, we have ups and downs. It is indeed difficult to continue to grow in a straight line, but we are at least looking forward to operating income, sales growth, and the enhancement of our own research and development, and we are making progress to this point while placing importance on these things.

In 2001, we had sales of over JPY400 billion, and then we spun out other businesses such as animal and plant medicines, and our sales once shrank to around JPY200 billion. Last year, we finally achieved sales of something more than JPY426 billion, and we are now entering a period of growth, including sales, and we would like to move on to the next stage.

## Vision, SHIONOGI Transformation Strategy 2030 (STS2030) -Announced in June 2020-



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So when we created STS2030, we had this in mind right before COVID-19 started. The launch was in June 2020, but since the latter half of 2019, we have been thinking throughout the Company about what we need to do for the next stage of the project.

## Background to the Establishment of STS2030 –Perception as of June 2020 –

### Perception of changes in the external environment

- Society
  - Discontinuous social systems and changing values
  - Rapid changes in the economic paradigm
  - Movement toward the realization of a sustainable society
- Pharmaceutical industry
  - Increased awareness of social insurance costs
  - Sophisticated medical needs
  - Innovation through technological evolution and data utilization
- Customers
  - Changes in values of consumption
  - Reduction in medical information gaps

### Changes in the internal environment

- Only a short time left to 2027/2028 (HIV franchise patent expiration).
  - It takes 10–15 years to launch a product.
- It is difficult to sustain business growth only with prescription drugs.
  - A business model where the greater the success, the greater the impact of patent cliffs.
- There is a need to establish a new business model.

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At that point, we, including many young people, had a controversial discussion that we should consider what is important as a company while looking ahead to the future in 2030 and 2040, and came up with these preconditions and perceptions.

Of course, as I will say later, I think that the cliff for the HIV on the right side, including ViiV's, have entered a significantly new phase, but I think that the environment on the left side is not so wrong as we look at it now.

In particular, we talked with our young people and wondered if a business model that reimburses expensive drugs all the time through health insurance is really going to last. I believe that a new business model is needed to develop the Company while considering a reasonable treatment at a reasonable cost.

From this perspective, we believe that it is necessary for us to create a new business model that is not solely dependent on health insurance; for example, it is necessary to have some systems that are not covered by health insurance, such as vaccines, which are paid for with one's own money.

### From a Drug Discovery -based Pharmaceutical Company to a HaaS\* Company -SHIONOGI's new direction-

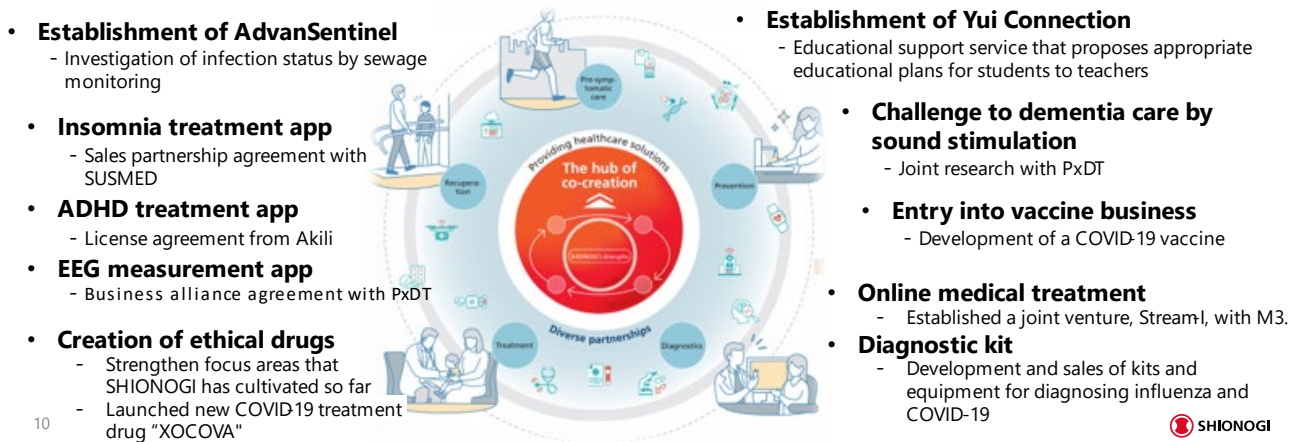


This led us to create the concept of HaaS to provide health care as a service. Young employees of our company, especially those in their 20s and 30s, have a strong affinity for this area; we wondered if it is enough to just continue to grow by having expensive drugs reimbursed by insurance; we need to deliver medicines to LMICs patients properly, and we should start to include the concept of delivering products with a certain level of co-payment; this was our original plan for 2030.

## Transformation into a HaaS company -Results in 3 years after the announcement of STS2030 -

### Providing value as a healthcare service (Healthcare as a Service: HaaS)

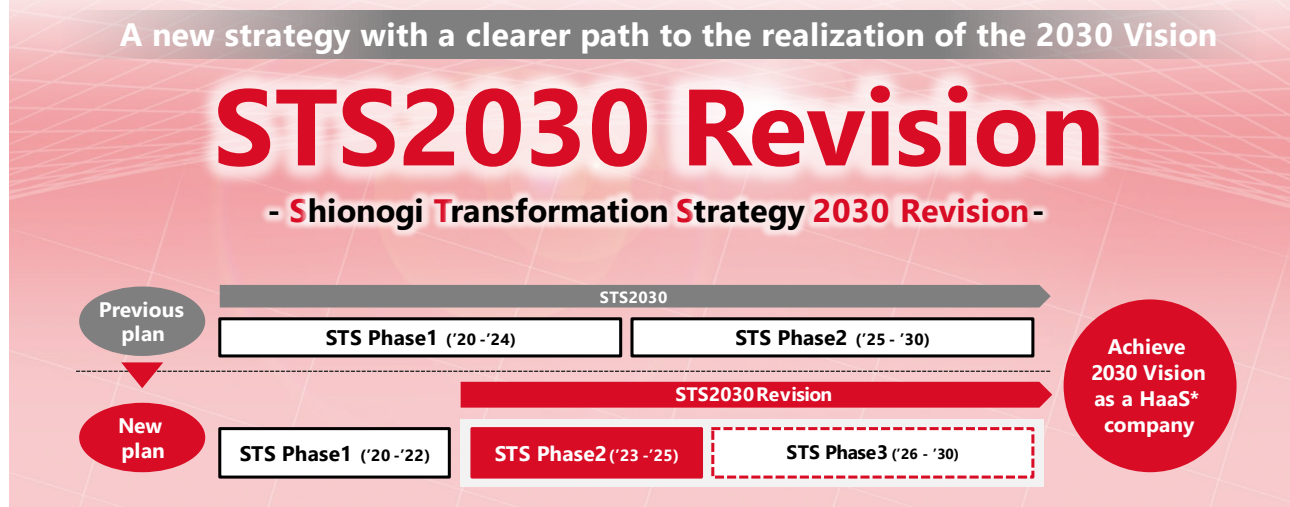
- By collaborating with various partners, we will create new added value and solve the problems of patients and society
- Further strengthen the strengths cultivated through the creation of ethical drugs, and leverage those strengths to become the core of collaborative creation



So, it started with IT, of course, the apps, and then the vaccine. Yui Connection is actually trying to provide a better solution for children who are less likely to get sick or have difficulty living by intervening in their education at an earlier stage, and to do so in a comprehensive manner. We have been thinking that the Company must also conduct sewage epidemiology in this area and implemented it.



## Strategy Revised from STS2030 : STS2030 Revision



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

COVID-19 got into our lives, and for three years we have fought in various ways to meet the expectations of society in our own way. In the meantime, there have been some changes, including the success of a long-acting drug by ViiV, which led us to issue the revision in June of this year.

## Background to the Establishment of STS2030 Revision

### Lessons from the COVID-19 experience

- Renewed recognition of the threat of infectious diseases
- Importance of the discovery of drugs for unmet needs
- Lack of ability to deliver globally
- Importance of business speed

**Recognition of the lack of capability to respond quickly to changes in the business environment**

### Changing assumptions of the HIV franchise

- Expansion of long-acting formulations
- Paradigm shift in HIV treatment

**Further growth of HIV business**

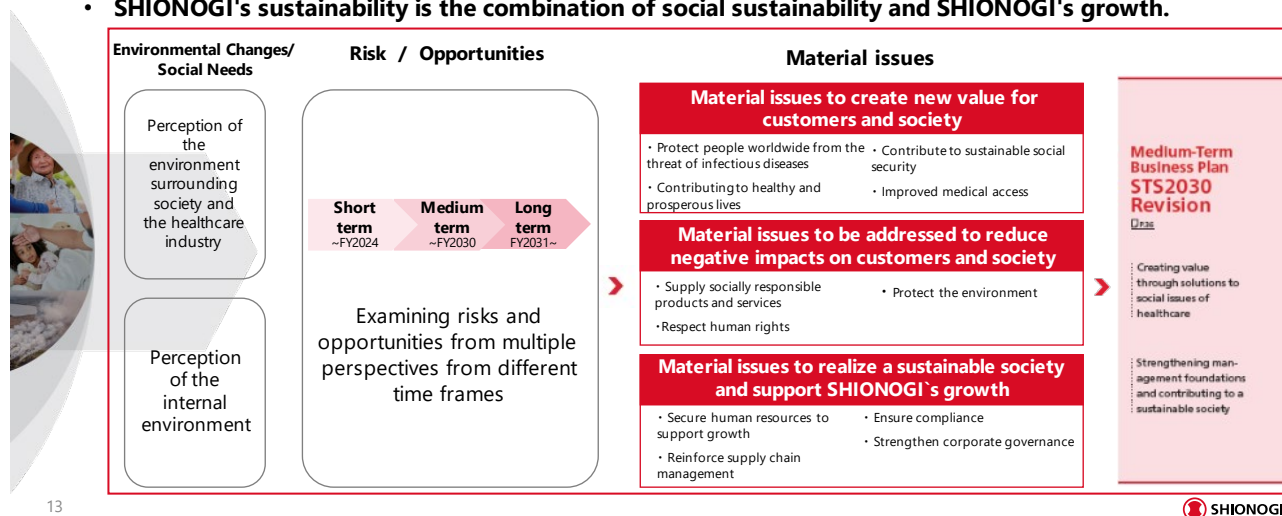
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Especially on the left side, there may be one or two more major pandemics of infectious diseases, and we wonder if we can do better than we are doing now. We need to do more vaccines. We would also need such a sales force to deliver more products in Asia, America, and Europe. While emphasizing these issues very strongly, we also need to point out that the operation to deliver products quickly, as represented by the 100 Days Mission, is still not strong enough, and this is a strong point of evaluation.

At the same time, our research and development direction for HIV has changed a little, as we are now looking for a new long-acting drug that is better for patients' quality of life, rather than an oral drug with a new mechanism. This is the current situation.

## SHIONOGI's Material Issues

- Strategies are formulated after discussion at the management meeting and approval by the board of directors.
- SHIONOGI's sustainability is the combination of social sustainability and SHIONOGI's growth.



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Regarding materiality, I think the fact that the area of infectious diseases is very much our strength, but on the other hand, we have been working steadily for a long time on the central nervous system, especially cognitive dysfunctions. The situation has become very difficult for people, including caregivers, to live in, and as human life expectancy increases, the number of patients with such conditions is expected to increase. This is the background why we've been focusing on infectious disease and the central nervous system.

We believe that this will continue to be an extremely important theme for us in the future, and as Niimi will mention today, we will be more conscious of the SDGs as the second and third themes, and we will steer our management with a greater awareness of human rights, human capital management, and governance.

## The Threat of Infectious Diseases Existing Throughout the World

**Since these diseases are transmitted from person to person, their threat is expected to increase on a global basis, including low and middle-income countries (LMICs).**

- **Three major infectious diseases (HIV/AIDS, tuberculosis, malaria)**
  - Prevalent mainly in LMICs, killing more than 2.5 million people each year.
- **Neglected tropical diseases (NTDs)**
  - Prevalent mainly in tropical areas and consist of 20 types of diseases, including dengue fever, rabies, and Chagas' disease, for which no therapeutic drugs have been developed.
- **Antimicrobial resistance (AMR)**
  - If no effective AMR measures are taken in the future, it is estimated that, by 2050, 10 million people\* will die each year, with an economic impact of \$100 trillion.
- **Pandemics caused by acute infectious diseases (e.g., COVID-19)**
  - More than 670 million people worldwide have been infected with COVID-19, and approx. 6.9 million have died (as of March 13, 2023).
  - The COVID-19 pandemic has had a negative impact on economic growth comparable to the Great Depression (global GDP growth rate in 2020: -3.4%).

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\*O'Neill J., "Tackling drug-resistant infections globally: final report and recommendations", London: Review on Antimicrobial Resistance (2016)  
Antimicrobial Resistance Collaborators, "Global burden of bacterial antimicrobial resistance in 2019: a systematic analysis" *The Lancet* (2022)



Let me continue to talk a little bit about the infectious diseases.

As for infectious disease, I attended NIKKEI FT's Infectious Disease Conference yesterday. When I talk with doctors, I hear quite a few say that the cycle to the next pandemic is getting shorter and shorter.

SARS was first reported in 2003, and COVID-19 was in 2019. In the past 20 years, we had SARS, MERS, H1N1 influenza and COVID-19 on average once every five years; but we have received comments that the cycle will shorten to three years to four years.

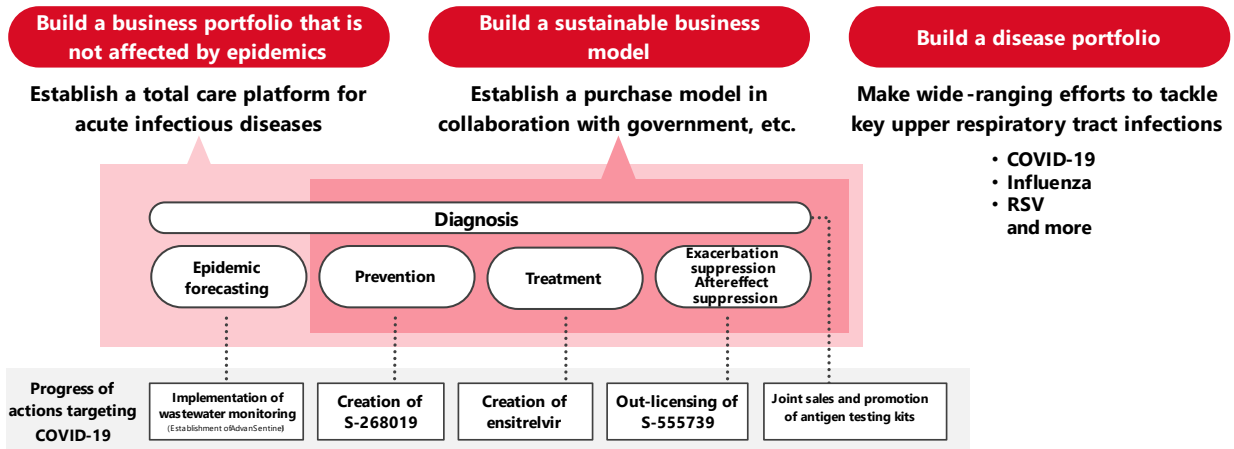
For example, in influenza, H1 and H3 are the mainstream now, but if something like H5 or H7 is transmitted via zoonosis, we will not be able to fight with them with the medical system and the weapons, diagnostics, treatments, and vaccines that we currently have. How do we move forward in this situation, and at the same time, malaria seems to have appeared in Texas and the mainland US this year for the first time in about 25 years, and mosquito-borne infectious diseases, including dengue and Zika, may become even more virulent.

Pool fever, as we all know, is caused by the adenovirus. Adenovirus, for example, cannot be disinfected with alcohol. I still think that there are a lot of things about infectious diseases to learn, including the fact that rubbing one's hands with alcohol like this does not prevent adenovirus or whatever, and what happens if it turns into something that can cause pneumonia?

With malaria, tuberculosis (TB), and NTM, which is a little next to TB, on the increase, we believe that there is still much to be done in the area of infectious diseases.

# SHIONOGI's Strategy for Sustainable Growth in the Infectious Disease Business

Globally deploying "total care that goes beyond therapeutic drugs" and a "sustainable business model"  
 By building a disease portfolio, you can diversify the risk of an epidemic without relying on a single disease



Of course, in the US and Europe, forecasting by sewage is already almost a way of life. I am currently talking with Japanese government to see if we can somehow raise the level of prediction and forecasting of infectious diseases by sewage.

As for diagnostic drugs, diagnostic drugs and antigen test kits for COVID-19 and influenza are currently available, but there is no capacity in Japan to produce such test kits that include all of these, including adeno and RSV. So we wonder if it is really safe when it happens, and, of course, there is still very little treatment available, so we feel that we really have a lot of work to do, including vaccines.

## SHIONOGI's Commitment to Infectious Diseases

- Providing therapeutic drugs developed in-house -

### Committed to infectious diseases for over 60 years based on our ability to create innovation and our expertise in infectious diseases

- SHIONOGI has been researching and developing infectious diseases for more than 60 years and has provided society with many anti-infective drugs.
- SHIONOGI is currently investing more than 50% of our R&D costs in the field of infectious diseases and are developing innovative solutions.

Proportion of R&D expenses for the infectious disease area (FY2021)



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#### Main infectious disease drugs developed in-house

1959	The sulfonamide drug <b>"Sinomin®"</b>
1988	The oxacephem antibiotic <b>"Flumarin®"</b>
1997	The cephem antibiotic <b>"Flomox®"</b>
2005	The carbapenem antibiotic <b>"Finibax®"</b>
2014	The HIV treatment <b>"Tivicay"</b>
2018	The anti-influenza virus drug <b>"Xofluza®"</b>
2020	A siderophore cephalosporin antibiotic <b>"Fetroja®"</b>
2021	The long-acting HIV treatment <b>"Cabenuva"</b>
2022	The antiviral pill for COVID-19 <b>"Xocova®"</b>

SHIONOGI

Historically, we have been doing this for quite a long time, more than 60 years, but we still have a lot to do, a lot that we are not doing at all.

In particular, antibacterial agents, such as penicillin and cephalosporins, have been overused for some time, and there is a tendency in the world to think that antibiotics also should not be used. In this context, pharmaceutical companies including other firms have not proceeded research and development on antibiotics for quite a long time. But the threat of AMR is still very great, and even at this point, as well as the lack of cough medicine and expectorants for example, we are actually short of carbapenems. Cephalosporin is also not supplied in sufficient quantities in our country.

This may sound fishy but considering that our country relies almost 99.9% on imports of raw materials from China, for example, and wonders whether our country will be safe from a security standpoint in the future, I believe that there is still much work to be done in terms of both antibacterial and antiviral agents.

## SHIONOGI's Commitment to Infectious Diseases

-Japan's first initiative to deliver therapeutic drugs globally -

**Both are first efforts by Japanese companies to provide services to LMICs.**



### Partnership with GARDP\*1 and CHAI\*2

- SHIONOGI and GARDP concluded a license agreement for non-exclusive rights to commercialize Cefiderocol in 135 countries.
- SHIONOGI, GARDP, and CHAI entered into partnership agreement to provide sustainable access to patients in need of Cefiderocol
  - Signing of sublicense agreement between GARDP and Orchid for the production of antibacterial drugs to provide cefiderocol



### Partnership with MPP\*3

- Concluded an agreement with MPP for the purpose of widely providing LMICs with Ensitrelvir.
  - Signed manufacturing sublicense agreements with seven generic drug manufacturers
- After obtaining regulatory approval, Ensitrelvir can be supplied to 117 countries under this agreement
- Waives royalties on sales in all countries covered by the agreement while COVID-19 remains classified as a Public Health Emergency of International Concern by the World Health Organization.

On the other hand, as I have always said, as the population grows from 8 billion to 10 billion, 2 billion of that increase will occur mostly in LMICs. The current situation is that no progress has been made on how to provide good anti-infective drugs in such areas, partly because of the price issue and partly because of the medical infrastructure issue.

We have teamed up with GARDP, CHAI, or MPP for the first time this time. We are working on infectious diseases, but we have not been able to participate in these areas until now, which is of course due to our own inability to do so. With a renewed awareness of infectious diseases, we would like to do everything in our power to provide the LMIC countries with as much support as possible.

## External Evaluation of SHIONOGI's Commitment

### Positive feedback from outside regarding AMR initiatives



"SHIONOGI should be very proud of its global leadership against bacterial infections: (1) bringing cefiderocol to the market and then voluntarily licensing it with technology transfer for the world's poorer countries; (2) supporting and working with push incentives like CARB-GARDP, and the AMR Action Fund; and (3) advocating for pull incentives in Japan and across the G7. Leadership matters, and Shionogi leads by example. CARB-X is delighted to partner with SHIONOGI as we build a sustainable ecosystem with both push and pull incentives."

KEVIN OUTTERSON, ESQ.  
Executive Director  
CARB-X (Combating Antibiotic Resistant Bacteria)



"From innovating lifesaving therapies to investing in groundbreaking initiatives such as the AMR Action Fund, SHIONOGI is a true leader when it comes to confronting the crisis of antimicrobial resistance. As the threat of AMR continues to evolve, it is encouraging to know that SHIONOGI remains deeply committed to patients affected by drug-resistant infections and clinicians who are facing a dwindling supply of effective therapies."

JOHN ALTER  
Head of External Affairs  
AMR Action Fund

We will have the head of CEPI visit us again in December, and I think we are probably one of the Japanese companies that are in the closest contact with GARDP, CHAI, CEPI, and other European companies centered in Geneva.

Although it is not yet confirmed, we are considering sending someone to CEPI next time. Because there are so few companies involved in the global field of infectious diseases, we would like to continue to promote this as the Materiality Number 1 Company, while talking with international organizations in this way, in the hopes that we can somehow send something useful from Japan and Asia to the world on infectious diseases.

I would like to close my presentation on SHIONOGI's original model and infectious diseases, and Niimi, Kishida, and Director Ando will have presentations on the rest. Thank you for your cooperation today.

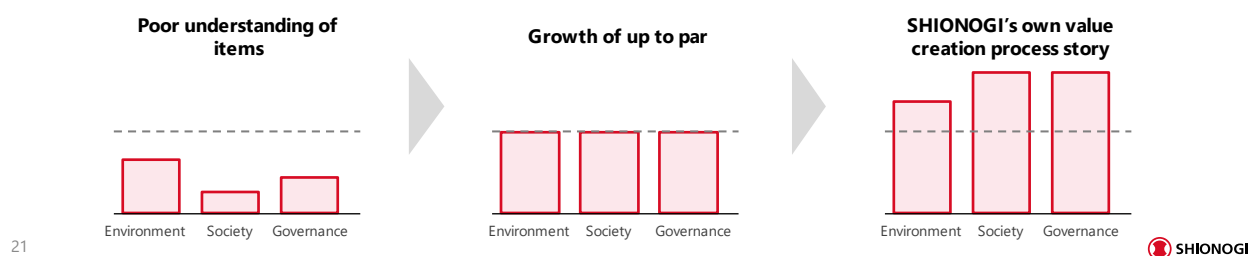
**Kyokawa:** Thank you very much. Now, Niimi will continue with an explanation on the promotion of sustainable business in harmony with nature and society. Thank you.

## History of SHIONOGI's Sustainability Promotion

### SHIONOGI was a laggard in sustainability promotion until a few years ago.

- We failed to present a value creation story linking financial and non-financial aspects.
- There were items that were being implemented but not disclosed and items that were not being implemented.
- Out of line with the disclosure framework, our disclosures were difficult to understand.
- There was a lack of discussion at the board level.

### Launched promotion activities in 2019 to become a top -tier company



**Niimi:** My name is Niimi from the Sustainability Management Department. Thank you for joining us today.

I would like to discuss this topic mainly by explaining how SHIONOGI has grown over the past few years.

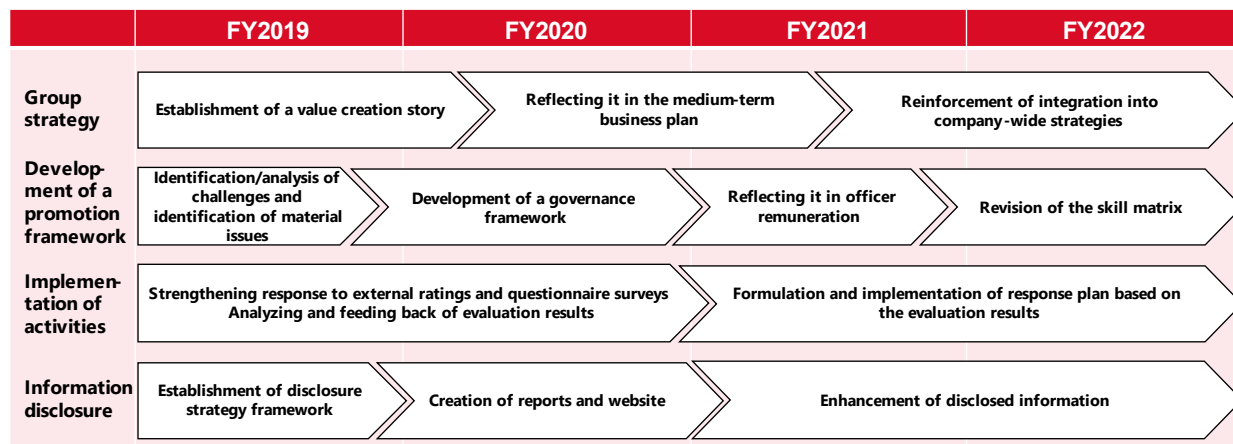
As many of you know, SHIONOGI was a sustainability developing company until a few years ago. As the topic of sustainability is increasingly discussed in our dialogues with investors, we have recognized that there are many issues that we have not yet addressed from the perspective of sustainability.

As described here, there was no value creation story, information disclosure was weak, management commitment was still insufficient, and governance needed to evolve. As a result, naturally, the external evaluation was sluggish, with E, S, and G all in the same state. We have initiated promotional activities to improve this situation.



## Sustainability Activity Promotion Road Map (2019–2022)

Defining strategies and frameworks for solving social issues, implementing activities, and enhancing disclosure will contribute to improving SHIONOGI's presence.



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In 2019, we have drawn up the roadmap shown here and have promoted activities over the past four years to enhance SHIONOGI's presence.

## Enhancement of Sustainability Promotion Framework & Activities

Establishing a dedicated organization and systematically reinforcing sustainability promotion activities lead to increased recognition within the company, including management, and advance the training of dedicated personnel within and outside the organization.

### FY2019

- Established the **ESG Promotion Team** as a virtual organization.
- Identified/analyzed the challenges to be addressed and identified material issues.
- Formulated an activity promotion roadmap and began enhancing information disclosure in line with the framework.

### FY2020

- Established the **Sustainability Management Office** as a dedicated organization.
- Identified material issues, formulated a roadmap, and implemented the action plan.
- Reporting to the Corporate Executive Meeting and Board of Directors on a regular basis.

### FY2021-

- Promoted as the **Sustainability Management Department**.
- Established WGs for each sustainability theme.
- Conducting improvement activities in tandem with the frontline.

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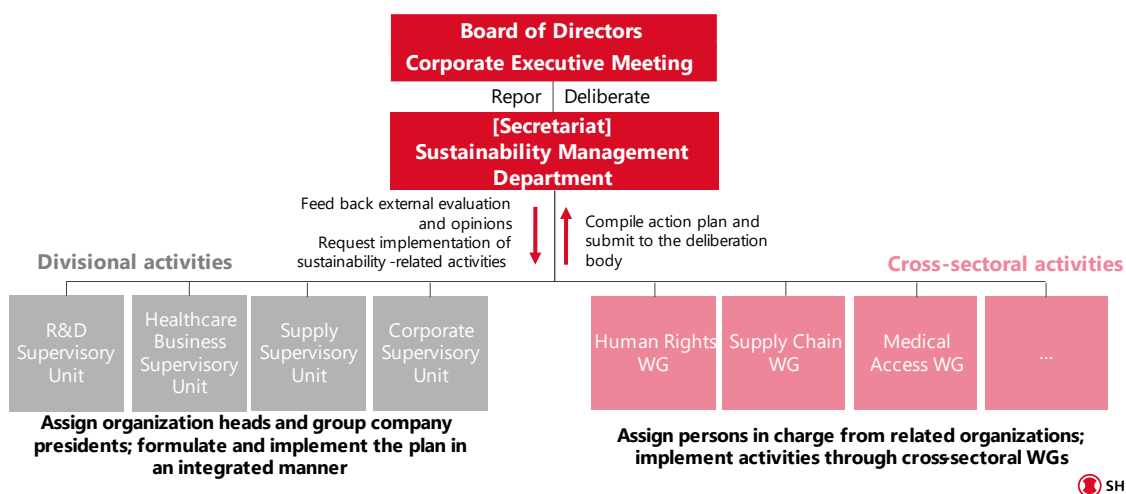
In 2019, we first set up a virtual organization to identify materialities and organize our strategy in order to build our value creation story. We then expanded our disclosure in accordance with the disclosure framework and prepared to ensure that SHIONOGI's strategy is properly understood by our stakeholders.

In 2020, we established a specialized organization, the Sustainability Promotion Office, which developed to the Sustainability Promotion Department in 2021, to accelerate the development and implementation of action plans.

In 2021, a cross-departmental working group was established, and the Sustainability Promotion Department supported the working group as a PMO (Project Management Office) to accelerate improvements and raise awareness of sustainability within the Company, including management, and to develop human resources.

## Governance Framework for Sustainability Promotion Activities

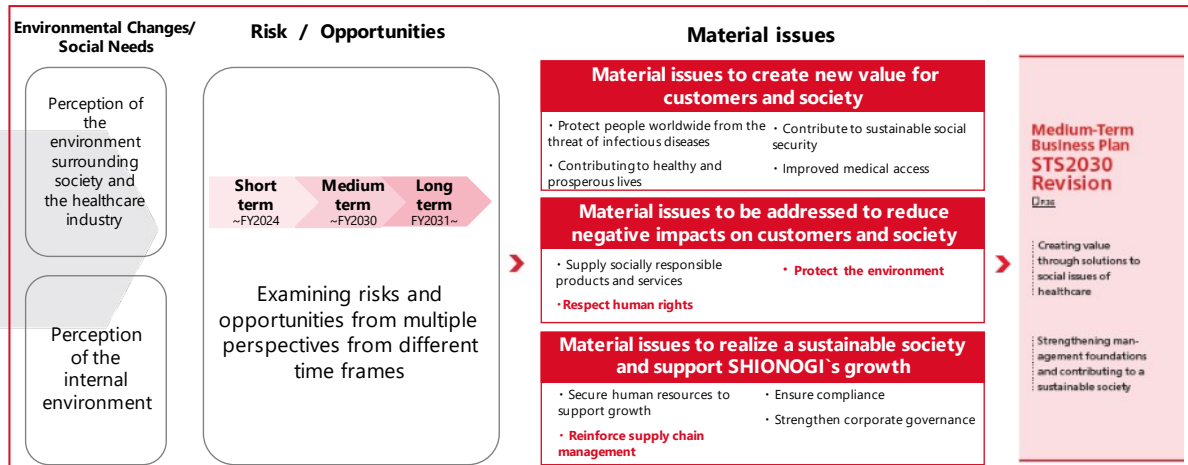
**As secretariat, the Sustainability Management Department supports the planning and operation of the activities, leading them to the next action with feedback from society and management.**



The Sustainability Promotion Department serves as the secretariat for this series of initiatives and coordinates the activities of each division and cross-divisional activities, reporting to and discussing them with the Corporate Executive Meeting and the Board of Directors.

## SHIONOGI's Material Issues

- Strategies are formulated after discussion at the management meeting and approval by the board of directors.
- SHIONOGI's sustainability is the combination of social sustainability and SHIONOGI's growth.



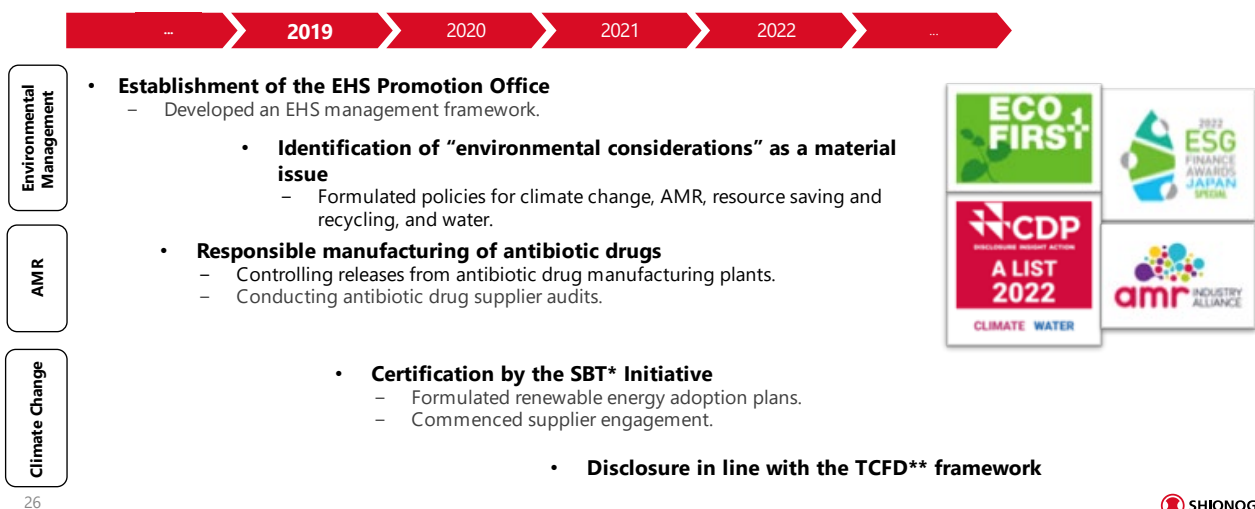
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In order to achieve both social sustainability and growth for SHIONOGI, we believe it is important to reduce the negative impact we have on society and the environment. Today, I would like to briefly introduce our efforts to date in the areas of environmental considerations, respect for human rights, and strengthening of supply management as key issues for mitigating negative impacts.

## Environmental Considerations

Further enhancing initiatives to alleviate environmental impact and protect natural resources.



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\*SBT: Science Based Targets \*\*TCFD: Task Force on Climate -related Financial Disclosure



Firstly, about the environmental issues. We have identified environmental materialities in 2019 and have been working to reduce our environmental impact with a focus on climate change and AMR. We have steadily improved our CDP score and various other external evaluations by obtaining accreditation from the SBT Initiative and disclosing information in accordance with the TCFD framework.

In addition, there are AMR, that is, antimicrobial resistance, as environmental impact recognition characteristic of SHIONOGI. AMR is not only caused by improper use of antimicrobial agents, but also by their release into the environment from factories during the manufacturing process. Therefore, it is the responsibility of antimicrobial manufacturers to strictly control this discharge. We are also in the process of asking our suppliers to manage their products in the same manner.

In addition to these efforts, we intend to assess the environmental impact of SHIONOGI's activities and promote initiatives that value the lives of all living creatures.

## Respect for Human Rights

### Keep implementing the due diligence process to continue responding swiftly to human rights issues in the supply chains.



- **Intensification of human rights issues and growing social demand to address the issues**
  - Guiding Principles for Business and Human Rights (UNGPs) adopted by the United Nations.
- **Statement of corporate stance on human rights issues**
  - Announced SHIONOGI's Principles on Human Rights based on the UNGPs.
  - Established the SHIONOGI Group Human Rights Policy based on the UNGPs.
  - Announced a statement on the Modern Slavery Act 2015 and human trafficking.
- **Identification of human rights issues at SHIONOGI**
  - Held dialogues with outside experts.
- **Implementation of human rights due diligence based on the UNGPs**
  - Carried out a human rights risk assessment.
  - Implemented a human rights impact assessment in the supply chains.
  - Disclosed assessment results and response status.



Respect for human rights is something we take for granted, but we have not been able to clearly state it or explain it to our stakeholders. Therefore, we first developed and disclosed our human rights approach and policy.

Based on this, we are proceeding with our efforts in an honest manner by conducting due diligence, including on-site investigations.

As stated in the STS2030, SHIONOGI is planning to strengthen its global sales including LMIC in the future. With this, we believe that the risk of facing human rights issues will increase more than ever before, and we will continue to work firmly on this PDCA cycle.

# Enhancement of Supply Chain Management

## Building sustainable supply chains through continuous supplier engagement.



- **Participation in PSCI\* aimed at promoting CSR procurement**
  - Strengthened consideration not only for the environment, safety, and health, but also for workers' rights and ethics.
- **Implementation of supplier assessment**
  - Conducting supplier assessment using PSCI questionnaires and on-site audits.
  - Introduced EcoVadis, an objective supplier assessment tool.
- **Statement of corporate stance on supply chain management**
  - Revised the SHIONOGI Group Procurement Policy.
  - Established the SHIONOGI Group Business Partner Code of Conduct.
- **Implementation of supplier engagement**
  - Obtained suppliers' consent to the Business Partner Code of Conduct.
  - Holding dialogue on social issues, including those related to the environment and human rights.



In order to promote environmental friendliness and respect for human rights, as I have just mentioned, we believe it is necessary to promote activities in cooperation with our suppliers, rather than SHIONOGI alone. Therefore, we have been working on this initiative while acquiring know-how through our participation in the PSCI and Pharmaceutical Supply Chain Initiative.

In addition, SHIONOGI has clearly stated its corporate stance by revising its procurement policy and establishing a code of conduct in 2020, and has begun to encourage its suppliers to endorse these policies.

We will continue to engage in dialogue with our suppliers to increase the effectiveness of our efforts to mitigate negative impacts and to fulfill our environmental and social responsibilities by strengthening SHIONOGI's initiatives.

## External Evaluation of SHIONOGI

	FY2018	FY2019	FY2020	FY2021	FY2022
<b>CDP</b>	Climate change: C Water security: Unanswered	Climate change: A - Water security: A	Climate change: A - Water security: A SER*: Leader board	Climate change: A - Water security: A - SER*: Leader board	<b>Climate change: A Water security: A Supplier engagement leader</b>
<b>FTSE</b>	2.9	2.9	3.4	3.7	<b>3.6</b>
<b>MSCI</b>	A	AA	AA	AA	<b>AA</b>
<b>DJSI</b>	17 points	19 points	45 points	53 points	<b>63 points The Sustainability Yearbook Member</b>
<b>S&amp;P/JPX Carbon Efficient Index</b>	Third decile	Third decile	Fourth decile	Fifth decile	<b>Sixth decile</b>
<b>SOMPO SNAM Sustainability Index</b>	Selected	Selected	Selected	Selected	<b>Selected</b>
<b>Health management survey</b>	Health & Productivity Stock White 500	White 500	White 500	Health & Productivity Management Outstanding Organization	<b>Health &amp; Productivity Management Outstanding Organization</b>
<b>Integrated report Environmental report</b>	"Most-improved Integrated Report" by GPIF	"Most-improved Integrated Report" by GPIF	"Excellent Integrated Report" by GPIF  Environmental Report Excellence Award in the Environmental Communication Awards	"Excellent Integrated Report" by GPIF  Special Award in the corporate environmental sustainability category of ESG Finance Awards Japan	<b>Silver Award in the WICI Japan Integrated Report Award Second Prize in Nikkei Integrated Report Award "Excellent Integrated Report" by GPIF</b>
<b>Other</b>				Recognized as a Sports Yell Company by Japan Sports Agency	<b>Recognized as a Sports Yell Company by Japan Sports Agency Recognized as an Eco -First Company by the Ministry of the Environment Recognized as the Best Workplace in the D&amp;I Award</b>

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\*SER: Supplier Engagement Rating



Through these efforts, various external evaluations have steadily improved. We believe that this shows that SHIONOGI's efforts are not self-indulgent and have been accepted by society.

## Future Issues and Outlook

Adding depth to company-wide strategies	Global reporting	Engagement
<p><b>What to work on and to what extent</b></p> <ul style="list-style-type: none"> <li>• Initiatives to be complied with</li> <li>• Initiatives unique to SHIONOGI</li> </ul> <p><b>Internal engagement</b></p> <ul style="list-style-type: none"> <li>• Dialogues with management and the organization; mutual understanding</li> </ul> <p><b>Setting corresponding indicators</b></p> <ul style="list-style-type: none"> <li>• Refine non-financial targets.</li> </ul>	<p><b>Understanding global trends in information disclosure</b></p> <ul style="list-style-type: none"> <li>• Understand trends in sustainability information disclosure standards (e.g., ISSB, CSRD) and share them internally.</li> </ul> <p><b>Development of an internal framework</b></p> <ul style="list-style-type: none"> <li>• Gather and disclose information on a consolidated basis, including overseas groups.</li> </ul> <p><b>Enhancement of information disclosure</b></p> <ul style="list-style-type: none"> <li>• Effective and efficient reporting methods</li> </ul>	<p><b>Creation of opportunities for two-way dialogue</b></p> <ul style="list-style-type: none"> <li>• Hold sustainability meetings.</li> </ul> <p><b>Promote dialogue with experts and parties concerned.</b></p> <ul style="list-style-type: none"> <li>• Improve the effects of and sense of satisfaction in the initiatives.</li> </ul> <p><b>Feedback to management and improvements</b></p> <ul style="list-style-type: none"> <li>• Promptly share obtained comments internally.</li> <li>• Promote continuous activity improvements.</li> </ul>

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Thus, compared to a few years ago, our sustainability efforts have been enhanced. However, we recognize that there are still many issues to be addressed. As society's expectations of us as a corporate citizen increase, we believe it is necessary to seek ways to fulfill SHIONOGI's responsibilities after fully considering how far we should go in our efforts and how we should use our limited resources.

To this end, we believe that it is necessary to further dialogue with management and establish KPIs for non-financial information to realize sustainability as a company-wide strategy and to increase the effectiveness of this strategy.

In addition, in order to fulfill our accountability for SHIONOGI's efforts, we intend to expand our information disclosure in light of global trends.

We also recognize that the most important thing is to make steady improvements, even if only one step at a time. To this end, we believe it is important to strengthen dialogue with our stakeholders, listen to what is lacking in SHIONOGI and to their requests, and to be attentive to their voices.

This time, we held a sustainability meeting and created an opportunity for dialogue as a two-way communication. We would like to take this opportunity for continued engagement and would be happy to speak with you individually.

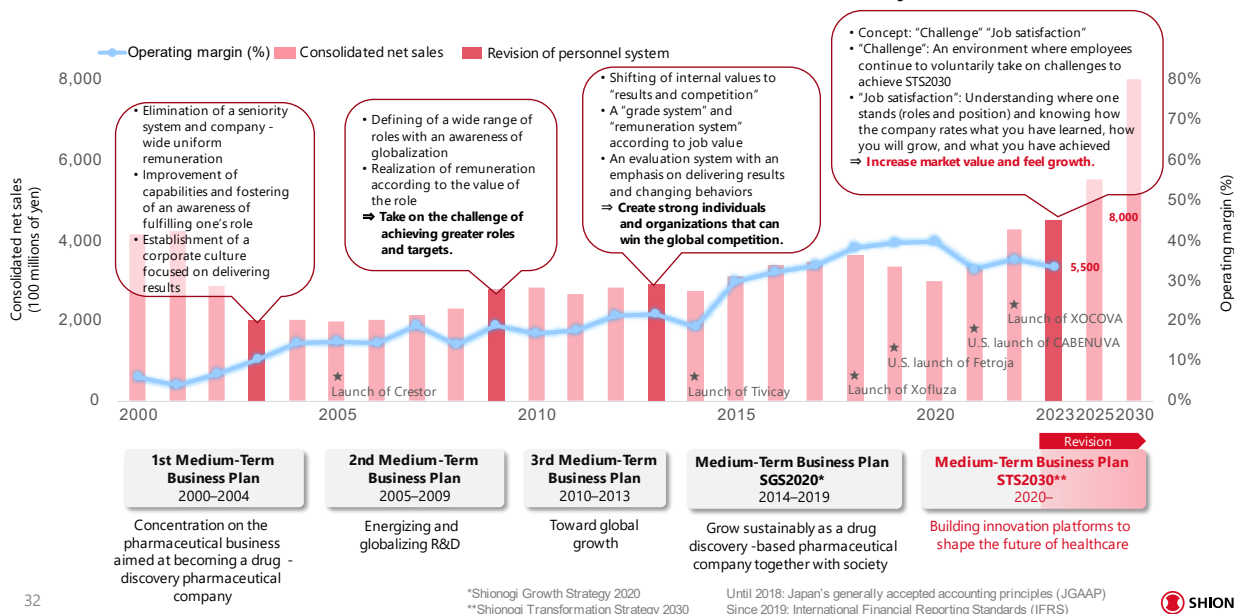
That's all from me.

**Kyokawa:** Now, Kishida will explain about human capital management and corporate governance.

**Kishida:** Hello, my name is Kishida, and I am in charge of the Corporate supervisory unit. Thank you.

As it was mentioned earlier, I would like to talk about human capital, which has recently become a very important part of non-financial information, and corporate governance, I would like to talk a little about our past efforts in this regard. Thank you.

## SHIONOGI's Growth and Transition of the Personnel System



First of all, I have listed the changes in our company and the timing of the changes in our personnel system.

This table shows that the personnel system was changed around 2003. Actually, although it is not shown in this table, we have changed our personnel system roughly every five years or so since we changed the system in 1998.

As many of you are probably aware, during the first medium-term management plan, we spun out various businesses in order to concentrate on ethical pharmaceuticals, and at the time, we were also consolidating our plants, and early retirement was also implemented. The personnel system in 2003 was revised to require those who remained in the Company to take a more rigorous approach. Since then, we have made changes while monitoring the status of each medium-term management plan and the operation of the system.

Recently, I was appointed as the head of the Human Resources Department in 2011, and in the revised HR system in 2013, we decided to abolish as much as possible the geriatric and seniority-based elements, and to change the system to one that emphasizes the abilities and roles being demonstrated at the time of the change. The system has been changed to one that completely eliminates seniority and personal factors for executive-level and manager-level employees.

In the case of unions, we have abolished the support allowance system and changed the system to a framework in which evaluation is conducted while still taking into consideration the development of union members' abilities. I believe that we have made it quite clear since that time that we will properly treat our employees according to their job value.

However, in the 10 years that have passed since then, various systems and company conditions have evolved, and although I mentioned earlier that the union-member class has developed its abilities, there are still some elements that remain based on seniority. This time, the personnel system was revised in 2023, and we decided to re-evaluate and re-rank everyone from scratch. It was surprising that a Japanese corporate HR person would go this far, so we really had to re-evaluate from the ground up.

In this context, I would like to re-examine how well each individual is performing and what is expected of them in the future, and after having a proper discussion with each one of them, we can raise the overall standard and move the Company forward to a new stage. With the highest profit and sales in the last fiscal year, we have made some drastic changes to our personnel system in order to send out a message that we will accelerate our development to the next stage.

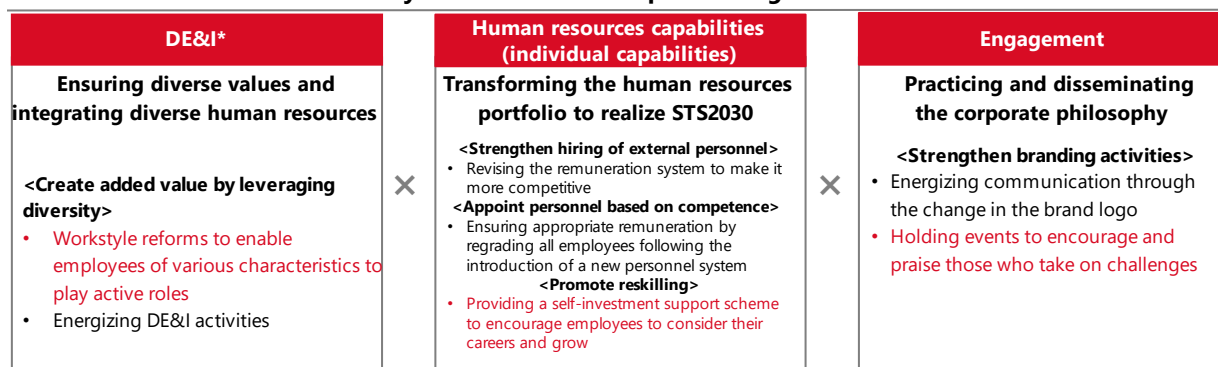
In this way, we have had serious discussions on how to link the Company's various strategies with the way human resources should be treated.

## Human Capital Management for Corporate Transformation

### Acquire new capabilities and integrate them internally to execute the growth scenario

- Acquiring and developing new strengths by leveraging past strengths (business execution capabilities, expertise)
- Assessing the progress of initiatives with KPIs and enhancing dialogue with stakeholders (main KPIs: short -term: execution of succession plan, utilization rate of self-investment support; mid - and long-term: progress of talent management, etc.).
- Implementing a special early retirement program (first time in approx. 20 years)

#### Key Points of Human Capital Management



33 \*Diversity, Equity & Inclusion: A concept for realizing an environment where diverse human resources respect one another and their strengths under fair opportunities by incorporating diversity, equity, and inclusion in corporate and educational philosophies



In addition to these points, we have summarized the three most important points of human capital management that we are currently focusing on. Diversity, equity, and inclusion are the most important themes for SHIONOGI right now, and we are working on the following issues: how much emphasis do we put on diversity and fairness, how to develop individual human resources, and how to draw out the ability of each individual to take on challenges comprehensively as a company. We have been considering how to integrate these and other measures and have been taking steps over the past several years.

## Vision for SHIONOGI's Human Resources: SHIONOGI Way

### Vision for SHIONOGI's human resources: SHIONOGI Way

**Have strengths that attract others and proactively take on and accomplish challenges, while aggressively improving knowledge and skills**



### Vision for SHIONOGI's managers

**Assist the growth of people and organizations and make wise decisions. Innovate and contribute to the development of society and the company**

- To carry out STS2030's enhancement measures and realize the SHIONOGI Group Heritage, all employees of the SHIONOGI Group must meet their required capabilities, actions, and requirements, and achieve growth continuously.
- The SHIONOGI Way and visions for SHIONOGI's managers have been established and presented to the employees to indicate the actions to be taken by and the requirements of the employees and managers of the SHIONOGI Group.

One of the messages that the Company is currently sending out to our employees is the SHIONOGI Way, which summarizes in the top half of the image of SHIONOGI's human resources, the kind of human resources that we want each and every one of our employees to become.

The wording has been slightly revised since the STS2030 Revision was released, but it still reads as "a person who possesses strengths that attract others, who actively takes on challenges and accomplishes tasks while voraciously enhancing his or her knowledge and skills."

Below that, and this is not publicized outside the Company, is the manager image. It is more straightforward: "someone who helps people's/organizations' growth and makes wise decisions. I am sure that everyone who reads this will think that making wise decisions is a matter of course.

However, we have also used the term "wise decision making," for example, in the sense that we want people to rethink what wise decision making means to us. We are rather straightforward and straightforward in the sense that we want to spark a new debate within the Company by repeating these words.

This wise decision making will be a common thread that runs through our actions in the governance area later on.

## Workstyle Reforms to Enable Employees of Various Characteristics to Play Active Roles

<b>Self-investment support scheme</b>	<ul style="list-style-type: none"> <li>• Introduced as a self-investment support measure with no limitation on the scope of use to bridge the gap between what employees aim to be and what they currently are</li> </ul> <p><b>[Scheme outline]</b></p> <ul style="list-style-type: none"> <li>• Target users: Union-level employees of SHIONOGI Co., Ltd.</li> <li>• Amount of support: 250,000 yen/year</li> </ul>
<b>Elective 4-day work week</b>	<ul style="list-style-type: none"> <li>• Supports skills improvement and self-improvement initiatives</li> <li>• Responds to employees' individual circumstances to realize diverse workstyles</li> </ul> <p><b>[Scheme outline]</b></p> <ul style="list-style-type: none"> <li>• Target users: Those who prefer a 4-day work week (excluding new graduates who joined the company less than three years ago, managers, and project managers)</li> <li>• Days off: Saturdays, Sundays, and a fixed day between Monday and Friday</li> </ul>
<b>Alleviation of side-job standards</b>	<ul style="list-style-type: none"> <li>• Supports employees who voluntarily take on challenges</li> <li>• Gives back to the company and utilizes the experience obtained outside</li> </ul> <p><b>[Scheme outline]</b></p> <ul style="list-style-type: none"> <li>• The work at SHIONOGI should be designated as the "main job" and the work elsewhere as the "side job," with priority given to the main job.</li> <li>• Only allows side jobs with no employment contract, e.g., sole proprietor, freelance, agriculture.</li> </ul>

This is a list of three rather major systems that we have recently introduced in the last few years. We will omit the detailed explanation of each. All in all, we would like each one of you to think about how you are going to think about your own career, and after thinking about that, where you are going to invest and what actions you are going to take.

In the past, the Company has created a fairly uniform and off-the-shelf training system. Rather, we let each person think about his or her own career. We have been introducing such measures from time to time to induce them to think and act on how to make time for self training or programs based on the careers they have considered.

## Events to Encourage and Praise Those Who Take on Challenges



### President's Award - SING of the Year -

- A President's Award event in its 11th year, aimed at making it a place for SHIONOGI's people to appreciate, praise, and enhance each other

### "I Want to Do It"

- A measure that respects employees' desire to take on challenges aimed at realizing the SHIONOGI Group Vision
- Employees are invited to send in proposals, with the adopted proposals turned into projects.
- In past "I Want to Do It," seven ideas were adopted, one of which was successfully commercialized as a wastewater -based epidemiology survey service at AdvanSentinel, a joint venture with Shimadzu Corporation.



We also want to praise those who took on the challenge, after all. We also decided to praise our employees straightforwardly.

At the top is the President's Award, which is presented once a year for the past 11 years. Anyway, we decided to take the ones that were innovative in each category and give them awards. They have presentations. The entire company will be present, not only on the day of the event, but also at various laboratories and factories, moving sequentially from year to year. We have continued to introduce and praise the divisions that have done a great job and of which we are very proud involving all members. All offices were connected online.

In addition, in the last few years, we have had a "I want to do it!" project, of which title is again straightforward. We have started an initiative in which we ask people to raise their hands if they are interested in doing something new, and after their presentations and deliberation with President Teshirogi and others, we will add resources to those that are interesting.

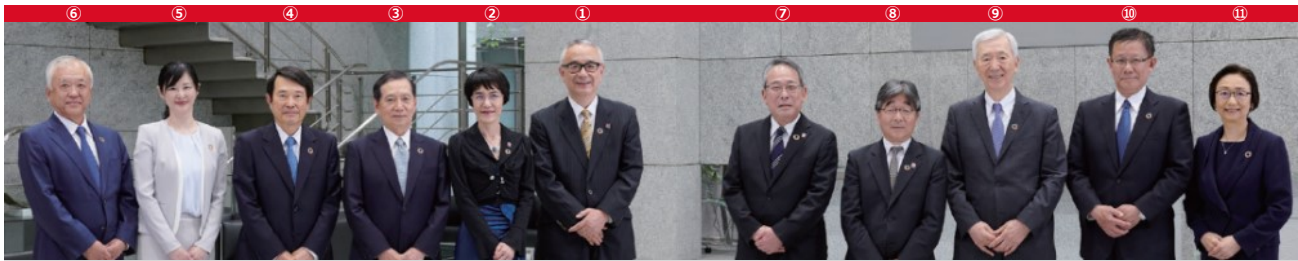
Some of you may be familiar with the sewage epidemiological study we are conducting through a joint venture with Shimadzu Corporation, and we have also begun to utilize YouTube. All of these projects are the result of this "I want to do this!" project. Some of the projects that we have started working on are born out of the "I want to do this!" project.

From this situation, we have accelerated our efforts to support employees who want to voluntarily raise their hands and do what they want to do.

It is not just a matter of creating one such mechanism, but rather a complex series of several, and we would like to further accelerate this process in the future. If you have any suggestions for interesting things that we could do, please let us know and we will incorporate them into the program quite quickly.

This is the end of the talk about human capital management; I would now like to move on to corporate governance. I would like to ask Director Ando to speak to you in the latter half regarding the effectiveness of the Board of Directors.

## Directors/Auditors



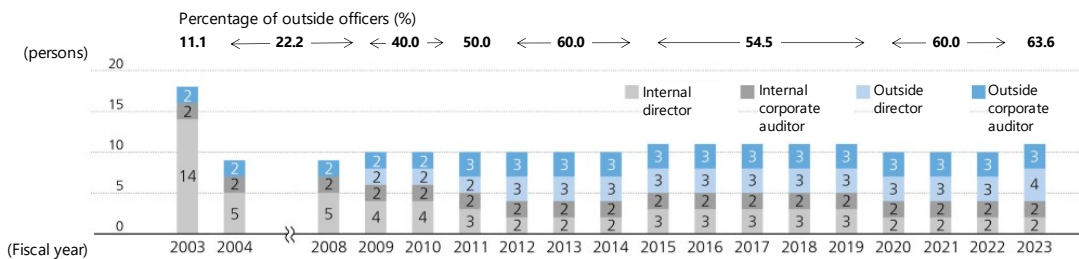
	Name	Number of years in post	Board of Directors	Nomination Advisory Committee	Compensation Advisory Committee		Name	Number of years in post	Board of Directors	Board of Auditors	Nomination Advisory Committee	Compensation Advisory Committee
①	Representative Director, President and CEO <b>Isao Teshirogi</b> (63/Male)	21years	○	○	○	⑦	Standing Corporate Auditor <b>Akira Okamoto</b> (68/Male)	8years	○	○	-	○
②	Director and Vice Chairperson of the Board <b>Takuko Sawada</b> (68/Female)	8years	○	-	-	⑧	Corporate Auditor <b>Ikuo Kato</b> (69/Male)	7years	○	○	-	-
③	Independent Outside Director <b>Keiichi Ando</b> (71/Male)	7years	○	Chairperson	○	⑨	Independent outside Auditor <b>Tsuguoki Fujinuma</b> (78/Male)	4years	○	○	-	-
④	Independent Outside Director <b>Hiroshi Ozaki</b> (73/Male)	4years	○	○	Chairperson	⑩	Independent outside Auditor <b>Shuichi Okuhara</b> (55/Male)	3years	○	○	-	-
⑤	Independent Outside Director <b>Fumi Takatsuki</b> (48/Female)	3years	○	○	○	⑪	Independent outside Auditor <b>Yoriko Goto</b> (64/Female)	-	○	○	○	-
⑥	Independent Outside Director <b>Takaaki Fujiwara</b> (71/Male)	-	○	○	-							

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The page you are viewing now shows the list of directors/auditors. Please take a look at this page.

## Corporate Governance Transition



FY2004

- Reduction of number of internal directors from 14 to 5
- Introduction of a corporate officer system

FY2009

- Hiring of outside directors
- Establishment of the Nomination Advisory Committee
- Establishment of the Compensation Advisory Committee
- Commencement of opinion exchange meetings with corporate auditors

FY2012

- Outside officers to make up the majority of the board

FY2015

- Commencement of dialogue with outside directors
- Appointment of a female director

FY2017

- Change in composition of Nomination Advisory Committee and Compensation Advisory Committee
- (Majority of members to be outside directors)

FY2020

- Appointment of an outside director as chair of the board
- Increase in female directors (increase in the ratio of women on the Board of Directors)

FY2023

- Appointment of a female corporate auditor

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This page shows the changes in the number of directors and auditors in chronological order as the change of our corporate governance institution. We introduced an executive officer system in FY2004, and took the opportunity to change the number of internal directors from 14 in the past to a much smaller number of five. Subsequently, in 2012, a majority of the members became outside directors, and a majority of both directors and auditors are from outside.

As you all know, from 15 years later, there was a temporary three-person, in-house organization with Shiono, who was the chairman at the time, Teshirogi, and Sawada, which was a time when the majority was half. As Mr. Ando will talk about later, we have begun to evaluate the effectiveness of the system since 2016.


We have also been working to ensure that the majority of the members of the Nomination Advisory Committee and the Remuneration Advisory Committee are from outside the Company, while incorporating advice from various effectiveness evaluations. We have also been conscious of the ratio of male and female board members. Now we are progressing to the current system.

The next page, and the page after that, are pages that introduce each of these skillful things, so we will not discuss them individually.

# Corporate Officer


## Corporate Director

**Isao Teshirogi**



- Corporate management/Management strategy
- Science/Technology/Innovation
- Global business
- Risk management
- SDGs/Sustainability
- Law/Compliance/Intellectual property
- Manufacturing/Quality/Supplychain
- Corporate governance


**Takuko Sawada**



- Corporate management/Management strategy
- Science/Technology/Innovation
- Global business
- Risk management
- SDGs/Sustainability
- Sales/Marketing
- Personnel and labor affairs/Humancapital development/DE&I
- Corporate governance


## Standing Corporate Auditor

**Akira Okamoto**



- Risk management
- SDGs/Sustainability
- Sales/Marketing
- Personnel and labor affairs/Humancapital development/DE&I
- Corporate governance
- Law/Compliance/Intellectual property

**Ikuo Kato**



- Risk management
- SDGs/Sustainability
- Science/Technology/Innovation
- Corporate management/Management strategy
- Corporate governance
- Law/Compliance/Intellectual property

# Outside officer

## Abundant experience as a manager

**Keiichi Ando**



- Corporate management/Management strategy
- Finance/Accounting/Taxation
- Global business
- Risk management
- SDGs/Sustainability
- Personnel and labor affairs/Humancapital development/DE&I
- Corporate governance

**Hiroshi Ozaki**



- Corporate management/Management strategy
- Science/Technology/Innovation
- Global business
- Risk management
- SDGs/Sustainability
- Sales/Marketing
- Manufacturing/Quality/Supplychain
- Corporate governance

**Takaoki Fujiwara**




- Corporate management/Management strategy
- Sales/Marketing
- Personnel and labor affairs/Humancapital development/DE&I
- SDGs/Sustainability
- Corporate governance

**To achieve STS2030 Revision, obtain the necessary points, recommendations, and advice for transparent, fair, prompt, and bold decision-making from outside officers with diverse experience and skills.**


## Advice from an expert perspective

**Fumi Takatsuki**




- Global business
- Risk management
- SDGs/Sustainability
- Personnel and labor affairs/Humancapital development/DE&I
- Corporate governance
- Law/Compliance/Intellectual property

**Tsuguoki Fujinuma**




- Global business
- Risk management
- SDGs/Sustainability
- Finance/Accounting/Taxation
- Law/Compliance/Intellectual property
- Corporate governance

**Shuichi Okuhara**



- Corporate management/Management strategy
- Science/Technology/Innovation
- Personnel and labor affairs/Humancapital development/DE&I
- Corporate governance
- Finance/Accounting/Taxation

**Yoriko Goto**



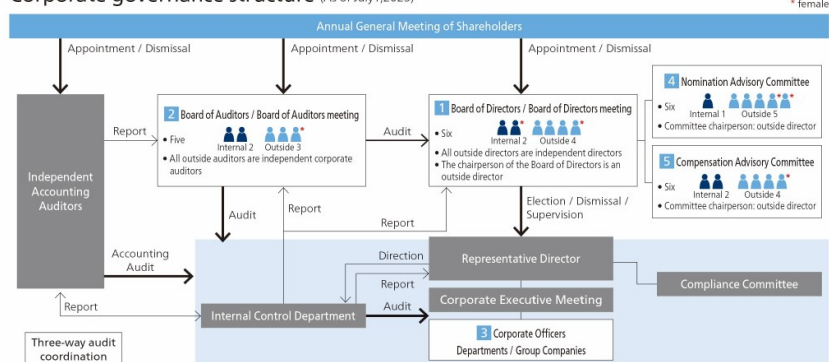
- Global business
- Risk management
- SDGs/Sustainability
- Corporate management/Management strategy
- Finance/Accounting/Taxation
- Personnel and labor affairs/Humancapital development/DE&I
- Corporate governance

In this page, we are considering the composition of the external board members by balancing those who can provide advice and opinions based on their experience as business managers with those who can provide opinions from the perspectives of professionals including lawyers, certified public accountants, and others.

# Toward Strengthening Management Supervisory Functions

**Highly transparent management and quick and decisive decisionmaking by strengthening management and supervisory functions and separating business execution**

Corporate governance structure (As of July 1, 2023)



**Board of Directors**

- Various measures to improve effectiveness
- Strengthening management and supervision functions

**Business Execution Framework**

- Review of organizational structure
- Reforming the decision-making process

Next, page 42.

When we talk about the enhancement of the Board of Directors in corporate governance, the focus is usually on improving the effectiveness of the Board of Directors or improving its ability to monitor management.

What Teshirogi has been telling us for a long time is that the quality and capability of the Board of Directors must be improved, and the quality of the business execution side must also be enhanced in order for the Board of Directors to be able to focus on monitoring. In this sense, we have been enhancing the quality and capability of the Board of Directors and the quality of the business execution side, while considering once again that it is very important to find a balance between them. In these years, we have been focusing on enhancing it.



## Initiatives to Ensure Effectiveness of the Boards

### Advance briefing of agenda items to outside officers

- Ensure earlier provision of materials.
- Provide advance briefing of matters requiring in-depth discussions or matters requiring background information.

### Opinion exchange meetings between outside officers and the president


- A place for free and open exchange of opinions to facilitate deeper discussions at board meetings
- Theme: A wide range of themes including industry trends, SHIONOGI's business, and management training plans and training status
- Attendees: Representative Director, President and CEO, outside directors, outside corporate auditors, standing corporate auditors

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### Information exchange and study meetings with outside officers

- Study meetings by management and outside officers to deepen understanding of the industry and SHIONOGI's business
- Study meetings held in FY2022:
  - SHIONOGI Group's R&D strategy
  - The progress of DX at SHIONOGI

### Analysis and evaluation of effectiveness by a third-party organization

- A questionnaire consisting of 60 questions on the framework, roles and responsibilities, and operation of the Board of Directors (47 multiple-choice questions, 13 open-ended questions)
- An interview with each officer after the questionnaire
- Utilization of a third-party organization
- SHIONOGI's scores were above the average of other companies in all multiple-choice questions. 

This page describes the area of ensuring the effectiveness of the Board of Directors.

I am sure Mr. Ando will be able to talk about this later, so I will leave you with a brief overview. The explanation of the agenda in advance for the Board of Directors' meeting used to be a little simpler, but now, instead of doing it remotely, the explanation is much more substantial, and the person in charge of the specialized department is given a very detailed explanation in advance.

In addition, we have been holding information exchange meetings and study sessions in order to accelerate the process of understanding the characteristics of the pharmaceutical industry, which requires some time, and to help people quickly become familiar with the industry. We have been enhancing the content and frequency of the information exchange and study sessions, while receiving feedback from the past effectiveness evaluations.

As for the effectiveness evaluation, a feasibility evaluation by a third-party organization was introduced for the first time this year. I will explain the details of this later.

# Transformation of the Decision -Making Process

## Improving the speed, transparency, and traceability of decisionmaking



### Establishing a scheme that enables sophisticated decision-making according to the business risk

- Determine business risk ("deviation" of the actual result from the goal) comprehensively based on uncertainty\* and degree of impact\*\*.
- Determine the impact on the company comprehensively based not on the conventional standard of monetary impact but on the size of business risk.
- Operate an authorization system that carries out centralized recording and managing of all processes related to decisionmaking.

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\*Uncertainty: "Difficulty of work," "timing of the manifestation of results of decision-making," etc.

\*\*Degree of impact: "Scope of impact related to the decision-making," "size of impact that accompanies the result of the decision-making," etc.



The next two pages are on the business execution side, which is another recent initiative.

Teshirogi and we, on the executive side, have been doing our homework on how to improve the quality and speed of business execution and decision making.

As a measure, we have abolished the approval system three years ago. As you are probably aware, Japanese companies have a standard for approval, for example, if the amount is JPY100 million or more, it must be submitted to the Board of Directors, and then the decision is made mechanically, or the decision is made with confirmation with several name seals. We stopped doing that altogether, while each class considers whether to leave it to higher-level decision making or to take responsibility and make decisions on their own. Therefore, we have basically abolished the monetary criteria, and we are also abolishing this decision-making process with approval.

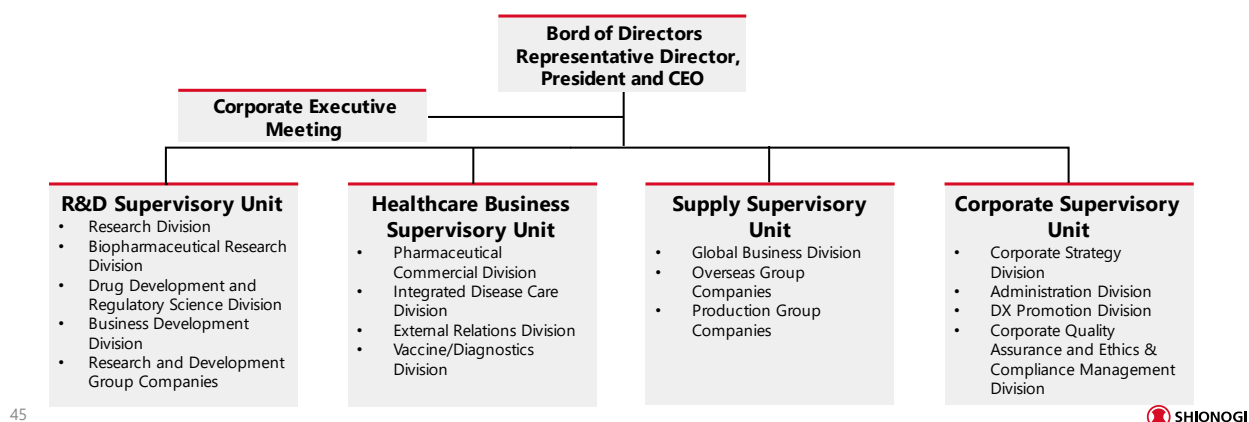
In this context, for the past three years, we have been working to have the raising side consider whether the decision should be made at the headquarters, by the general manager, by the supervisor, or by the management committee, and whether it should be brought to the management committee for approval by Teshirogi, the Chief Executive Officer.

When we introduced the system, Mr. Ando and other people outside the Company asked us if this will be okay, but so far I think it has been quite successful.

## SHIONOGI's Business Execution System

**Clarify the location of responsibility for business execution and aim to further improve the quality and speed of decisionmaking**

- Transition to a system in which each major value chain is in charge (July 2022)



The next page shows the new system of management, which was introduced last year. Until then, management meetings were meetings where general managers gathered, and since many of them were former general managers, they had become meetings where people representing the interests of the headquarters gathered.

We are already in the process of discussing whether it is really necessary for the management of the Company, with only the four people in charge, the directors, and the auditors. The proposals that come from each of these departments have been reviewed by the management, which means that they are not proposals from a single department, but proposals that are based on a company-wide perspective, and only then are brought to the Management Committee.

In addition, at this management meeting, we review every week the decisions made by the managers just under the Board of Directors positions and the decisions made by the general managers of the divisions. In the process, everyone discusses and confirms whether the decision should have been made by the general manager or whether it was appropriate for the supervisor to make the decision, and then proceeds to the next step.

In some cases, homework will be assigned for the decisions that have been made, and they will have to answer the homework properly and report back this time. We have been repeating this process for the past year, and I believe that we have been able to eliminate many omissions from our various studies. In this sense, I believe that the quality of decision making and decision-making processes and the lack of omissions have been eliminated to a great extent.

In this sense, we have changed the decision-making process by abolishing the approval process and changing to these managerial decisions, and we have also established this system of control and have repeatedly implemented a system in which each decision is made one by one and reviewed properly, which is functioning in a very positive way. We believe so at this moment.

Perhaps, we were able to do this because of the size of our Company, but I feel that this is an effective governance system at our current stage. We will continue to brush up the quality and speed of decision making on the executive side by repeating this process.

# Senior Management Training System

## Human resources pool

- **Early Management Candidate Training (Topaz Program)**
  - A training program for unionlevel employees who have the potential to become organization heads within five years
  - Participation in Jr Board activities and various training assessments at SHIONOGI Group companies
- **Senior Management Candidate Training (Diamond Program)**
  - A training program for human resources who can assume the position of organization head at any time
  - Priority participation in manager training (advanced course); in charge of mentoring Topaz personnel
- **Commissioner system**
  - Established as a position for future corporate officer candidates and a position to perform duties similar to those of a corporate officer.

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## President's Management Seminar

### Led by the President to train next-generation organization head candidates.

- **Launched in FY2012**
  - The heads of all value chain divisions recommend the participants (7-16 persons).
- **Objective of the President's Management Seminar**
  - To acquire a companywide perspective (understanding other value chains).
  - Tenacity (performance in the current operations + work on challenging issues; implemented 7-9 times a year)
- **In the 11 years since the launch:**
  - More than 80 people have graduated.
    - > Corporate officer: 10/16 people
    - > Organization head: More than 60% of participants



 SHIONOGI

Lastly, with that said, I'm just wondering how the training of senior management is going.

First, regarding the pooling of human resources shown on the left side, we are currently pooling young candidates for executive positions, or pooling those who have the potential to become organization heads. We have already created that level of system.

In this regard, for example, we have given young management candidates the experience of serving as external directors of group companies within the Company, and we have even appointed them to the Board of Directors of a group company to observe its management for one year.

Through such efforts, we have been trying to train our staff not only in their current duties, but also in their knowledge of management in general.

Recently, we have decided to appoint board members as candidates for executive officers, we have been holding regular roundtable meetings with outside board members, and we have received comments from outside board members that they would like to see more employees in the effectiveness evaluation, and they would like to see each person who is a candidate for an executive position. In addition to the conventional executive officer class, we have been creating opportunities for board members to meet with outside directors.

As you have probably heard several times in the past, Teshirogi himself plans everything for the President's School on the right side, and he provides all of the content, including the topics. We have been selecting and training between seven and 10 candidates for the position of organization head, or in some cases, young organization heads, every year.

Teshirogi has been in operation for more than 10 years or 11 years, and more than 80 people have already completed the training. As noted here, the majority of executive officers and department heads are now graduates of the President's School, so the Company is being managed by people who have the self discipline that Teshirogi expects. What kind of strengths they have and what kind of areas they need to study, and how they realize these issues during their year at the President's School by themselves, and how they have trained

themselves from there. We are looking at these issues and allocate them to appropriate positions. We believe that it is quite established and functioning well here.

That is all for my time, but after this, Mr. Ando would like to talk about how the Board of Directors is functioning as seen by the outside directors through the effectiveness evaluation. Thank you.

**Kyokawa:** Thank you very much. Mr. Ando will continue his presentation on the effectiveness of the Board of Directors. Thank you.

**Ando:** I am Ando, an independent outside director. Thank you.

Since he has just explained the corporate governance system, I would like to take this opportunity to explain my role and responsibilities as an outside director, which is a prerequisite for evaluating the effectiveness of the Company's corporate governance.

I recognize that the role of outside directors is to share the Company's management philosophy, values, and vision, and then work together with the President and management team to share issues and strategies to achieve sustainable growth and enhance corporate value over the medium to long term. Second, I recognize that as a pharmaceutical company, we have an extremely important social responsibility to protect people's health, safety, and security, and that we must realize the enhancement of our corporate social value and become a trusted presence for our stakeholders and society.

As the preconditions were indicated before, in order to share the management philosophy and vision, which is a prerequisite, we have meetings where outside directors and the president exchange opinions in a very frank manner, sometimes over a meal.

There are frank discussions about business policies, strategies, and management training policies, and the president's thinking and direction regarding management are shared firmly. We feel that a relationship of mutual trust is firmly established.

In addition, we feel that our recent applications for emergency approval of Xocova, a therapeutic drug against COVID-19, and the application for approval to manufacture and market a prophylactic vaccine have enabled us, SHIONOGI for infectious diseases, to meet society's expectation and increase social value through the resolution of social issues.

On the one hand, there were business risks, including the question of whether we really had to do this because we are SHIONOGI of infectious diseases, and on the other hand, we invested considerable management resources in this sector. As a result, we feel very happy that it was approved in this way and is now recognized by the market.

It is then important to establish highly effective corporate governance. To this end, the first and most basic step, as mentioned earlier, is to strengthen the management oversight function, ensure transparency, fairness, and accountability in the decision-making process, and firmly fulfill the decision making and oversight functions of the Board of Directors.

Next, we will make prompt and firm decisions through active discussions based on diverse perspectives on management issues such as the STS2030 Revision, including growth strategies, business strategies, and business plans, and will make a firm commitment to these issues.

In addition, we will continuously monitor whether business strategies and plans are being steadily implemented, and in some cases, we will revise plans in response to changes in the business environment.

As mentioned by the president earlier, the business environment has changed significantly since the STS2030 was formulated, due to the global spread of COVID-19, and based on discussions at the board meeting, the STS2030 has been revised to address infectious diseases and to strengthen the R&D system. In this regard, we have revised STS2030 based on the discussions at the Board of Directors meeting.

Third, as the Nominating and Compensation Committee, we recognize the importance of creating a succession plan, selecting management, developing human resources, and promoting diversity engagement, as well as ensuring transparency, fairness, and eligibility in personnel matters, performance evaluation, and compensation systems.

In addition, as the Chairperson of the Board of Directors, I am aware of the importance of setting a timely and accurate agenda for the Board of Directors meetings, which was mentioned earlier in the item, in order to ensure a high level of effectiveness of the Board of Directors meetings.

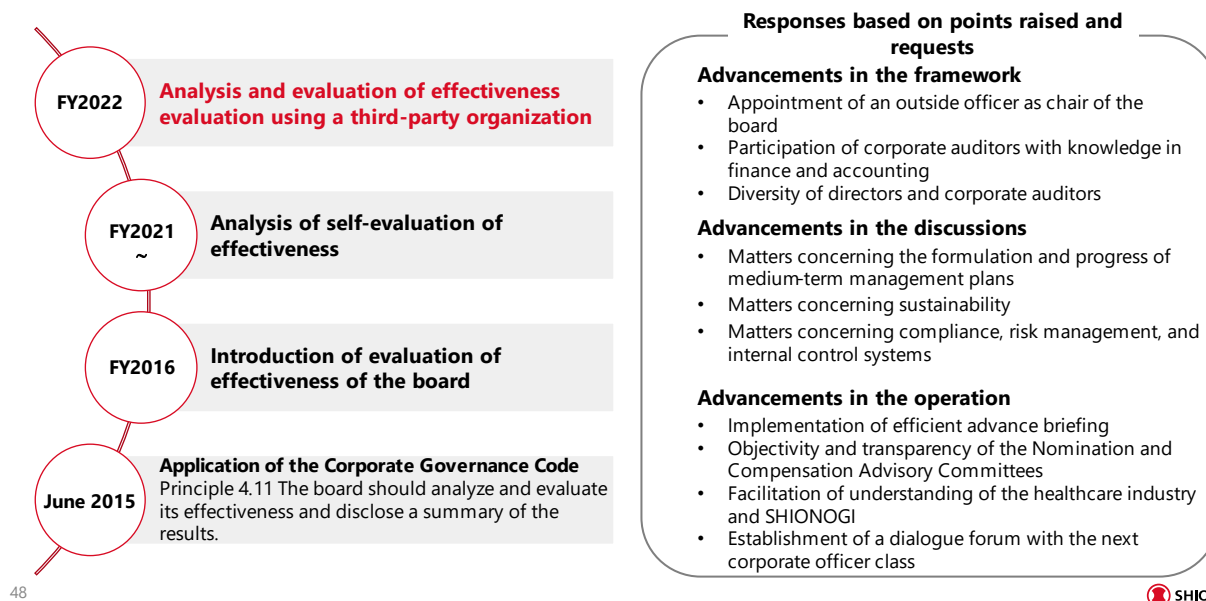
In particular, over the past few years, we have received timely and appropriate reports in a frank manner on the development status of COVID-19 drugs and vaccines, their progress, and, most complicated of all, the deliberations of the relevant ministries and agencies.

In addition, in order to deepen the understanding of outside directors of important matters, including M&A, the sections in charge of such matters provide advance explanations and Q&A sessions to deepen independent discussions at board meetings. One or two or three days before the Board of Directors meeting, we set aside an hour or so to have the person in charge explain the contents of the meeting via the Internet, and to ask various questions in response to the explanation. In that sense, I feel that the discussion at the board meeting is becoming very deep.

In addition, the Board of Directors is asked to report on the status of the execution of individual business activities, and laboratory and factory inspections are also conducted.

In addition, we are working to strengthen the functions of the Board of Directors by identifying issues through the evaluation of the Board's effectiveness.

## History and Performance of the Effectiveness Evaluation



About the effectiveness evaluation in your handout.

As noted at the bottom left, in response to the Corporate Governance Code created in June 2015, we have been evaluating the effectiveness of our Board of Directors through self assessment since FY2016, and have analyzed the effectiveness of our Board of Directors through self assessment since then until FY2021.

In FY2022, we are using a third-party organization to analyze and evaluate the effectiveness of governance, aiming to gain awareness of new issues from an external perspective and to confirm the relative position of governance.

As shown on the right side of this page, we have been working to strengthen the system, enhance the content of discussions, and review the management.

## FY2022 Effectiveness Evaluation Using a Third -Party Organization

### Objective and background

- To ensure objectivity and gain insights into new discussion points from the questionnaire that covers the latest topics.
- Assessing relative to other companies through score comparisons

### Questionnaire results (rated on a 5-point scale)

- **SHIONOGI's scores were above the average of other companies in all 47** comparable questions.

#### Questions in which SHIONOGI's scores significantly exceeded the average scores of other companies

1. Advance provision of materials for the Board of Directors
2. Potential management risks and how to address them; discussions on the risk management system, etc.
3. Design of the management remuneration system and board discussions on the decision of specific remuneration amounts
4. Appropriate supervision over the training of successors of the Chief Executive Officer (CEO), etc. (one of the three questions with the lowest scores at SHIONOGI)
5. Basic sustainability policy, initiatives to improve it, and disclosures
6. Identification of actions to be taken regarding sustainability from a risk and opportunity perspective and reflecting them in management strategies
7. That the internal directors speak from a companywide perspective as supervisors of business management and contribute to fostering free and open discussions
8. Sharing the discussions at the Nomination and Compensation Advisory Committees with the Board of Directors

Next is the effectiveness evaluation for FY2022. We recognize that the evaluation of our company's effectiveness is at a relatively high level, but as you can see below, based on interviews with each board member as well as the scores obtained from the questionnaire, there are naturally many points that require further improvement in terms of discussion content, management, and systems.

## FY2022 Self-Evaluation of Effectiveness Summary of Interview Results

	Discussions	Operation	Framework
Points to be commended	<ul style="list-style-type: none"> <li>Increase in the number of reports on the progress of STS2030</li> <li>Quality and sufficiency of discussions on sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Timing of providing materials for the Board of Directors</li> <li>Atmosphere of board meetings enabling free and open discussions</li> <li>Quality and sufficiency of discussions</li> </ul>	<ul style="list-style-type: none"> <li>Number of personnel appropriate for the business scale</li> <li>Percentage of outside officers</li> <li>Diverse attributes, experience, and expertise</li> </ul>
Points for further improvement	<ul style="list-style-type: none"> <li>Discussions for DX promotion</li> <li>Expansion and utilization of human capital</li> <li>Setting non-financial KPIs</li> </ul>	<ul style="list-style-type: none"> <li>Increasing advance provision of information for higher quality and sufficiency of discussions</li> <li>Support system for directors and corporate auditors</li> </ul>	<ul style="list-style-type: none"> <li>Governance structure and number of personnel in view of business domain expansion                             <ul style="list-style-type: none"> <li>Enhancement of global skills</li> </ul> </li> <li>Increase in opportunity of dialogue with commissioners</li> <li>Successor training</li> </ul>

As for the content of the discussion, as you can see there, we should proceed with the discussion on the promotion of DX, expanded use of human capital, and the establishment of non-financial KPIs. Although free and vigorous discussions are taking place on the management side, it is necessary to expand the provision of information in advance and strengthen the support system for directors and auditors.

Next, as the president explained earlier, we are currently working on the transformation of our business model to evolve into a HaaS company by 2030, while refining our strengths as a drug discovery-based pharmaceutical company.

We need to continue to address important management issues such as the pipeline through aggressive investment, cultivation of growth drivers, expansion of drug discovery modalities, strengthening of global strategies, and promotion of human capital management.

To this end, as has been pointed out here, we feel that it is necessary to review the current governance structure, including the Board of Directors, in order to respond to the expansion of business areas, such as overseas, and to deepen discussions from a broader, more multifaceted perspective.

We also believe that it is important for the Nominating Advisory Committee and the Board of Directors to thoroughly discuss the succession plan to develop successors, which we recognize as a major management issue.

We recognize that the environment surrounding the pharmaceutical industry is very severe, and that the pharmaceutical industry, not limited to our company, is highly dependent on royalty income for earnings, has patent cliffs, and has an unstable earnings structure.

Therefore, we are faced with the difficult management issue of how to build a highly profitable and stable earnings base and how to achieve sustainable growth. With an awareness of this crisis, as an outside director, I intend to further enhance the Company's corporate value and social value.

That's all from me.



**Kyokawa:** Thank you very much. Now, Teshirogi would like to conclude with a summary of today's meeting. Thank you.

## Succession at SHIONOGI

### SHIONOGI's initiatives

- ① Building a talent pool at three levels: Early Management Candidate Training (Topaz), Senior Management Candidate Training (Diamond), and commissioners
- ② Holding dialogue between commissioners and outside officers at least twice a year to check the commissioners' aptitude as a corporate officer from the perspective of an outside officer
- ③ Checking the candidate personnel and exchanging opinions from internal and external perspectives at opinion exchange meetings between outside officers and the president
- ④ Discussing at the Nomination Advisory Committee and receiving advice from outside officers in light of processes throughout the year, including the candidate's performance and skills and evaluations of ② and ③

### Our approach to top management selection

- Emphasis is placed on the candidate's management skills and ability to execute on challenges toward transforming the business model, in recognition of SHIONOGI's management risks and business risks and in line with environmental changes.
- The term of office should be long term, based on the assumption that qualities such as compliance and integrity are maintained.
  - Since R&D of pharmaceuticals takes more than 10 years, a short term of office makes it difficult to make management decisions from a long-term perspective.

**Teshirogi:** Thank you very much for today's meeting. On the next page, I have written a bit about my thoughts on the succession.

I would have asked Kishida or Director Ando to tell you, but since it is my own thought, I should tell you by myself, so I will tell you a little about it.

As Kishida explained, the organizational reform of how decisions are made is a result of the fact that many people have worked in the R&D, production, sales, and corporate divisions of pharmaceutical companies, and it is important for them to gain experience in a wide range of areas, including overseas. We have created this system because we believe that it is important for as many people as possible to gain experience from the early stages of their careers in order to understand how decisions are made.

At this point, we have four managers, many of whom are close to my age, but the next generation of managers is expected to come from the late 40s and early 50s who have been promoted to executive officers in the past three years or so. We are now working on the establishment of such a system.

We also hold dialogue meetings between outside directors and board members. In fact, when we first created the Board of Directors, it was difficult to exclude the heads of very large core divisions from the Board, so we had people on the Board who were 57, 58, or even 60 years old.

At this point, all of them are under 55 years old, even the most senior one, so the current board members are clearly the only ones who could be nominated as candidates for the executive board in some form. We have about four people from overseas, and our intention is to have them, including those from overseas, become executive officers as soon as possible and take charge of the execution of the Company's business.

As for the thoughts on the top management, I think the Company could benefit from the ideas of my predecessor, Shiono, who may have spoken to you several times. In many companies, there are a lot of cases that the top management of the time and the people who know each other well enough to know which areas are strong and which areas are weak are the ones who move up the ladder, especially in Japanese companies.

Shiono had been very strong in sales, accounting, finance, and other industries other than pharmaceuticals, and I originally came here only for R&D and global, so we were not in the same areas in most cases. At the time, we hardly even talked that much, but Shiono at that time said that if SHIONOGI was to survive next, the Company would only survive if it succeeded in R&D and globally. I am aware that after looking at the situation in his own way, he decided to replace me with the person he thought was most appropriate for R&D and global operations.

Shiono had a lot of people who were very close to him at the time, which would be offensive if I called them admirers, so I naturally thought that someone from them would be the president. However, I think it is very suggestive that he chose to go that way when he thought about the direction of the Company.

We have created the 2030 plan and its revision, but considering what kind of company we should become if we consider we could survive to 2040. I believe that only those who have a natural understanding of HaaS, DX, and of course DE&I as human capital management, will be able to take charge of the next era.

The current executive board members, who are in their late 40s or early 50s, have a capability that is quite different from mine, and of course we must include in our scope the possibility of placing someone from outside the Company at the top of SHIONOGI in the future. Even in such a case, however, we would like to select an appropriate person with an awareness of how the Company can survive, and we would like to select a successor after a long discussion at the Nomination Advisory Committee. It may not be a matter of when, but we will continue to operate in a manner that at least keeps this in mind.

In the area of governance, we have been getting a lot of questions lately, especially when we meet with companies that represent passive indexes, about governance, succession issues, and what they think about succession. After a year or two, as the world moves on a bit, I would like to add a new element to this, and I will consult with the Board of Directors to decide on the next leader.

In summary, I talked about the issue of succession, and what kind of person we should choose next. I would like to invite questions from the floor and from those of you who are participating via the web, including outside Chairperson Ando, as well as from the audience on human capital management, governance, sustainability, or any other point. Thank you for attendance today.

**Kyokawa:** Thank you very much. Since this was the first session and everyone was very excited to talk, the schedule has been extended.

## Question & Answer

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**Kyokawa** : I will receive your questions now.

First, we will take questions from the audience in the venue, then we will take questions from the web audience. If you are a web audience and have any questions already, please feel free to press the Raise Hand button. Please lower your hand when you finish your question.

Now, I would like to take questions from the audience in the venue. If you have any questions, please raise your hand.

**Onozuka** : My name is Onozuka. I was an investor for a long time, but now I am an independent who runs my own company and serves as an outside director of a listed company. My expertise is sustainability.

I have a couple of questions. The first one is, since Ms. Niimi is here, I would like to ask her if she could tell us about it.

I have been working with Shionogi since around 2016 or 2017 in the area of sustainability, so I was very happy to see the progress of your efforts, as if it were my own, as you received an award for your integrated report last year.

You mentioned that one of the success factors here is probably internal penetration, so please tell us first where this has been successful and what challenges lie ahead. Thank you.

**Niimi** : Thank you for your question. I would like to answer.

As for the penetration, we have been promoting sustainability activities in this manner by distributing the information to each organization, including the top management and the four supervisory division managers, based on this system described in slide 24.

I believe that penetration is gradually progressing, not only at the level of the person in charge, but also at the level of the head of the organization and the general manager. However, I think the members of the business division still think that sustainability is different from actual business. Therefore, I think it will be difficult to move forward unless we involve more and more people in our efforts, incorporate as much as possible into our business activities, and make it a matter of course for each of us to take it as our own personal business. I am very concerned about how we should promote the penetration of the system.

First of all, what we are engaged in now is we are educating management and organization heads on the latest trends. On the other hand, for the general employees, we can start educating them on what sustainability is, why we do it, and what the benefits of sustainability are to the Company, just to get them familiar with the concept.

Recently, we have begun to distribute Sustainability News monthly, which includes three to four topics per issue, ranging from simple to more in-depth content, in an effort to gradually spread the word about our activities.

**Onozuka** : Thank you very much.

**Teshirogi** : Onozuka-san, may I say something. Niimi came to my room and told me that her members talk about sustainability at various places, but people end up asking why they have to do this, straightforwardly, it doesn't earn any money. Therefore, the members are really having trouble.

Unless we can incorporate sustainability into our research, production, and sales activities with an easy-to-understand story that, by talking about sustainability, for example, we can gain the trust of our customers and lead to sales, we will inevitably be isolated from the rest of the market even though we are doing something good complaining why we are not be understood. This is not what we are aiming for.

We are talking more about having people in the field talk about a clear example of how doing this is good for you and good for the customer, and to make it more rewarding for them.

As I said, it is a difficult subject, but all the members are making efforts to discuss it in the sales area and the research area, while trying to devise ways of doing so.

**Onozuka** : Thank you very much. You are truly in a period of change, and I strongly believe that sustainability promotion itself will lead to sustainability of the business model, so please keep up the good work.

Could I ask one more question? Since Mr. Ando is here, I have a question for him.

What did the Board of Directors actually say about this new HaaS strategy? Also, you mentioned accountability, what kind of accountability, or KPIs, has the Board of Directors raised in regards to this strategy?

**Ando** : Thank you.

The transformation into a HaaS company is a major change in the business model, so we had a lot of controversial discussions, including with the Board of Directors. We also had a lot of discussions about whether or not the transformation into a HaaS company would really maintain SHIONOGI's corporate value and social value firmly in the future.

However, the business risk of doing the drug discovery business standing with a single leg is still very high. Customers are not looking for mere medicines but are very interested in how to protect their total health, including prevention, diagnosis, and prognosis, and we need to respond to their needs.

In the past, the concept of a pharmaceutical company was that all it had to do was to manufacture ethical drugs, but now, we need to transform ourselves to meet the customers' needs, well, it's awkward to say "customers," but we have to think about people's needs. From that standpoint, we have started the 2030 plan to transform ourselves into a HaaS company and to change our business model significantly.

However, there are many difficult aspects to implementing this plan, and there is also the question of how much revenue can be generated from this plan. We need to present KPIs and indicators to our stakeholders so that they can understand whether the transformation is going well or not.

However, we are still exploring various ways to do this. In fact, collaboration with other companies, different companies which we have never cooperated before, is becoming more and more necessary. We have been engaged only in the pharmaceutical business up to now, but we will be able to broaden our target audience in terms of general health awareness.

We need to look at various KPIs every year and communicate our progress to the outside world, including corporate alliances, how we are progressing in these areas, and whether or not we are making a proper contribution to earnings as targeted.

This is really quite difficult. Therefore, as I mentioned earlier in this Integrated Report, and I am not sure if it is appropriate for me to say this, but as the president mentioned earlier, there is a sign that says SHIONOGI is a drug discovery company for infectious diseases, and we must firmly protect this sign.

Therefore, in this sense, I think it is important to build a pipeline in the field of infectious diseases, as well as other modalities, and to use this pipeline as the core of our business, and to transform ourselves into a HaaS company with a broad platform.

Therefore, we must not neglect this point, and we will continue to strengthen and expand it. In addition, we will firmly promote the transformation into a HaaS company. We are now in the process of making a major change in our business model, which will require the pharmaceutical industry to change its mindset to meet the true needs of our customers.

We would like to promote communication and disclosure on how we can use KPIs to make this clear to investors in the future.

**Onozuka :** Thank you very much. As a complete aside, I am also a director of a company in the automobile industry, so in that sense, we must also change the conventional style of dialogue. In short, if we were only producing automobile parts, for example, we would only have to talk to automobile parts analysts. By creating such a platform, we are, after all, interacting with completely different capital and funding providers. What I would really like to expect you here is to take the initiative in the funders' dialogues and let the staff members tell the stories they want to be listened to. Thank you very much again.

**Ando :** It is exactly the same with automobiles, changing from a manufacturing company to a service industry. So I think it would be difficult if we don't change that view at all. However, I think the idea is that we should protect the core.

**Kyokawa :** Thank you very much. Now then, Mr. Hashiguchi.

**Hashiguchi :** My name is Kazuaki Hashiguchi from Daiwa Securities.

When discussing your company's sustainability with investors, one of the most common concerns we hear is about succession. Today, Mr. Ando told us that he regards this as an important management issue, and Mr. Kishida explained many of the initiatives the Company is taking.

On the other hand, looking at other companies in general, the contribution of those who have been at the top of management for many years has been very significant, and the more influential they have been, the more important it is to change the way the top management is involved in decision making and how they treat employees. I am always discussing with investors how important it is for top management to change the way they interact with employees and how they make decisions.

Mr. Ando has been an outside director for seven years, and from the perspective of an outside director, how do you feel Mr. Teshirogi is changing the Company in terms of succession planning? Mr. Teshirogi said that compared to when he didn't have to think about the succession yet, that is pretty much it, he doesn't know when, but what has changed now that we are getting closer to some point.

Also, Mr. Kishida, you mentioned today that you have been active as one of the senior management for many years, but would you please comment on how you feel from your position as an executive in the Company?

**Ando :** As is often said in the media, what will happen to Teshirogi post-retirement? That is what everyone is strongly interested in. I am not saying it is Teshirogi magic, but the president is very capable, and I am not concerned in that sense at all, at present.

Also, as was mentioned at the Nominating Committee meeting, the pharmaceutical industry, including drug discovery, is a very long-lived business. It can take 10 years or 20 years to complete a project, and even the current STS2030 has a goal toward 2030, so unlike other companies, I don't think we are in a world where we can just change the president after four years or six years.

However, if the ability of the top management or various other issues come up, the Nominating Committee will have to discuss them thoroughly and begin the process of selecting a successor. I think that is rather my primary responsibility as an outside director.

In short, if you have a trustworthy and very capable leadership, you can already leave it to them, actually. However, there are many other companies that do so, but when it seems to be gradually becoming a problem, I think the most important aspect of this role as an outside director is to replace the top management.

As I mentioned earlier, the President's School was held, and successors, the top four supervisory division managers sit together in board meetings, and in some cases, they also express their opinions. Although they are not directors, the heads of the four division managers are present and listen carefully to the discussions at the board meetings.

We have discussions several times a year with the next successors to the Board of Directors, and at the beginning we took a very big step forward and told them to talk about the issues facing our company and the vision for 2030, but there was not enough time. We have since reduced the number of next successors and are now taking the time to get to know them a little better, so that we can understand them better.

In that sense, we are now in a situation where we are all familiar with the names and faces of the candidates for the next term of executive officers. However, it is uncertain how the situation at the top will change, so we need to be able to immediately put in place the next system if something should happen, or to quickly nurture successor candidates. The president especially has the strong awareness about it, and we are now putting a lot of effort into nurturing successor candidates.

As Mr. Kishida mentioned earlier, the Company has established such a system, as mentioned earlier about three pools.

**Kishida :** Thank you for your question. In my position, or rather, with Teshirogi, we always talk about how to develop these human resources, although we always talk about a certain class of people.

In particular, Teshirogi wants to make sure that those in the general division manager class, or executive officer class, who have risen to the position of general manager, experience multiple headquarters. As I mentioned earlier, there are many people who have come up with efforts, so their perspectives are biased toward their own areas of expertise, and many of them are not able to see things from a management perspective but are instead in the position of a representative of the division I mentioned earlier. How should we break through that?

When I look at the various proposals made at management meetings and the decisions made by the general division manager as I mentioned earlier, I can see that the person is quite biased toward this area. We are always talking with Teshirogi about having him take charge of this area next time, so we are now looking to see who is capable of managing and achieving results in multiple divisions. We are now in the process of looking at how we can nurture such people among the general division managers in their 50s, as Teshirogi mentioned earlier.

**Hashiguchi :** Thank you very much.

**Kyokawa :** Thank you very much. Now, Mr. Sawada.

**Sawada** : My name is Sawada from JPMorgan Asset Management. I would like to ask you two questions.

First of all, as a continuation of Mr. Hashiguchi's discussion, I understand that the President's School is indeed a great way to nurture a variety of human resources. As mentioned earlier by Mr. Shiono, I think it is very important to know how much you can pull up people who are different from yourself, even if they are people you dislike.

In this respect, I think it is very important for an organization not to create a mini Teshirogi, but to select new people who are suitable for the next era, even those who are not well understood by him in a certain sense. What efforts, if any, are being made in that aspect by the Board of Directors or internally, I would like to ask in the first point.

**Ando** : I think that is precisely the responsibility of outside directors. In short, it is never acceptable for a president to want to make his favorite person his successor. The questions are, what are SHIONOGI's current challenges, and what are its future growth and strategic areas? Where are the people with such abilities and if not, how can we develop them? For us, there are no likes or dislikes, from the outside.

We are very fair and objective about the abilities of those people. So, for example, even if the president says that this person is good, I am not sure if it is really fair or not. There are many external directors like me to judge it. There are many people in our company who discuss whether or not the viewpoint is impartial, objective, or transparent. I believe that is our role.

That's hard to do in-house, basically, isn't it? As with other companies, it is difficult to make changes within the Company. In that sense, of course, we hope that the in-house will do its best in this way, but as outside directors, we will provide solid support. Rather, I think it would be better if we actually took the initiative in deciding on a potential successor.

However, it is difficult to know the personalities of those at the executive officer level, so naturally, the president or the director in charge of human resources will talk to us about why this person should be promoted to executive officer, but we have to check whether the discussion is truly objective and transparent. I believe that the Board of Directors, especially the personnel nomination committee led by outside directors, should hold transparent discussions on the candidates for successors.

**Kishida** : Let me start with a few details of the premise of the President's School. It is not the place to learn where Teshirogi collects his favorite people. In recent years, we have been training those recommended by our supervisory division managers, or, prior to that, by the general division manager, so Teshirogi was involved in the selection process at the beginning, but not anymore.

As for the structure of the cram school itself, Teshirogi, of course, focuses on themes that may be necessary for business managers and presents themes for each session, but these are only a starting point. People are required to be aware of how to understand it, how to raise their own perspectives, and it is left to each individual as far as awareness is concerned.

Also, this may sound a bit odd, but the people who are selected for this program are usually busy people working in their companies, and they are working as if they don't have time to study. Even these busy people are forced to make time to do their homework when they come to the President's School, after all. If you can see the cram school as a training program to make time and awareness of how to train yourself in your professional life, including the fact that you can make time to study, then it will not be just a place to select successors. I hope you will see it on that premise.

As I mentioned earlier, recently, there have been some areas that can be seen in common within the Company to some extent, but even so, the selection of the next general division manager or the next head of the

organization is now based on the opinions of the supervisor or the general manager under him or her before the selection is verified and then the next step is made. I would like to point out that the system under which Teshirogi alone is in charge has changed considerably over the past few years.

**Sawada** : Secondly, what is the composition and number of the current Board of Directors? If the Nominating Committee, in particular, will play a very important role in the future, do you think it is sufficient to have this number of members, or do you plan to expand the number and diversity of the Nominating Committee by bringing in people from overseas or people having other diversity?

Also, as mentioned in the Integrated Report, at the beginning of the Nominating Committee's fiscal year, you wrote that the hurdle for the president to discuss whether or not he can remain in office is quite high. I would appreciate it if you could introduce what you are actually discussing.

**Ando** : Each director is most keenly aware of the importance of the succession plan. The term of office of the Nominating Advisory Committee is one year, so we always discuss whether the committee members will continue to work together, including the president. As it stands now, there is basically no problem, and we would rather have President Teshirogi manage the Company well.

As I mentioned earlier, we need to expand our business, we need to implement a solid overseas business strategy, we need to transform ourselves into a HaaS company, we need to stabilize our infectious disease business, and we need to do many other things, and so does DX. In this regard, the business domain has expanded considerably, and for the future growth strategy toward 2030, the current board composition, including personnel, capabilities, and expertise, is still not sufficient, but that is my personal opinion. However, I think it is necessary to expand the Board a little more.

Also, the Remuneration Advisory Committee is currently voluntary, but I wonder if this form is really sufficient, or if it is necessary to change the form of the board of auditors. As I mentioned earlier, we will have to discuss this with the president again. If we are to expand our business and go global, the current Board of Directors consists of only two members, including those inside and outside the Company. In that sense, I am not sure if the current Board of Directors can engage in independent and in-depth discussions on various strategies. We are still concerned about this aspect, so we are probably going to have more in-depth discussions about the form of the project in the future, and I believe that a change from the current company with a board of corporate auditors to a new form of company is really necessary in order to strengthen governance and to reinforce the growth strategy.

The current outside board members are from various management backgrounds, and many of them have specialized expertise. I often learn a great deal from them, such as their perspectives and the fact that they ask questions from such specialized perspectives. In that sense, the more such people we have, the more we have to organize them, of course, but the more we have, the more we will be a great asset to the Company.

Therefore, some companies have advisory boards that listen to various opinions and decide on various directions for the Company. I personally believe that it is necessary to go one step further and change the current governance structure, and as you have just pointed out, change that as well.

**Teshirogi** : I'm talking about the administration in detail, but our Articles of Incorporation stipulate that we have no less than three and no more than seven members, both directors and auditors. If I were to insist on a majority of outside directors, for example, it would mean that there would only be about two or three internal directors.

In this context, as Mr. Sawada and Mr. Chairman just mentioned, considering whether we can ensure sufficient diversity and experience when we consider the future expansion of our business, as you mentioned,



it is a very important issue to incorporate more knowledge and experience into the Board of Directors with sound governance, while considering a slight change in the structure.

**Kyokawa** : I will ask you again if time permits. Mr. Hyogo.

**Hyogo** : My name is Hyogo from Mitsubishi UFJ Trust and Banking Corporation. Thank you very much for your explanation and all your help.

Also, sorry, I am afraid to ask Mr. Ando. SHIONOGI is a pharmaceutical company, so naturally there are various investment and M&A projects. Some of the pipelines and regulations are not going well, but I would like you to explain what kind of discussions are being held regarding monitoring, discussions when putting money in, and financial discipline to make sure that the price is reasonable, and how it is monitored to make sure that the business is progressing properly after the purchase. This is the first question.

**Ando** : I'm Ando. Thank you very much again.

This is really difficult. In a normal M&A transaction, the investment will be all right when the investment yield or IRR is between some percentage and some certain percentage, and the most pessimistic situation would be like this; you can generally get solid figures like that. But really, it's already like a lottery, especially when we talk about not buying or not buying venture pharmaceutical companies. There is a very difficult part there, whether you bought it but it was zero, or you bought it and hit the jackpot.

However, even in such a difficult situation, the Board of Directors will evaluate the most pessimistic case, the normal case, and the case after the acquisition, and present the purchase price in the form of a range from a lower limit to an upper limit. The Board of Directors, on the other hand, is looking at the appropriateness of the price, and is also carefully examining the future cash flow, whether it will really be as planned or not, even though this is a very theoretical exercise.

Naturally, the section in charge of the project will look at the actual business situation, including synergies, as well as the market situation in the US and Europe, to see how the market share can be expanded and how profitable it will be. We are verifying the validity of the price simulation by looking at whether or not it is well explained and whether or not it is acceptable to us.

The discussion is solid in form, but it is really hard to know what to do until you try it. It is difficult. However, since we do not have any knowledge of the president or Mr. Sawada's discerning ability, we have no choice but to rely on them.

The most important thing is whether or not the cash flow is generated as initially planned after the purchase, and in some cases, whether or not there will be an impairment risk after, say, three or five years, since there is such a discussion. In particular, for large acquisitions, we would like to ask that the progress of these projects be managed, that they be put firmly on the agenda, and that progress be reported to us so that we can closely trace their progress.

In some cases, we also discuss with CPAs and auditing firms, and of course we need to understand early whether there is impairment risk or not. A robust discussion of such an issue is also necessary.

**Hyogo** : Thank you very much. Is it my understanding that the independent outside director is monitoring the figures on a regular basis, whether monthly or quarterly, to verify how the investment projects are performing and what the IRR is?

**Ando** : Yes. Basically, it is on an annual basis. We won't know in a few months. Therefore, we will trace it on a yearly basis. The biggest concern, especially for investors, is the risk of impairment. It would be very difficult for us to suddenly and unexpectedly be announced tens of billions of yen impairment one day.

We, the members of independent outside director, are particularly interested in this area, and we will be asking for reports as soon as possible for discussion on whether the Company is functioning as intended or not, whether the cash flow is performing as planned or not, what problems it is facing, and whether there are any measures to strengthen the Company.

**Hyogo** : Thank you very much. While the patent cliff is a bit visible, on the other hand, royalty income and other income will come in, so if it becomes too much, investment projects may be restrained, so we would like you to keep a balance between the two. As far as M&A, don't put too much synergy into it.

**Ando** : Yes. You are quite right about that. People usually tell the section in charge of the project getting more. We discuss that it is not going to work well like this way in a cursory manner.

Also, although the perspective is different, patent cliff has been extended by CEO's various efforts, but After all, we need to have the strength to consistently produce what is called a blockbuster over a 10- or 20-year period, and we need to do such M&A in a timely manner. The most troubling thing is that things are getting weaker. So we would like to see firm investment in research and development.

The figure shows JPY300 billion over three years, but we need to do this and strengthen our R&D structure, including investment in human resources, while simultaneously considering M&A and alliances. I feel that it would be difficult for us to do everything on with only our own in-house drug discovery capabilities.

**Hyogo** : Thank you very much. We would like you to have various discussions. One more point, sorry, this is probably a question for Ms. Niimi.

While infectious diseases are a very material and important field for Shionogi, it is difficult to say here that they are important and can become part of society's infrastructure if you don't make sure to create value in terms of KPIs, social impact, and so on. Even if you say that your business has already become an important part of society's infrastructure, I think it is difficult for the capital market to make a thing valuable between the merits of your business and the merits of what you have been doing.

In the past, we have been called an ESG underdeveloped country, but in order to become a developed country, I think it is necessary for us to open the way for ourselves and disclose information on ESG issues. If you don't have such a system in place to evaluate the impact of your initiatives, I think it will be easy for the media and others to engage in trivial discussions about how you are doing good things but the NHI price is too high, etc. Please tell us what you are doing and what you think about these issues, even if it is just a brief overview.

**Niimi** : Thank you. I am Niimi.

First of all, you are right about the non-financial KPIs, and we are in the process of discussing them. The Corporate Planning Department, which is in charge of creating the medium-term management plan, and the Sustainability Department will work together to set KPIs and explain to external parties how we will respond in the medium to long term. This is what we are thinking about.

We are currently examining what kind of indicators we should use to properly show our business impact, and we are beginning to see some areas that could be explained well with these indicators. When we are ready, we would like to release them to the public and explain them to you in due course.

**Ando** : Related to your question, it is also very important to raise social value, as I mentioned earlier. We have to raise our social value which includes raising our company's value. As I mentioned earlier, the COVID-19 cure and vaccine are projects that we have undertaken with a sense of mission to meet people's expectations as SHIONOGI for infectious diseases, putting aside profit in extreme terms.

In fact, from a security perspective, there is also the question of whether Japan should not have such a system, and whether it is okay to be dependent on the United States. This time, exactly three years ago, the president made a major decision to tackle it thoroughly. So this is really a business risk on one side. There were cases in which the development was not approved, and there was also the question of whether it would be profitable to invest hundreds of billions of yen in such a project. With such strong expectations for SHIONOGI from infectious diseases and for domestic manufacturers, we felt, who else can respond to the expectations? We had a responsibility to respond to these expectations.

So, I don't know if we would have been able to hold this conference if it had not been approved, but it would have been a very difficult situation. Fortunately, we have been able to bring a therapeutic drug to market, although the vaccine is not yet available. In this sense, I feel that SHIONOGI's presence and social value have been greatly enhanced as a result.

I think these things are really important. This is why the 2030 plan has been revised to reflect the fact that infectious diseases are quite important, and that there is a significant market for them.

**Hyogo** : I agree with you very much, but there is also the view of return on investment, and on the other hand, corporate value and shareholder value, so I think it is important to strike a good balance between the two. Since the recognition of the Company has risen to this level, it will probably be necessary to promote the KPI and the values since the number of people who can access the Company increased by opening up patents, and I think it would probably be a good idea to conduct development into the next generation.

I hope that you will not just release one more treatment for COVID-19 and say that it is OK because it has been approved, but I would like you to proceed with caution while considering the balance with the financial situation. Also, Mr. Ando, please give a boost to the KPI disclosure part.

**Ando** : Thank you.

**Kyokawa** : Ms. Ohmi, please go ahead.

**Ohmi** : Excuse me. I'm Ohmi. I'm from JPMorgan Asset Management, responsible for stewardship.

Here is a simple question from me. I would like to ask about the personnel evaluation system. This time, you have done so in a variety of ways. I would like to confirm about, what kind of gaps in human capital will be filled through these efforts, and in what ways will these efforts be reflected in the results of these efforts? What is your current challenge, and how do you plan to capture these results and link them to the next strategy?

**Kishida** : Thank you. In the current most recent system, as I mentioned earlier, we have re-ranked from scratch. We re-ranked all the current individual, especially past promoted executives who are not union members and managers, although there are a lot of people in the executive ranks who have fallen into union membership and others. On the other hand, there are some younger people who have been promoted quite well.

We asked each division to list in order based on their performance at this point and they did it. After that rating was completed, the new system that we now have was started.

Regarding future evaluation, I would like to focus on the results actually achieved, and also on the message that in the past, we, especially among union members, had been giving the message that we should improve our abilities steadily, and there was a part of us that had developed a culture of not taking on big challenges and just building things up steadily. We wanted to break down this culture. In a way that placed considerable emphasis this time on the degree of challenge throughout the Company, he asked us to first of all expand the big "furoshiki," which means, to do it widely. We wanted to make it a form of looking at the degree of

achievement on top of that, in other words, we would like to spread the idea of changing the scope of looking at the results of the system. We are just now beginning to educate our employees about the system, and we are trying to emphasize this point.

Also, salary, which is mainly reflected in bonuses, but with regard to future ratings and salary revisions, increases and decreases, ups and downs, that is where we will be looking at the behavioral results that have been demonstrated, more clearly and accumulating facts. Even if we say we see the "demonstrated ability," we often try to see the latent ability; we are currently working on changing the format to one that requires to be based on accumulated facts, as we tend to end up looking at potential abilities.

**Ohmi** : Thank you very much. I think it is important to visualize and realize that by doing this, employee of various generations will be able to skip higher and higher levels, and it will be easier to understand what kind of shape they have achieved if it is visible from the outside. I hope your approach will go well. Thank you very much again.

**Kishida** : Thank you.

**Kyokawa** : Mr. Muraoka.

**Muraoka** : Thank you. This may be a complicated question, but I have a question for Mr. Ando.

What did the Board of Directors discuss at that time? At that very time, when management resources were redirected to infectious diseases and COVID-19, I think there were probably arguments both in favor and against, but what range of arguments were there?

One more thing, most recently, I think JPY75 billion in buybacks was done. I thought that the timing of the buyback was for business investment, but what was the discussion at the board meeting about the decision to go this way instead of that way?

**Ando** : When we start to work on COVID-19, it is natural that there is a point at which it seems that simply because we are SHIONOGI for infectious diseases, that is all we do, as an entry point. However, we still discussed the feasibility, distance, and the degree of certainty of development.

In fact, my impression is that vaccines are not quite a bit clear, because the acquired company is doing it. However, since therapeutic drugs have always been our area of expertise, and since top management is convinced that we can achieve this goal, including from a sensory standpoint, we have decided to work hard on this issue. Everyone was relieved and we decided. After that, we became quite anxious, but I am very happy that we were able to make it happen.

Regarding the JPY75 billion, this was quite controversial. The timing of the meeting, including the question of why it should be held at a time like this, and the question of why it was not held at the same time as the announcement of the main closing of accounts after the March closing, or we should do it rather at the time of the September interim closing. And why we spend so much money on buying back own shares in the first place. As you mentioned, there is always the argument that more money should be spent on R&D, M&A, etc., and that share buybacks are not the right thing to do.

Or dividends, the same, actually. We are increasing the dividend more and more. How long we will continue to do so. In short, it's a cash-out, all of it. In fact, the most important thing is whether SHIONOGI can really grow in the future, 10, 20, or 30 years from now, and to invest in that, including human resources and R&D investment, is the most important thing.

Therefore, although it may be unavoidable if there are no such projects, the highest priority is business expansion, including M&A, and investment in strategic areas. However, depending on the timing, there may

be an idea to return profits to shareholders or pay dividends, since there is ample cash flow, so it depends on the trend of business performance. We made a comprehensive judgment of these factors and came to this policy.

Although this was not a decision that was made easily, you can rest assured that a wide range of opinions were discussed at the Board of Directors meeting.

As with the M&A deals that I mentioned earlier, we are really verifying the vertical, horizontal, and diagonal aspects, and I believe that we are currently able to make transparent decisions in a rational manner.

**Muraoka** : Thank you. I'm Muraoka from Morgan Stanley.

**Ando** : Thank you for your continued support.

**Kyokawa** :

This concludes the first Shionogi Sustainability Meeting. Thank you very much for taking time out of your busy schedules to join us today.

**Teshirogi** : Thank you.

**Ando** : Thank you.