SHIONOGI & CO., LTD.

FY2024 Sustainability Meeting

December 4, 2024

Presentation

Kyokawa: Now it is time for us to begin. The 2024 Sustainability Meeting will begin now.

First of all, I would like to introduce today's speakers. I will introduce them from the right side. Isao Teshirogi, PhD, and Chief Executive Officer. We also have two Outside Directors. Mr. Keiichi Ando, Chairman of the Board and Chairperson of the Board of Directors and the Chairperson of the Nominating Advisory Committee. Next, Mr. Hiroshi Ozaki, the Chairman of the Compensation Advisory Committee.

Continuing on, I will introduce the internal members of the Company. Next, Kazuhiro Hatanaka, Senior Executive Officer, Senior Vice President, Corporate Supervisory Unit and Corporate Strategy Division. Next, Takaho Kawamoto, Vice President, Human Resources Department and Human Capital Strategy Office. Lastly, Yuka Niimi, Vice President, Sustainability Management Department.

Agenda

01	**Sustainable Growth of SHIONOGI**	**(P. 3-10)**
		Isao Teshirogi, Ph.D. Chief Executive Officer
02	**SHIONOGI's Human Capital Strategy**	**(P. 11-23)**
	• **Human Capital Strategy Overview**	**Kazuhiro Hatanaka, Senior Executive Officer, Senior Vice President, Corporate Supervisory Unit and Corporate Strategy Division**
	• **Overview of the Actions**	**Takaho Kawamoto, Vice President, Human Resources Department and Human Capital Strategy Office**
03	**Corporate Governance**	**(P. 24-33)**
	• **SHIONOGI's Governance Framework**	**Isao Teshirogi**
	– **Nomination Advisory Committee**	**Keiichi Ando, Outside Director**
	– **Compensation Advisory Committee**	**Hiroshi Ozaki, Outside Director**

2 SHIONOGI

Now, let me explain the schedule of today's briefing session.

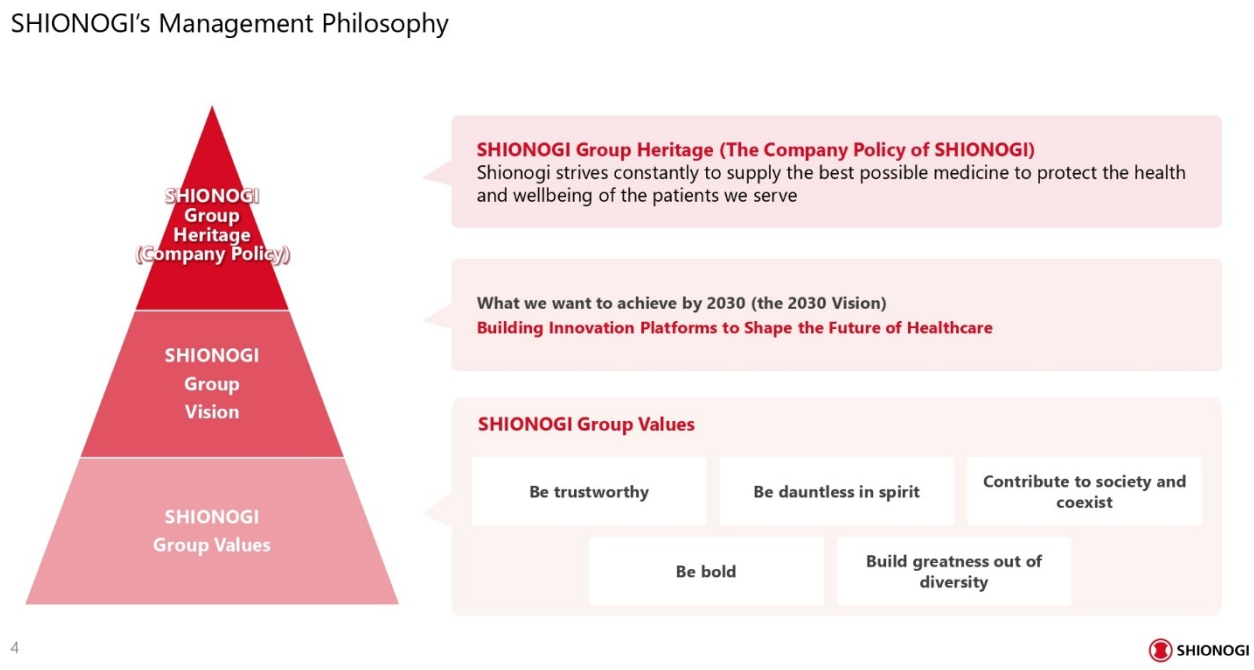
Today, Teshirogi would like to begin by explaining about SHIONOGI's sustainable growth first. After that, Hatanaka and Kawamoto will explain SHIONOGI's human capital strategy. And finally, Teshirogi, Director Ando, and Director Ozaki, will explain the corporate governance, in that order.

We will also take time for questions and answers after the presentation. Now let's get started. CEO Teshirogi, please go ahead.

Teshirogi: Greetings, my name is Teshirogi. Thank you for your attendance to our presentation today.

First of all, I would like to talk a little about our sustainable growth. I have been working at SHIONOGI for quite a long time, so I am sure that you are familiar with what we have been doing for the past 10 years or so. I would like to take this opportunity to talk a little about ourselves, including those who have started to cover our business.

For those of you who have been covering us for a long time, you may be thinking that we are saying the same thing, but we hope you will forgive us for that.



This is our management philosophy.

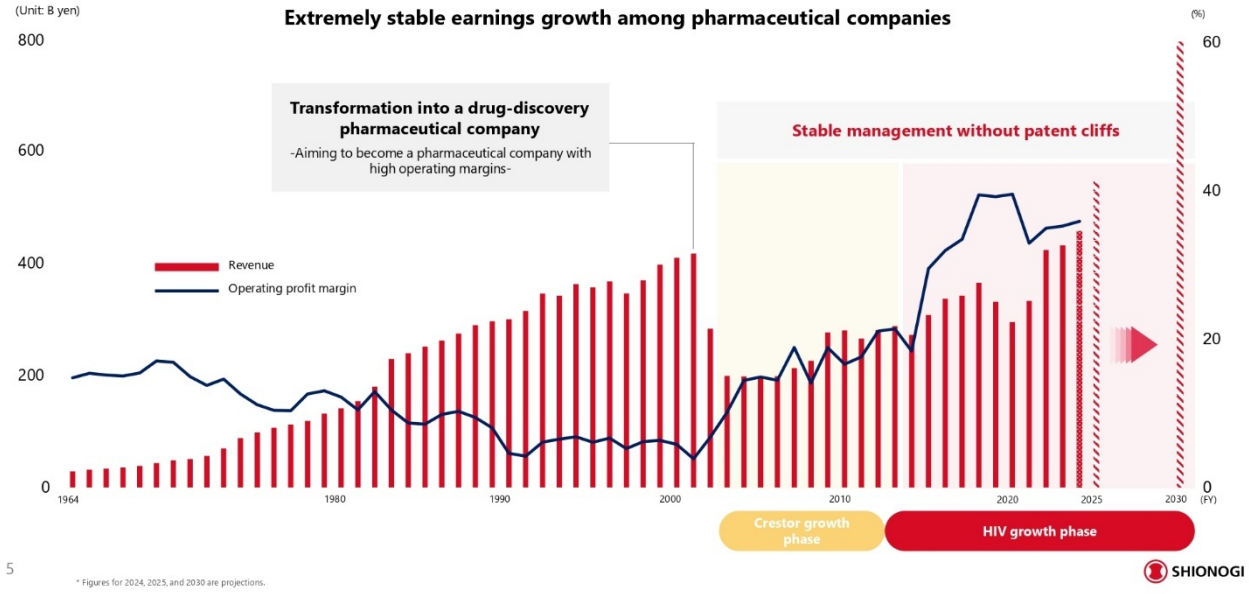
The top one is SHIONOGI Group Heritage, which is a basic policy to always create products that are most beneficial to people's health. This is said in various words by various companies with similar company principles, purposes, etc. I think our company can probably boast about this, but we are quite firm about it, and we are proud to say that it has really caught on with our employees.

In order to achieve this Heritage more firmly, we have issued our medium-term management plan, etc. Based on this plan, we have issued a SHIONOGI Group Vision for the period, and have developed a set of SHIONOGI Group Values that define what we expect of SHIONOGI Company people in order to achieve this Vision.

Especially as for Vision and Values, in the process of formulating the medium-term management plan, we asked young people, especially those who are likely to lead the next generation of SHIONOGI employees, to think about what values they would like to emphasize and what values they would like to pursue in 10 to 20 years' time at SHIONOGI. The Board of Directors finally decides on these values after consulting with the Management Committee and others.

Our company is quite particular about this management philosophy and the mechanism to deploy it.

Sustainable Growth of SHIONOGI



What I would like to reiterate is that since 2000, we have been increasing opportunities for dialogue with investors, including through IR activities.

In this context, of course, we would talk about the Company's management strategy, what we would do with drugs in case of SHIONOGI, and what kind of geography we would use. Especially in recent years, the importance of non-financial indicators has been questioned.

When we think again about why non-financial indicators are so important from our point of view, we wonder whether human capital and governance, as I will explain later, are really growing sustainably as a company over the medium to long term.

What is the purpose of human capital? Governance is not just for one or two years, but for the purpose of having people, including our employees, convinced of the direction of the Company, and then having them increase the value of the Company, which will ultimately lead to a constant increase in corporate value and performance, including, of course, the share price.

Therefore, we are not talking about human capital or governance in isolation, but rather we want to look at the history and how performance has changed over the past 5 or 10 years, and at the same time consider what the future might hold. We need to consider about them altogether, so we have produced this table because we think that it is wrong to just look at that part of the story.

Of course, there will be ups and downs. However, if you look at our business model over the medium to long term, including HIV via CRESTOR, we have been consistently growing in terms of operating margin and sales, and I would like to reiterate what we have taken up and how we have grown, and we would like to explain about these points since this Sustainability Meeting is the best opportunity.

Stable Management Without Patent Cliffs: Crestor Growth Phase

Pursued a business model that maximizes the value of in-house developed products

Maximization of value of in-house developed products through partnering

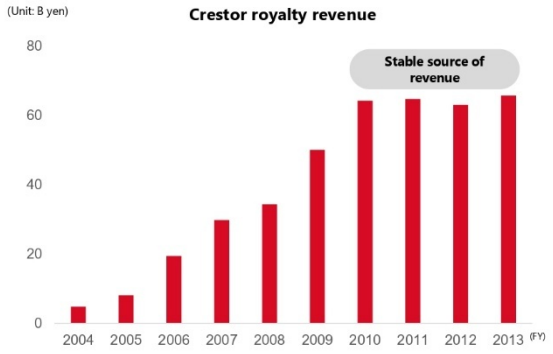
Hypercholesterolemia treatment: Creation of Crestor (launched in 2003)

Out-licensing of Crestor to AstraZeneca

- Due to a lack of global marketing expertise, it was decided to out-license the product to a megapharmaceutical company to maximize value
- Transformed into a company with high operating margins

A blockbuster on a global basis

- Contributed to SHIONOGI's growth with royalty income exceeding 65 billion yen at its peak
- Patent expired in 2016-17 (patent cliff)



Became the core of a stable business in a few years

6

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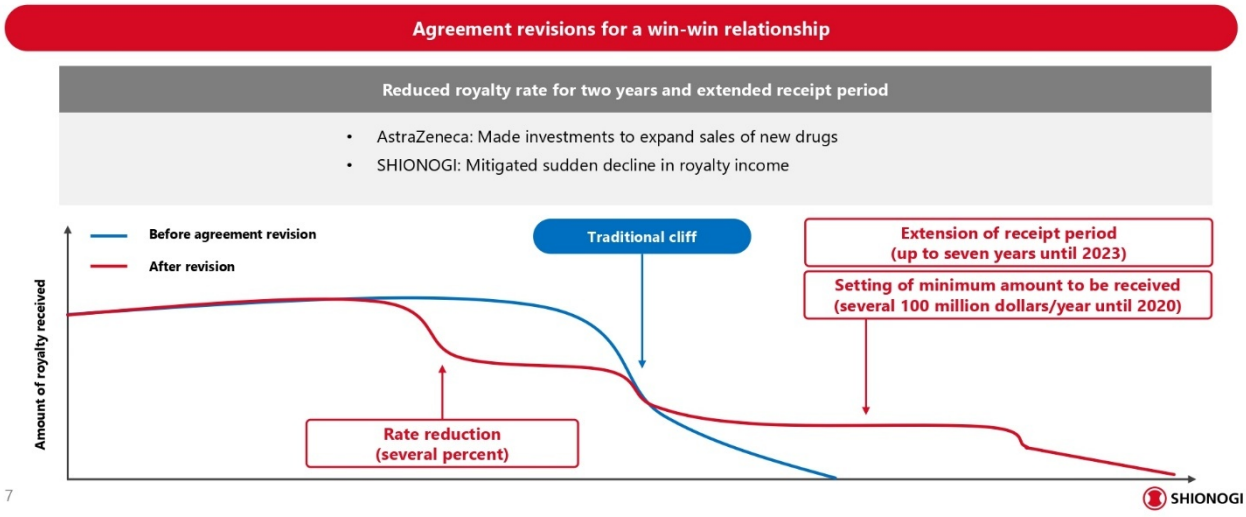
All pharmaceutical companies, after all, will face patent cliffs, unfortunately. As the business model of the pharmaceutical industry relies on patents for substances, we try our best to extend use patents and formulation patents, but when the main part of intellectual property lapses, we inevitably face patent cliffs.

This is something that is difficult to avoid in the current model, and if a pharmaceutical company is going to have sustainable, or rather continuous, stable management, we need to take action some time ago, I think that the ability of a company, or its capabilities, is determined by how much it can prepare in advance to ensure that there are not too many major bumps in the road in the next 5 or 10 years.

We, first of all, from 2016 to 2017, the patent for CRESTOR, which we have licensed out to AstraZeneca, expired and sales in the U.S. and Europe dropped sharply. At the peak, each of them was selling about USD7 billion by AstraZeneca, so we were wondering how we could overcome this situation, as the sales became almost zero, which result in significant impacts on our royalties.

Stable Management Without Patent Cliffs: Crestor Growth Phase

Mitigated patent cliff impact through agreement revisions to ensure next phase of growth



In a normal contract, the royalty payment would be as shown in the blue line, but it would be too sharp. We were willing to accept a slightly reduced royalty payment for the first few years, even before the patent expires, as shown by the red line, and we spent a great deal of time negotiating with AstraZeneca to see if it would be possible to make the scheme so that we could receive royalties for a little longer.

We negotiated with them to reduce the rate but to expand the time frame in the end.as it is written in red.

Stable Management Without Patent Cliffs: HIV Growth Phase

Sustained growth from combination of Crestor cliff response and growth from dolutegravir

Establishment of a royalty business model

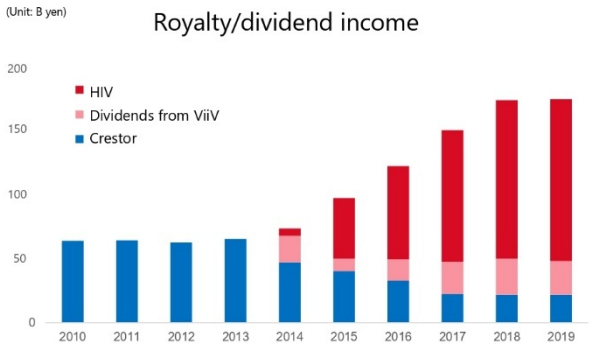
HIV treatment: Creation of Tivicay (dolutegravir) (launched in 2013)

Out-licensing of dolutegravir to ViiV

- Received royalty income based on sales of dolutegravir-related products.

Establishment of mechanism to strengthen collaboration with partners

- Possession of 10% stake in ViiV and the right to nominate one director
  - Received dividends from ViiV as a shareholder
  - Deep understanding of ViiV's strategies



Overcame patent cliff without major revenue declines

8 SHIONOGI

We have been working with GSK and then ViiV for quite a long time since 2001 on HIV drugs, dolutegravir and cabotegravir, and we believed they may hit the mark in this area. Based on the hypothesis that the results of the clinical trials were quite good, and that this will grow from around 2013 or 2014, if the royalty rate of CRESTOR can be reduced in a more gradual manner, this may be possible to almost flatten out the cliff. This is what we have been thinking about this.

Stable Management Without Patent Cliffs: Overcoming Patent Cliff for Oral Anti-HIV Drug

Managed patent cliff through efforts to develop drugs that address unmet needs and evolution of business model

Emergence of LA* formulations and advance of ULA*2 formulations

Robust growth of HIV business until 2030

The patent cliff for dolutegravir, expected to occur around 2028, is not expected to decline significantly until 2030 due to higher-than-expected growth in LA formulations and oral two-drug regimens.

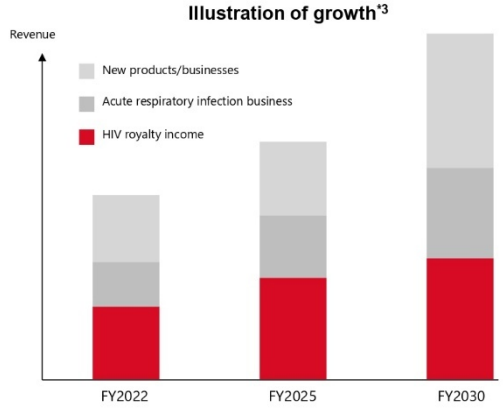
Development of HIV business as a stable foundation beyond 2030

—Developing an injectable drug administered once every six months—

S-365598: New integrase inhibitor out-licensed to ViiV

S-917091: Candidate of partner drug with a new mechanism

Growth toward realizing the 2030 Vision



9 * LA: Long acting *2 ULA: Ultra Long acting *3 From FY2024 Q2 (interim period) results material SHIONOGI

So, in the area of stable management without patent cliffs, we wonder what will happen next in 2025 and 2030. The patent for the oral form of dolutegravir was started to expire in 2028-2029, and we were wondering what we should do. This time, we had been discussing with ViiV and had moved to long-acting (LA) injectable

drugs. Although this is still our forecast for the year 2030, we believe that we can manage without any major cliffs. We are now doing our utmost to move on to the next phase.

This is what we have been doing in terms of how we can link our strength in small-molecular compounds to stable business, and we would like to further stabilize this by including, if possible, our own sales of our own products to expand our business on our own.

As I mentioned earlier, we will build a company that people will look at with a certain sense of security over a period of 10 or 20 years. In order to achieve this, of course business strategy is important, but in addition to that, people, governance, and other factors must be taken into account to ensure the stability of the Company, like, everyone says that the Company might not be very glamorous, but there are no negative surprises.

In order to aim to be a company that people can say that they can watch our company with peace of mind above a certain level, we have been working with the Board of Directors to discuss how to think about the sustainability of the Company as a whole, including non-financial indicators, and this is something we have been doing for the past 20 years, plus a little extra.

From here, we would like to talk a little about human capital, which is one of the hottest themes in our corporate culture, focusing specifically on what kind of efforts we are making in terms of Board members and human resources. Thank you.

SHIONOGI's Vision in Human Capital

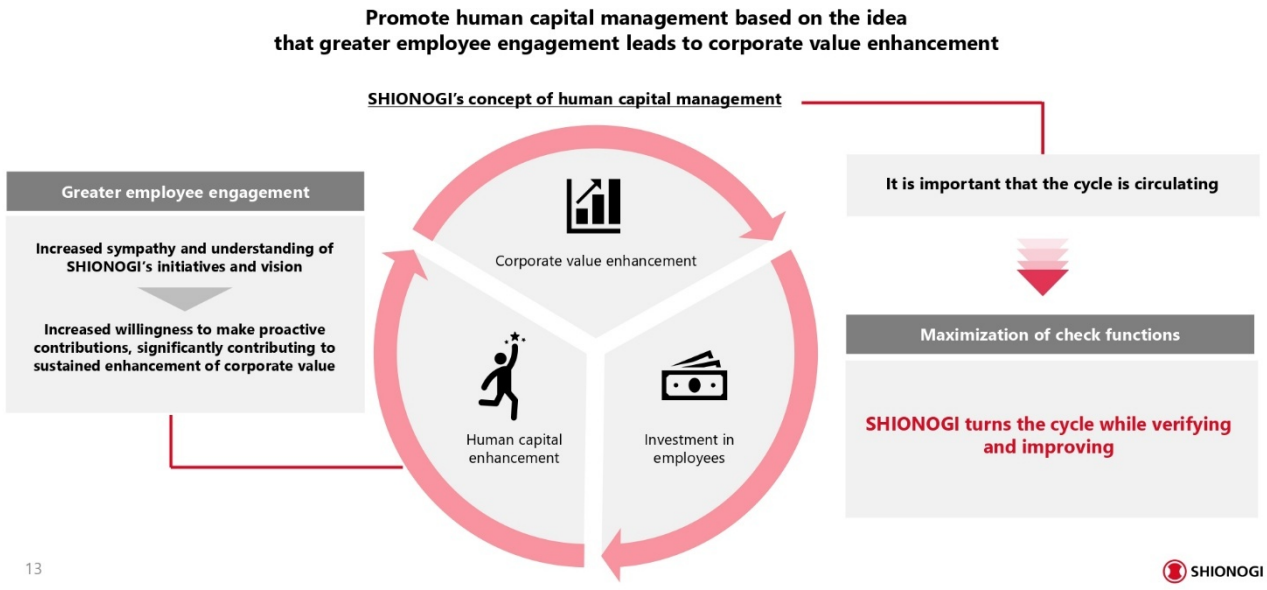
Hatanaka: Now, I would like to give you a brief outline of SHIONOGI's human capital strategy, and Kawamoto would like to introduce some of the specific initiatives.

The upper part of the slide shows what SHIONOGI is aiming for in terms of human capital. Developing strong individuals who can continue to win in global competition. By building an organization that makes the most of diverse human resources, we aim to contribute to the realization of the SHIONOGI Group Vision from the perspective of human capital.

The SHIONOGI Way, shown in the middle of the page, summarizes the type of human resources SHIONOGI seeks in its employees. In this context, we define desired human resources as people who have strengths that attract others, and who actively challenge and accomplish things while voraciously enhancing their knowledge and skills.

We are promoting the human capital strategy with the aim of supporting each employee to embody the human resource image and contribute to the realization of the SHIONOGI Group Vision from the perspective of human capital.

Human Capital Management at SHIONOGI (1)



Before going into the details of our strategy, let me first explain the premise of how SHIONOGI views human capital management.

As shown in the diagram in the center of the slide, SHIONOGI positions its employees as capital and actively invests in them to increase their value, creating a cycle that leads to increased corporate value.

In improving human capital, we believe that employee engagement, in particular, is an important indicator that contributes to the enhancement of corporate value. This is based on the belief that employees' empathy and deeper understanding of SHIONOGI's initiatives and vision will lead to an increased willingness to make proactive contributions, which in turn will contribute to the sustainable enhancement of corporate value.

For example, let's deliver better products for patients as soon as possible. Let's improve the quality of our products. Let's deliver SHIONOGI's products properly to the patients who should use them. By sharing these desires, the performance of employees will improve and increase the sense of fulfillment. This is SHIONOGI's concept of human capital management.

However, simply going through this cycle is not enough. Whether the cycle is functioning and turning properly. We believe it is extremely important to continuously verify and make improvements as necessary.

Human Capital Management at SHIONOGI (2)

Turn the cycle for corporate value enhancement while verifying and improving based on engagement surveys

Our approach to the use of engagement surveys

Analysis through periodic surveys

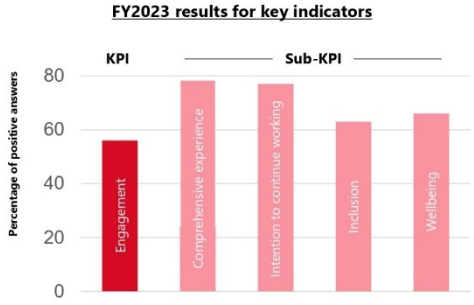
- Monitoring the engagement status of the entire Group starting from FY2023
- Set one KPI and four sub-KPIs as key indicators and conduct annual surveys

Implementation of measures

- Analyze entire Group and each company/organization, and implement measures according to characteristics
- Each organization head plays a central role in formulating and implementing measures against company/organization-specific issues

Communication tools

- Discuss characteristics and points for improvement unique to the organization to optimize the human resource portfolio
- Activate communication with outside stakeholders by disclosing the results



14

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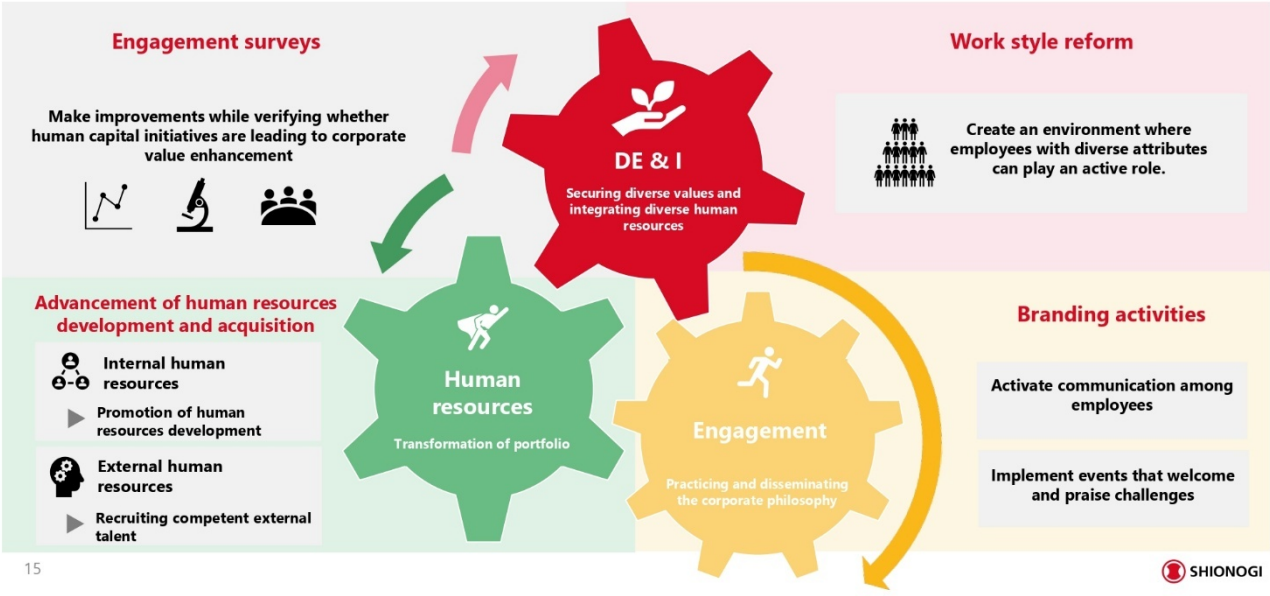
How will verification and improvements be made? We recognize that the engagement survey is key to this process.

By conducting an engagement survey, we can ensure that the cycle from investment to corporate value enhancement is properly functioning and circulating. Where are the areas that need improvement? We believe that accurate identification of these factors will enable us to make continuous improvements.

SHIONOGI has initiated a group-wide engagement survey starting in FY2023. We are now in the process of analyzing and implementing specific measures based on the results and have set a key-KPI and four sub-KPIs as key indicators. The result of FY2023 is shown on the right side of the slide.

We plan to continue to disclose these indicators on a regular basis and will actively use them in our dialogue with stakeholders regarding the progress and challenges of human capital management.

Human Capital Strategy to Realize the 2030 Vision



From here, I will explain the details of the outline of human capital.

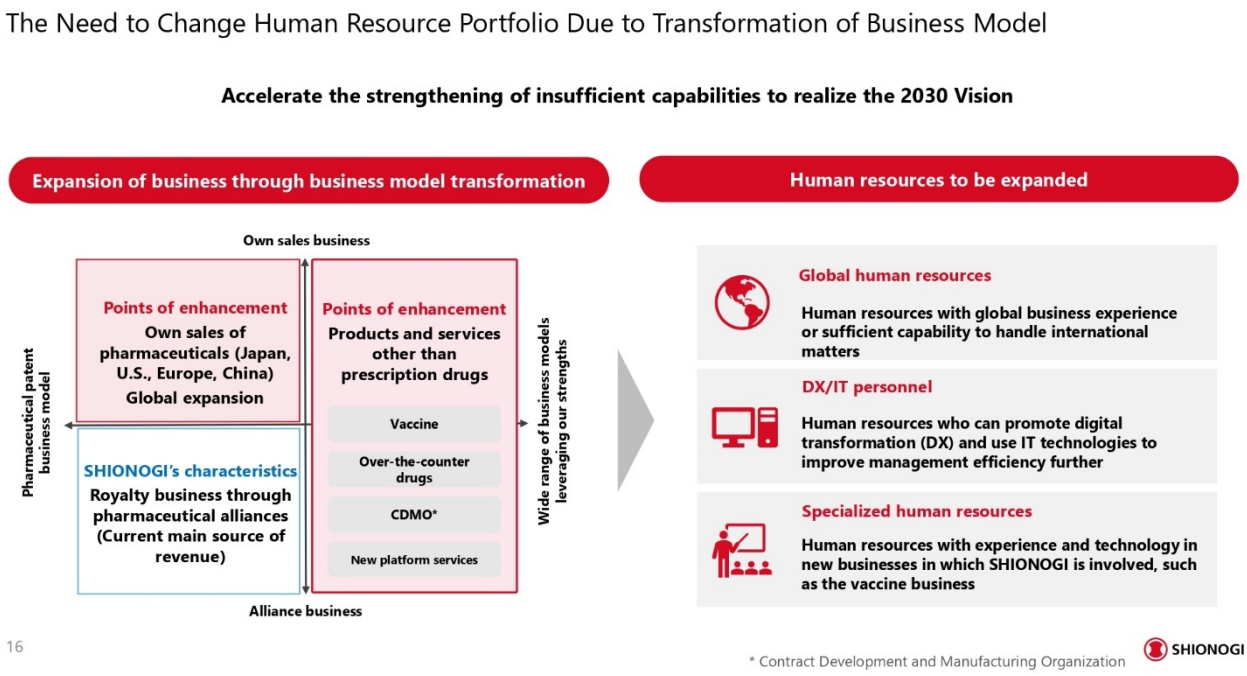
In order to realize our 2030 Vision, three core components of our human capital strategy are the transformation of our human capital portfolio, DE&I, and engagement.

Regarding the transformation of our human resource portfolio, we will promote the development of internal human resources to compensate for the lack of capabilities and promote the appointment of excellent human resources from outside to build an ideal human resource portfolio to achieve the 2030 Vision.

As for DE&I, we will promote reforms in the way we work to create a workplace environment where employees can play an active role regardless of their attributes and backgrounds.

With regard to engagement, while progress in reforming work styles and other measures will indirectly lead to higher employee engagement, we will also promote measures to directly improve engagement, such as internal branding, to strengthen this area in particular.

In order to confirm whether each of the initiatives based on these three pillars is functioning appropriately to enhance corporate value, we intend to conduct an engagement survey and implement a cycle of verification and improvement.



Kawamoto: Now, I, Kawamoto, would like to introduce some specific HR initiatives.

Now, Hatanaka talked about reforming the human resources portfolio, and this slide shows what kind of human resources portfolio SHIONOGI thinks we should build.

As for what we are currently aiming for as SHIONOGI and the points to be strengthened, first of all, we need to develop human resources with a view to being active on the global stage. We also need to bring in more specialized personnel to expand our business, such as new vaccines and various other Healthcare as a Service (HaaS). We also need to include people who can create new things, such as DX.

In this situation, we need to expand our human resources in three areas of global human resources, DX/IT human resources, and specialized human resources. We believe that this is what we are looking for in human resources.

Transformation of Human Resource Portfolio: Advancement of Human Resources Development and Acquisition

Advance human resources development and acquisition by defining the skill level required for each job and conducting assessments

Defining jobs and skills and conducting assessments

- Establish three job ranks for each job category
- Define the skill level required for each job category and job rank in terms of specialized and general skills

Image of defining job skills

Job category	IT project manager		
Rank	Entry	Member	Lead
Specialized skills	Project planning skills: Lv. ○; Is able to do XX		
	Project promotion skills: Lv.○; Is able to do XX		
General skills	Overseas response: Lv. ○; Is able to do XX		
	DX/IT: Lv. ○; Is able to do XX		

What can be achieved

Autonomous career development encouraged

Enables career development based on the gap between the required skill level and the individual's current skill level

Efficient recruitment activities

Clarify the desired candidate profile to ensure the acquisition of truly necessary personnel

Quantification of human resources quality

Enables the quantification of not only the number of personnel but also the quality of the person by measuring and tracking the level of each skill

17

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However, even though we were thinking about attracting this type of personnel, we were still very concerned about whether or not we were really recruiting such people. I think that one of the things we have to reflect on is that we have not been able to tackle the visualization of human resources as a human resources department, and at SHIONOGI, we are currently working to improve the sophistication of human resource development and acquisition by promoting the visualization of skills levels and human resource assessment to confirm whether we are hiring the human resources we really need.

Specifically, we are trying to visualize the number of lead-level, member-level, and entry-level human resources in each of the more than 200 job categories in SHIONOGI, and we have been listing the specialized skills required for each job type and how many people have reached what level.

By making this visible, we feel that, from the perspective of internal personnel, they are now able to consider what kind of expertise is required of them and how they should grow, thereby promoting autonomous career development.

I also believe that in hiring, we are now able to confirm whether or not we are truly acquiring the people and skills necessary for the Company to grow.

I think that many our stakeholders have also been working to quantify and make this visible, and I think that the fact at the base that you are working to make this visible is very important.

Transformation of Human Resource Portfolio: Introducing a New HR System

Transforming to a system designed to promote challenge and fulfillment

Grade system

- Make job grades commensurate with current roles **through "re-grading"**
- Enable promotion by authority within the organization to **realize flexible staffing in each organization**
- Increase compensation for high performers to **increase the number of people willing to take on the challenge of higher roles**

Evaluation system

- Enable promotion and demotion grades based on single-year evaluations to **allow for flexible treatment in accordance with roles**
  - * Promotion is possible in as little as four years
- Have salary increase and bonus amounts determined after the evaluation to **encourage managers to focus on appropriate evaluation rather than monetary values**

Compensation system

- **Competitive compensation design to attract the necessary talent**
- Make the compensation system commensurate with contributions to the company, **regardless of age, etc.**

Appoint personnel based on capability

Strengthen recruitment of external talent

18

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In addition, a new personnel system was introduced last year to ensure that each employee is willing to work in the direction SHIONOGI wants. We are reviewing the grading, evaluation, and compensation systems in order to change them to a personnel system that promotes challenge and satisfaction.

Among these, in the grading system, re-grading, grade-on, and reviews are conducted throughout the Company. Of course, what you have built up until now will become something important, but if you just sit on your achievement and don't really grow or contribute, there is a risk that the higher grades will be blocked off, and young people or people who want to take on a challenge will not get the treatment they deserve.

In order to improve these points, we will be newly changing the grading system visible so that everyone can see exactly what their role and contribution is.

In addition, our evaluation system has had a system that accumulates the evaluations over multiple years. I think this is a system that makes sense, but at SHIONOGI, we have changed to a system of single-year evaluations, with the aim of creating a system that promotes more challenges.

By evaluating each year individually, we have created a system that allows employees to move up to the next grade within a year. I was hearing voices like, "If we take on a big challenge, even in a job like research, and if we fail, will all the evaluations we have accumulated be lost?"

We have introduced this system because we believe that if the participants feel that they can achieve results in a single year's challenge, they will receive sufficient recognition in that year, and this will encourage them to take on more challenges.

As for the compensation system, we have designed it with the aim of making it a competitive compensation level when viewed by people outside the Company and by other companies. Last year, we introduced a new grading, evaluation, and compensation system, based on the belief that not only acquiring outside human resources, but also rewarding employees for their hard work will lead to retention.

Transformation of Human Resource Portfolio: Other Initiatives

Promoting the utilization of internal and external human resources while encouraging employee turnover to transform the human resource portfolio

Special early retirement program - Initiative to encourage employee turnover -

- This is the first implementation in 20 years since the business structure transformation in 2003, with 301 applicants
- The goal is not to reduce personnel costs, but to transform the talent portfolio necessary to realize the 2030 Vision

Strategic mid-career recruitment - Acquiring capabilities from outside -

- Focus on recruiting DX/IT personnel and personnel with global work experience
- Around 55 career hires have been confirmed for the fiscal year 2024 (with a maximum hiring capacity of 120)

Internal recruitment system - Utilizing internal human resources -

- Supports employees who volunteer to take on challenges and helps to further enhance organizational capability

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In addition, last year we implemented a special early retirement program as another initiative other than that, the first such program in 20 years, and 301 people applied for the program.

In the midst of such major changes, if there are employees who find it difficult to maintain a high level of motivation and contribute to SHIONOGI, or who find it hard to keep up with the changes at SHIONOGI, the Company has provided support for them to leave the Company.

With the goal of replacing human resources through this process, we have also been focusing on expanding strategic career recruitment since last year. In order to acquire human resources with the expertise, global, DX, and IT skills that I mentioned earlier, we have been hiring around 10 more or less mid-career employees every year, but this year we have already hired over 50 mid-career employees.

For SHIONOGI, we think this is a pretty big change, and I hope you will consider it a sign of our intention to acquire the human resources necessary to achieve our mid-term business plan.

We would also like to mention that we are also working to create a workplace where employees can realize their own career goals by themselves, while utilizing our internal recruitment system.

Securing Diverse Values and Integrating Diverse Human Resources: Work Style Reforms at SHIONOGI

- **Create an environment where employees with diverse attributes and values can play an active role**
- **Build momentum to encourage voluntary reskilling and skills upgrading**

Work style reform initiatives introduced

Self-investment support system

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

Review of prescribed working hours

Implemented to realize productive work styles

Use the time saved to perform valuable activities and carry out reforms

Elective 4-day work week

Supports skills upgrading and self-improvement initiatives

Responds to employees' individual circumstances to realize diverse workstyles

Alleviation of side-job standards

Supports employees who voluntarily take on challenges

Gives back to the company and utilizes the experience obtained outside

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In addition, as the environment becomes one in which a variety of people enter the Company through this kind of mid-career hiring, we would like to create an environment within the Company in which people with diverse values can play an active role.

Therefore, SHIONOGI has also been implementing reforms in the way we work. We also have a self-investment support system in which the Company will provide up to JPY250,000 per year to those who are willing to learn on their own. We reviewed the standard working hours and changed the standard working hours per day from 7 hours 45 minutes to 7 hours a few years ago, but rather than just thinking that working longer hours is good, we also want to make sure that people are aware of the need to work efficiently, and we have included this in our system.

The aim of this work style reform is to bring about the growth of SHIONOGI by incorporating a diversity-like approach that brings together people with various circumstances, such as those who work four days a week or have a second job, and creating an environment that makes it easy for them to work towards SHIONOGI's goals.

Initiatives to Increase Employee Engagement

Promoting sympathy toward SHIONOGI's initiatives through enhanced branding activities and various measures

SHIONOGI Infectious Disease Weeks

- Initiatives to encourage people inside and outside the company to "understand and relate to SHIONOGI's infectious disease initiatives"

President's Award - SING of the Year -

- The President's Award event, now in its 12th year, aims to make it a place for SHIONOGI's employees to appreciate, praise, and improve each other

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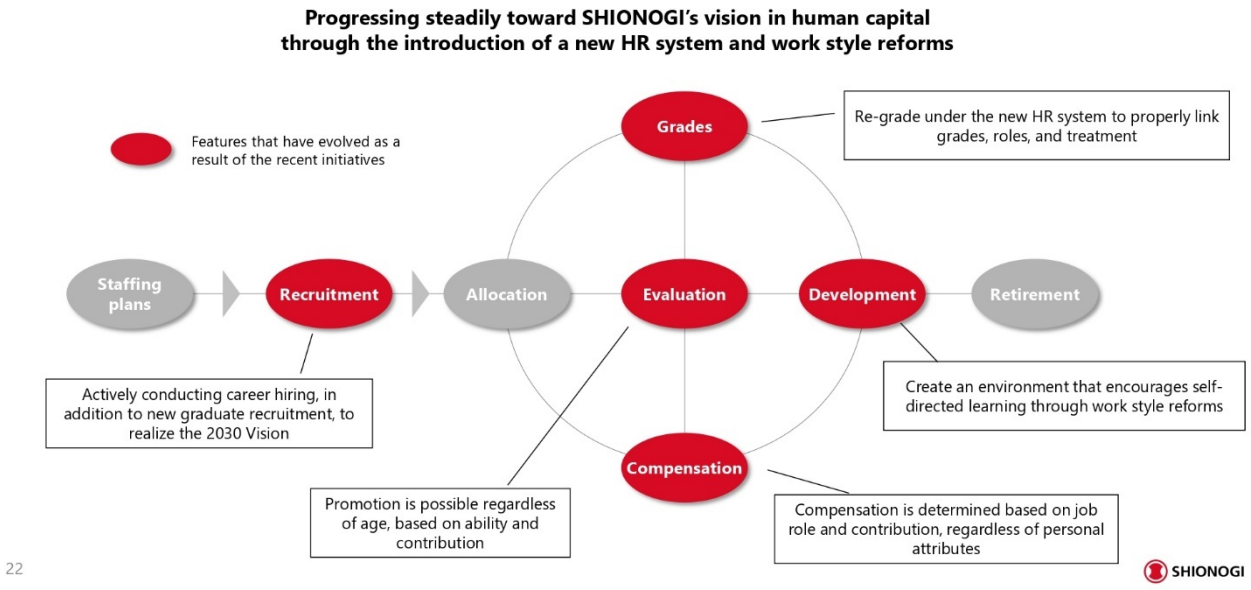
In addition, we are also engaged in a variety of other initiatives to increase employee engagement.

The basis of this initiative is, of course, the communication between SHIONOGI managers and collaborators on a day-to-day basis, but the Company as a whole also wants employees to have a sense of engagement with working at SHIONOGI, so we are also using SHIONOGI Infectious Disease Weeks to make employees aware of SHIONOGI's initiatives.

We would like to increase engagement throughout SHIONOGI by creating a company-wide culture of celebration and praise for hard work, for example, in the form of the President's Award.

Where SHIONOGI's Human Capital Strategy Stands Today

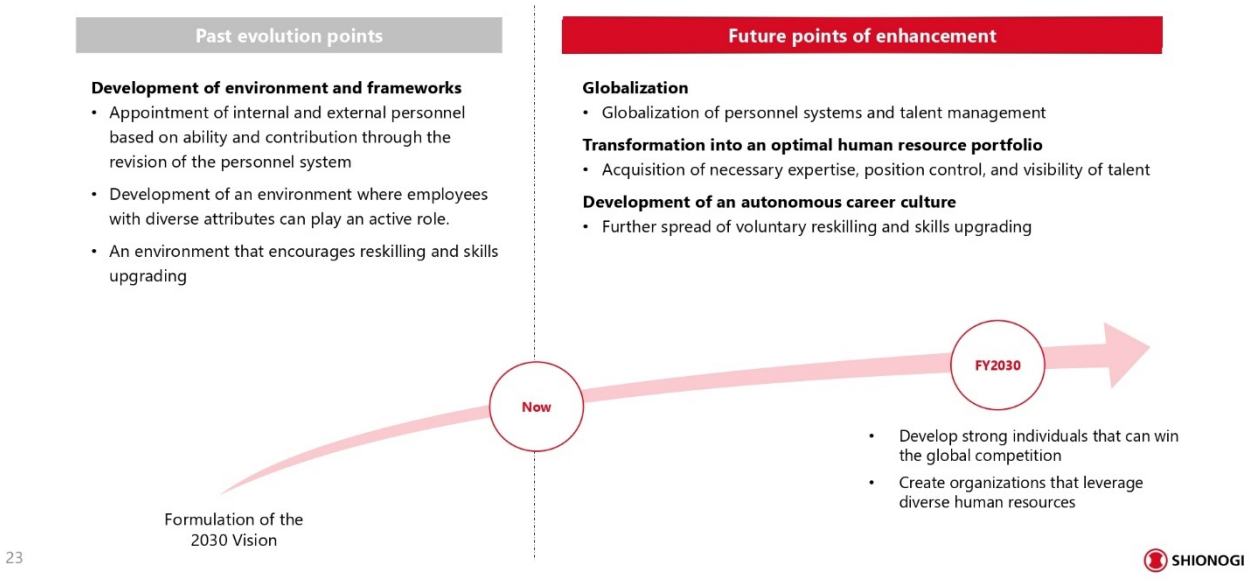


This is a summary of SHIONOGI's current human capital strategy. We have highlighted in red the areas where we have recently started to make efforts and are making progress, from the personnel planning and recruitment planning stages to the entire process up to retirement.

In terms of recruitment, we have been expanding career recruitment, and I believe that we have been able to accelerate the pace of grading, evaluation, compensation, and development by revising the personnel system and reforming the way we work.

That said, we are naturally aware that we still have many issues to address, and we will continue to take initiatives to increase the value of SHIONOGI's human capital while taking this overall situation into consideration.

Points to Strengthen in the Human Capital Strategy to Realize the 2030 Vision



This is the last slide, and the left hand side is the part that I have just talked about, and I have listed three points that will be strengthened in the future.

First of all, we think it is important to globalize well and produce results anyway. As things stand now, we have initiatives in place to recruit people who can work globally in Japan, but we are currently in the process of building a globally unified personnel system, human resource management, and succession plans, so we would like to create a truly global working environment rapidly by making these systems and plans firmly established.

In addition, in order to further transform our human resource portfolio, we need to acquire the necessary expertise more than ever before, and in order to do so in an appropriate manner, we also need to firmly implement position control. By continuing to make progress in visualizing human resources, we hope to take this even further.

And finally, we believe that we will create a strong culture of career autonomy. SHIONOGI has always been committed to career autonomy, and we have been working towards creating an autonomous human capital, but as our employees become more diverse, while it is of course important to work towards a big goal, we think it is also important to have each individual have the motivation to learn and the desire to play an active role.

We believe that we will not be able to make real change unless our employees' feelings are firmly attached to the various reforms we are undertaking, so we intend to further grow SHIONOGI's human capital while firmly promoting career autonomy here.

That is all from me.

Directors/Auditors

		Name		Number of years in post	Bord of Directors	Nomination Advisory Committee	Compensation Advisory Committee
①	Representative Director, President and CEO	**Isao Teshirogi**	(64/Male)	22 years	○	○	○
②	Director and Vice Chairperson of the Board	**Takuko Sawada**	(69/Female)	9 years	○	-	-
③	Independent Outside Director	**Keiichi Ando**	(72/Male)	8 years	Chairperson ○	Chairperson ○	○
④	Independent Outside Director	**Hiroshi Ozaki**	(74/Male)	5 years	○	○	Chairperson ○
⑤	Independent Outside Director	**Fumi Takatsuki**	(49/Female	4 years	○	○	○
⑥	Independent Outside Director	**Takaoki Fujiwara**	(72/Male)	1 year	○	○	○

		Name		Number of years in post	Bord of Directors	Board of Auditors	Nomination Advisory Committee	Compensation Advisory Committee
⑦	Standing Corporate Auditor	**Akira Okamoto**	(69/Male)	9 years	○	○	-	○
⑧	Standing Corporate Auditor	**Noriyuki Kishida**	(64/Male)	-	○	○	○	-
⑨	Independent outside Auditor	**Tsuguoki Fujinuma**	(79/Male)	5 years	○	○	-	-
⑩	Independent outside Auditor	**Shuichi Okuhara**	(56/Male)	4 years	○	○	-	-
⑪	Independent outside Auditor	**Yoriko Goto**	(65/Female)	1 year	○	○	○	○

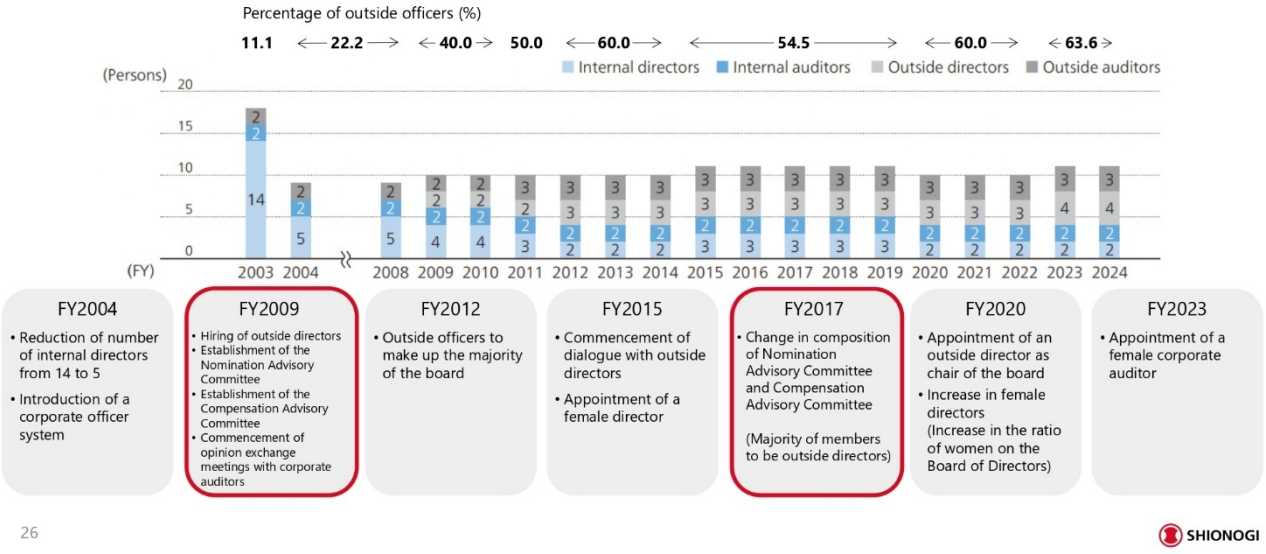
SHIONOGI

Teshirogi: Now, for the final part, I will give an introduction to corporate governance, and then we will hear from two chairpersons of the Nominating Advisory Committee and the Compensation Advisory Committee.

This is the current list of directors and auditors. Out of a total of 11 people, 7 are from outside the Company, so we are thinking that about 2/3 of the people have been from outside the Company.

Of course, at the moment, the directors are fulfilling their roles as directors and the auditors are fulfilling their roles as auditors, but the Board of Directors itself is made up of these 7 external people, who are all thinking about the future of SHIONOGI and are asking questions, giving their opinions, and making very strict comments from the perspective of external officers, and most of the statements are made by seven members. The statements made in the board of directors are these 7 members, and although it may sound strange to say that there is no discrimination, they are considering the future of SHIONOGI and providing their opinions on the matters before the Board of Directors.

Corporate Governance Transition

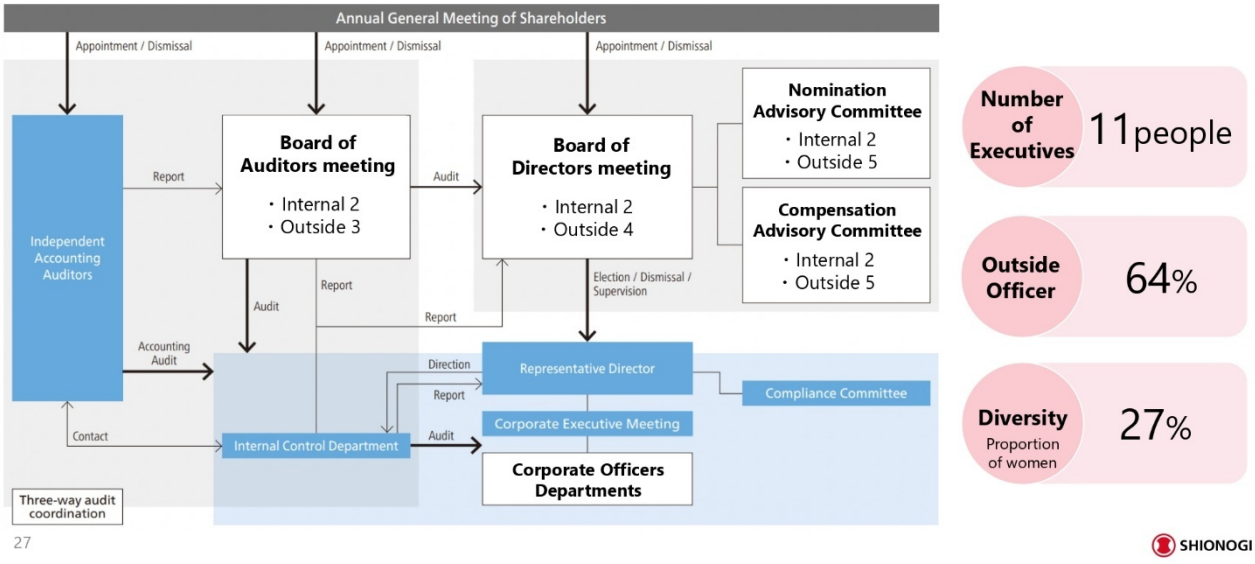


This is a transition of our company history. My predecessor, Mr. Shiono, became president in 1999, and from that point on, we made the decision to engage in proper dialogue with our shareholders and other market participants. I was the general manager of the Corporate Planning Department at that time, and I have been in charge of investor relations and contact person for you for about 25 years now.

I would like to tell you something; at that time, we were still in our infancy in terms of IR and SR, and many of our shareholders pointed out many things to us. In some cases, we received suggestions that were completely contradictory, or even completely opposite, but we have tried to take the direction of the Company and do what we can, digesting and thinking about the suggestions we have received from everyone, and adapting them in our own way.

For example, from 2003 to 2004, we decided that it was not right to have 14 in-house directors, so we reduced the number of in-house directors and changed the Articles of Incorporation to 7 thereby reducing the number of people in the Company. I think that the number of outside directors was not that many, even in the prime market, as of 2009, but it was a good thing that we had outside directors from 2009, as it is said to be the standard in the US and Europe. This is also because external parties and investors have told us to make sure we do this properly. Naturally, it is common sense that the majority should be external, so please make sure to head in that direction. Additionally, the Nomination Advisory Committee and the Compensation Advisory Committee, even if the company is not a committee-based company, should be properly established so that everyone can objectively review the matters of nomination and compensation. We are a little proud of this in that sense, because in talking with investors and market stakeholders like yourselves, we have been quick to adapt to what is right for SHIONOGI and what we should take in at the moment, and I think we are still one of the more advanced companies in Japan in this respect.

Corporate Governance Structure



This is corporate governance structure now. As you can see, the majority of the members of the Board of Auditors are from outside the Company, the majority of the members of the Board of Directors are from outside the Company, and the majority of the members of the Nomination Advisory Committee and the Compensation Advisory Committee are from outside the Company. Also, we have asked people from outside the Company to chair these committees and serve in the highest positions and we have been proceeding that way.

We have three women at the moment, 3/11, so we are a little under 30%, and of course we would like to keep this under consideration, including what to do with foreigners in the future.

Organizational Design

Currently considering the ideal organizational design to achieve sustainable growth

	Management type	Hybrid type	Monitoring type
Main roles of the Board of Directors	Place emphasis on management decision-making (Many decisions on individual business execution matters)	Gradually shift focus to supervisory functions while limiting the scope of individual business execution matters	Specialize in management oversight
Number of outside directors	several people	About one-third to half	At least a majority
Roles of outside directors	Mainly advising	Both advisory and supervisory roles are expected.	Mainly supervising
Concept of the Board of Directors	"Bring an outside perspective (of outside directors) to the Board of Directors"	(Intermediate)	"The executive side provides information to the Board of Directors, which consists primarily of independent outside directors"
Agenda of Board meetings	Often a large number of items for resolution (Of the decisions on individual business execution matters, **only those of less importance** are delegated to the executive side)	(Intermediate)	Few items for resolution, mostly items to report (Decisions on individual business execution matters are delegated to the executive side **significantly**)
Organizational design	Company with a board of corporate auditors	Company with Audit and Supervisory Committee	Company with a nomination committee, etc.

28

SHIONOGI

In Japan today, we have a rather unique corporate auditor system. Over the past several years, we have had a number of conversations with major international passive and index players, especially those who are looking at SR.

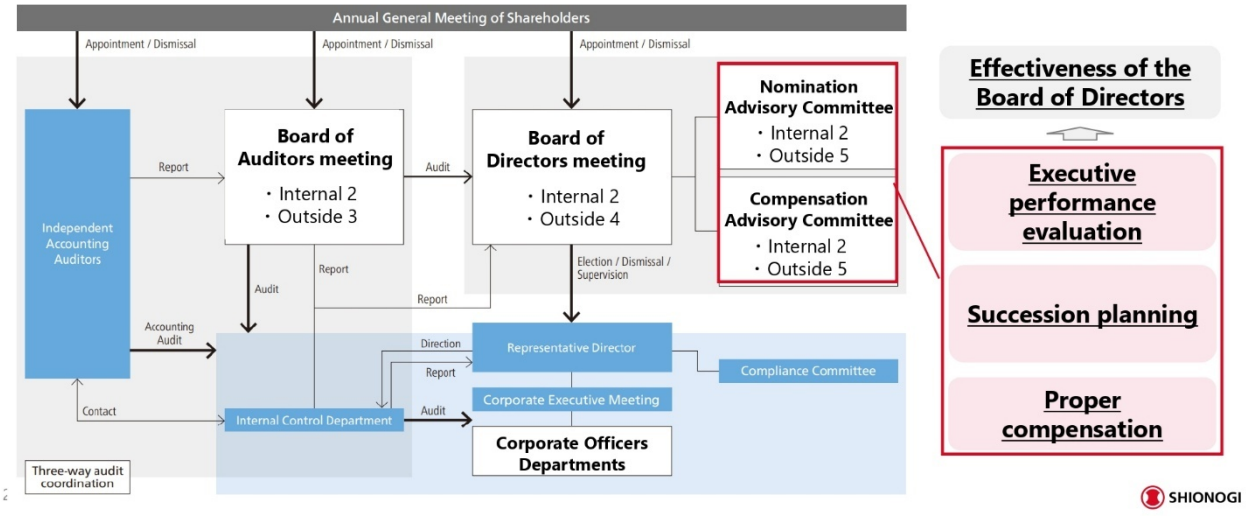
In conclusion, maybe we are doing the core right, so we don't need to stick to the style. If you demonstrate what you are doing properly, that is fine, but I am sure that there are constant opinions that it would be better to have the Company look in the direction of a company with a committee system.

Now, because there is a unique Japanese hybrid style, such as the Company with committees including audit, there is no particular rule that says we have to do it this way, but in the Board of Directors, we are thinking about what kind of governance style is best for our company as it changes through various stages. This is something we have talked about consistently.

Of course, I promise you that no matter what style of governance we use, we will be transparent about how we are proceeding, and we will disclose information, including the form of our effectiveness evaluation, but we are constantly discussing with the Board of Directors what style is best.

Toward Strengthening Management Supervisory Functions

Board succession reforms have been initiated to continuously maintain and improve governance oversight functions



This is the last part of my presentation, especially on the right side, which I may have told you a little bit about. When we try to reform the Company, it is natural that the top is in the toughest situation, which is what we should be doing.

Therefore, when we started thinking about evaluating the performance of the Board members two years ago, we decided to start with the president's performance evaluation. I had my own performance review by the Nomination Advisory Committee, which is a committee of the Board of Directors, and after receiving comments and questions from everyone, I left the room and the remaining members deliberated carefully on whether or not to reappoint me, and after 30 or 40 minutes I re-entered the room and received their feedback.

November is just the right time in terms of the cycle. If I am to receive an endorsement after that, why, I will take December and January to make another proposal to the Nominating Advisory committee as to what structure we will use for the next fiscal year.

It would be strange for me to make a proposal if I have not been endorsed, so first, the Nomination Advisory Committee will make a decision on whether or not I will continue to serve, and if I do, I will make a proposal on how the Board structure for the next fiscal year will be organized, which will be discussed separately.

In fact, the Nominating Advisory Committee and the Compensation Advisory Committee, as well as other outside directors, meet with the executive officers, or the directors who are positioned just before the executive officers, twice a year, or have dinner with them afterwards, to get a feel for their personalities, and then the interviewees make proposals what they are thinking to them to ask for the deliberation.

And one of the biggest themes within the Nominating Advisory Committee is succession planning. I have shared in detail my current thoughts on this matter and have listened to their questions and opinions. In case of any eventuality, I will share my own opinions on how the members of the Nomination Advisory Committee should consider succession in a specific order.

There is a real possibility that there could be an accident, so I have been talking to the Nominating Advisory Committee about what they would consider in such a case, so that the members of the Nominating Advisory Committee can decide what to do if there is such an accident.

For the past two years, I have received quite harsh feedback on my performance as CEO. Therefore, I believe that the four individuals who are in charge of R&D, healthcare, supply production, and corporate management, who are one level below me, will finally receive a fair evaluation. We are planning to conduct performance reviews based on the same criteria.

This year, we will conduct a test trial for the executive officer level general managers below that level, and we will lower and lower the right to evaluate them to see how we evaluate these people. While the people lower are being asked quite strictly in their evaluations of their own performance, whether it be in terms of their achievements or their abilities, we need to think if the people above are doing their jobs properly. We believe that this is very important to maintain discipline within the Company, and that is why we are promoting it.

I would now like to turn the floor over to the chair of the Nominating Advisory Committee.

Nomination Advisory Committee: Implementation Details

A performance review of CEO began in FY2023

What was implemented

Directors | Corporate Officers

Guarantee of appropriateness

Performance review of CEO

- CEO explained to members of the Nomination Advisory Committee about accomplishments, recognition of problems, and future prospects
- Committee members other than CEO discussed CEO's performance
  ⇒ It was decided that CEO could continue in his position

Feedback at the Nomination Advisory Committee

- We would like the review to focus on medium-term goals rather than on single-year performance
- The most important thing is succession planning, and We should be able to review the candidate and his/her training plans

30

SHIONOGI

Ando: As was explained just now, I would like to explain the activities of the Nominating Advisory Committee.

In addition to the evaluation of the effectiveness of the Board of Directors to date, we have decided to conduct a performance review of the Chief Executive Officer first, based on the recognition that we need to thoroughly check the suitability and competence of the Board members, as you have just mentioned.

While it is a given that the representative director himself must first express his desire to continue to serve in the position from the next fiscal year onward, the Nominating Advisory Committee is considering whether or not to allow him to continue to serve. We will then proceed with the selection of the next Board members or executive officer appointments, etc.

The specific review method is, first, the president explains the results, challenges, and future prospects to the Nominating Advisory Committee. We will ask questions about the explanation, and the Nominating Advisory Committee members will discuss whether or not to reappoint the candidate.

Some issues have come to light as a result of this implementation. Future issues include clarifying the criteria for deciding whether or not to continue the program, objectivity, reviewing the review method, such as how

to confirm results for not only short-term but also medium- and long-term goals, and linking the review method with the Succession Plan.

Nomination Advisory Committee: Future Prospects

Extend evaluation to other officers and strengthen succession planning

Future prospects

Directors	Corporate Officers
Guarantee of appropriateness	Training of director candidates

Strengthening of outside directors' supervisory functions

- Continuation and expansion of performance reviews
  - Evaluate of progress toward medium-term goals
  - Extend the review to succession plans
- Re-examination of criteria for appointment of CEO and directors
- Preparation and periodic reviews of the list of candidates
- Mutual reviews of outside directors

Adding depth to succession planning

- Strengthening the roles of the Nomination Advisory Committee
  - Monitor the executive side's succession planning
  - Confirm the character of the successor candidate through dialogue

Re-examining the skills matrix and using it for training

- Delete basic skills such as corporate governance from the skills matrix and integrate them into directors appointment criteria
- Facilitate the training of corporate officers as director candidates by evaluating them on two bases: the skills matrix that includes basic skills; and the appointment criteria

31 SHIONOGI

In light of these issues, we will evolve the review method of the President's performance review to confirm medium-term results, expand the performance review to executive directors, and review the criteria for the selection of the President and directors.

While organizing these foundations, we will evaluate their performance of each year.

We will also create a list of candidates necessary for the skill matrix for outside directors, continuously reviewed it and conduct performance review. Although we review the items in the skills matrix every year, we intend to enhance consistency with our growth strategy and strategic areas, and to strengthen and optimize our human resources portfolio.

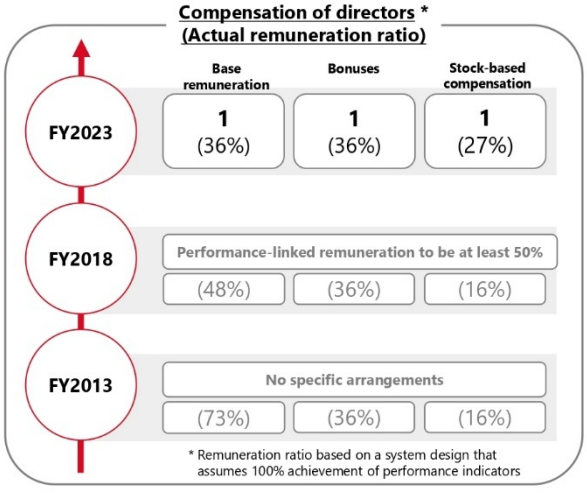
In the selection of executive officers, we evaluate them on two axes: a skills matrix that includes basic skills such as corporate governance, and selection criteria. This helps us to ensure that they have the necessary skills and aptitude, and leads to their development.

The Nominating Advisory Committee has decided to strengthen the monitoring of the Succession Plan on the executive side and to provide opportunities for dialogue with candidates to confirm their personalities through Board meetings, director roundtables, and plant inspections.

For sustainable growth and expansion of corporate value, management and business strategies must mesh well with this human resource strategy. We will continue to make firm efforts to strengthen the effectiveness of the Nominating Advisory Committee.

Compensation Advisory Committee: Discussions and Results (1)

Increase remuneration linked not only to short-term performance, but also to medium- to long-term performance



A compensation design oriented toward performance (especially medium- to long-term)

Remuneration level and ratio

- Remuneration level: Consider business conditions and public trends
- **Remuneration ratio: Base compensation, bonuses, stock-based compensation**
  1 1 1
- Links with performance:
  - Short-term: Annual budget ⇒ Performance-linked bonus
  - Medium-term: Medium-term management plan ⇒ Medium-term performance-linked stock-based compensation
  - Long-term: Share price ⇒ Long-term stock-based compensation

32 SHIONOGI

Ozaki: Thank you very much. My name is Ozaki. I will now briefly explain the activities of the Compensation Advisory Committee.

Please see the slide. I will explain the slide on the right. I think there are two most important jobs for the Compensation Advisory Committee: one is the level of compensation. I think one thing is that this is to determine the general sense of compensation levels for CEOs, directors, and all the way down to the lower levels.

The second task is to evaluate the compensation and score it as 50%, 80%, or 100%. That is our second job.

Regarding the level of remuneration, one factor is SHIONOGI's current activities, or rather, business performance. Then another question is what are the compensation levels of other companies of the same size as SHIONOGI? We determine the level of compensation by referring to two points in particular, the level of compensation at other companies in the same industry. For this purpose, we also do surveys of other companies on a regular basis.

So, first we decide on the level of compensation, and then we decide how to pay the compensation in relation to that level. One is, we pay compensation in the form of a fixed salary, which is called a basic salary. The other is bonuses. This is based on the evaluation of the performance of the Company for a single year and to determine the level of the bonus.

The other is to determine compensation based on medium- to long-term performance, which is provided in the form of equity compensation.

We are trying to determine the level of compensation so that the percentage of that compensation is 1/3, 33%, 33%, 33%, and 33%, with the overall level being 100.

While base compensation does not change based on performance, bonuses are based on performance for that single fiscal year, with several notches carved out based on whether the plan was achieved or not, and bonuses are determined at a level appropriate to that notch and where performance is appropriate to the achievement of the plan.

As for stock-based compensation, we have divided it into long-term and medium-term, with the long-term being a form of compensation that is accumulated until retirement, and the medium-term being evaluated every three years, and we are currently considering the level of release rate for the stock-based compensation given as medium-term compensation each year to reward the results of the three-year period. The release rate is 100% if the score is perfect, and 0% if the score is completely inadequate. This is how we evaluate.

If you look at the slide on the left, we are now doing this on a one-to-one-to-one basis, but there was no such specific initiative in 2013. We have decided to make at least half of that performance-linked in FY2018, so we have decided to include performance-linked compensation.

As President Teshirogi explained at the beginning of this presentation, I believe that SHIONOGI has grown considerably during the 10 years from 2013 to 2023. I think that this system has contributed to some of the growth. We would like to continue to work with this type of system.

Compensation Advisory Committee: Discussions and Results (2)

Encourage the sharing of value with shareholders by increasing stock-based compensation

Stock-based compensation	FY of introduction		
	Directors	Corporate Officers	Organization heads
Stock options	FY2011 (Abolished in 2018)	–	–
Long-term stock-based compensation	FY2018	**FY2018**	–
Medium-term performance-linked stock-based compensation	FY2018	**FY2024**	**FY2024**

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In the past, the system was mainly for directors, but from FY2018, we have introduced a long-term stock compensation system for executive officers as well. From this fiscal year, we will also link executive officers to mid-term performance, that is, we will evaluate them every three years and change the release rate, or the actual compensation, depending on the degree of achievement of the mid-term plan. We have introduced such a system.

At the same time, as explained earlier, we have decided to include a similar system for directors and organization heads. We have decided to introduce this system for directors and organization heads so that they will be more aware of their mission to achieve the Company's growth and medium- to long-term goals.

As a result, I think that the Board of Directors and the executive officers are now thinking not only about what they can achieve in the short term, but also about what they can achieve in the medium term and how they can achieve their long-term goals.

That concludes my explanation. Thank you.

Question & Answer

Kyokawa : Thank you. We will now move on to the question and answer session.

First, we will take questions from the audience at the venue. We will then take questions from those attending via the web.

Web participants will be able to raise their hands during the Q&A at the venue. If you have any questions, please press the raise your hand button. Also, after speaking, please press the “raise your hand” button again to lower your hand. Thank you for your cooperation, when asking questions, please state your affiliation and name.

Now let’s get started. For those at the venue, if you have any questions, please raise your hand. Mr. Kouguchi.

Kouguchi : I’m Kouguchi, from Sumitomo Mitsui Trust Asset Management. Thank you for your presentation.

I am very grateful because I was able to understand the specific initiatives and activities of the Nomination Advisory Committee in particular, but I would like to confirm something.

First, as Mr. Teshirogi mentioned earlier, there was a discussion about the order and procedures to follow in case of emergencies, but is that a confirmed decision? One question is whether this is something that has been approved by the Nomination Advisory Committee.

Secondly, in normal cases, regarding the decision of the Nomination Advisory Committee, is there a case where there is a change of personnel other than the intention to continue or not to continue. Since the assumption is that it is based on the decision to continue, is there a case where he is told to step down, even if Mr. Teshirogi wants to continue? This is the second question. It is a question of what kind of trigger will be used to decide on the replacement.

And the final point is about the successor. When we compare other candidates to someone like Mr. Teshirogi, I think that their abilities may be inferior and it may be difficult for them to reach a passing grade, but when we think that their role in the future may be different from the role of the current president, I wonder what perspective you use to check the next person.

It's difficult to say how much you can say at this stage, but I'd like to know your current thoughts, and if you don't mind sharing, I'd like to know if you've been able to narrow down the list of candidates considerably. These are three questions in all.

Ando : Let me explain. The Board of Directors also believes that the Succession Plan is extremely important, including the current situation in which we find ourselves. Conversely, President Teshirogi has excellent management skills and leadership, and we, including the Board members, are honestly concerned about what would happen if something should happen to Mr. Teshirogi.

To this end, since various accidents might happen, we need to prepare for it and have a consensus in the Nomination Advisory Committee as to who will take over in the short term if we have to replace someone, and we also need to share the President's thoughts on who should be promoted and in what form.

This was also explained in the Succession Plan earlier, but what kind of people are short term candidates? Also what is the president's approach, including specific personnel. It's not that we approve it now, but we're

thinking the president might have some thoughts, in the short term, it will be this person, in this order. We are aware of the details of this.

Because, of course, strengths and challenges depend on the person. Or, we need to foster more in this way, but in the short term, if we will choose people in this order of priority, something like that. We share that view that the president has. Whether we agree with that or not, again, this is a different story, but we ask him to tell us that first.

From a medium to long-term perspective, if things continue without any major incidents from now on, what year will the next candidate or successor be chosen from, and what kind of person will be chosen? What are the current president's thoughts on the list, his evaluation of each person, and how he plans to train each person in the future?

For example, we heard about his opinions of the person who has great ability but lacks experience in corporate planning, and whether the person should be trained in this area or whether this person should be given more global experience.

So we ourselves also need to be aware of the candidates for succession, and we need to know the person and the name, so as I mentioned earlier, through various opportunities such as the Board of Directors' meeting and the meetings with Associate Corporate Officers. Through various opportunities, we also understand the person's way of explaining and thinking, including such perspectives.

Also, your second question is the president's intention to continue in his position. If the president wants to resign, there are probably various reasons for this, so if this is the case, we will discuss it again at the Nomination Advisory Committee and decide what to do. But if the president really wants to quit, it's probably not going to be possible to get him to continue.

First of all, in order to serve as the top of the management, the president has to have the strong desire to effectively address the current challenges in management, such as many issues left unresolved for the management and Revision. If the top management is losing energy, we would rather need to replace him, so at the very least, he must have the desire to be president, otherwise the Company does not operate well.

But whether the position of the president can be done with motivation alone is another matter altogether. So, as Mr. Ozaki said earlier in the topic of Compensation Advisory Committee, it is also important to consider things like performance and the actual sales results, and including that, there are things that the president may want to do but cannot do. There are these issues, and there are these problems in terms of actual results.

If the Company is not able to respond to various changes in the industry environment, or if there are doubts about the effectiveness of the Revision, we may say no, even if the president wants to do so. However, since that is not the case at all now, it is our general consensus that we would like him to continuously stay as the president.

As for successor personnel, this is really difficult. As I said, the current President Teshirogi is very capable. I think everyone is well aware of this, but I think that at one point, everyone was most concerned about who could be the Teshirogi's successor. I think this is the biggest risk we face, and in that sense, it is extremely important for us to carefully nurture potential successors.

We also share the names of those whom the president considers as potential successors, from the younger generation, and how we can nurture them as top managers and have them compete each other. We would like to make a firm commitment to this from the perspective of developing and strengthening our management team.

So, in terms of human resources, as of if we have already narrowed down the candidates, the president's idea is that he is considering these people as candidates for the short term or medium to long term, but we, the Nomination Advisory Committee and the Board of Directors, are also considering various options.

In an extreme option, it is possible to invite external personnel, not just internal. Now that there is an awareness of the need to transform ourselves into a global company, we could say if the current internal human resources are really sufficient, to put it in an extreme way. We also have the option of pulling in top management from other companies in the same industry or from overseas.

Among all the broad options, which people, whether internal or external, are the most conducive to our growth strategy and sustainable growth for our company, or whether such people are being developed or not? If not, we would like to extensively examine the issue, including the fact that we still need to nurture them well.

There was a lot of discussion at the Board meeting, and the succession plan is really our biggest issue at the moment. The patent cliff is also very important, but if we put the business issue aside, the succession plan is the biggest issue facing our company. It is our feeling that it is at great risk.

Kouguchi : One point, what are you particularly looking for in the next human resource? I'd like to know if you have any point to focus as leader's conditions, if there is any.

Ando : I think it would be rather better to ask President Teshirogi to answer the question.

Teshirogi : The first point that I have submitted the short list and long list to the Nomination Advisory Committee is that when we are thinking about 2040 in R&D, for example, we need to consider how to develop our business globally in terms of what unmet needs there are, and how to determine the direction of our company as well as our therapeutic areas. It is important if the candidates have a clear and firm vision what the Company should provide in 2035 or 2040.

The second point is how to utilize DX and IT, which are at the forefront of the industry. I think that we need to make good use of this not only in R&D and production, but also in the management and indirect departments of the head office, so I am interested if the candidates have expertise in how we can absorb new technologies, new broad knowledge and wisdom. This is the second one.

We are a pharmaceutical company, after all for now. I think the most important point is to decide what kind of products to offer, in what form, and where to offer them. Of course, it's better if he or she have global experience and language skills, but on the other hand, AI translation capabilities have also improved a lot recently. Therefore, if they have a solid way of thinking with the technical evolution, even if the translation is in English, it would be acceptable. However, if his or her logic is messed up, it won't make much sense even in English. I would like to focus on how well they think about things there with a firm vision.

Kouguchi : I understand very well. Thank you.

Kyokawa : Thank you. Next, Mr. Hyogo.

Hyogo : My name is Hyogo from Mitsubishi UFJ Trust and Banking Corporation. Thank you for your explanation today.

As for my questions, I would first like to know a little bit about the engagement survey part. On page 36, the work engagement score is 3.69 points, which I think is a bit of a delicate figure in terms of numbers, but I would like to ask know the current state of motivation for R&D and sales staff.

I have heard that the R&D was all mobilized to produce Xocova for the Covid treatment, and that the team became exhausted. I would like to know the afterward. Unfortunately, there is not much products to sell in Japan and the industry environment is thought that domestic prescription pharmaceuticals will shrink, so I wonder if there is a system in place that can retain truly talented people. Is the current motivation really maintained?

I'm not sure if the score 3.69 is out of 5 or not, but please tell me your evaluation of this score. This is my question to the executive team.

Kawamoto : I would like to answer your question. Thank you for your question. As for work engagement, since we have only recently started to measure it globally, I believe that it is valuable to continue to monitor it and I think it is difficult to evaluate based on just this one year; however, I do not think that we can say with confidence that the figures are high.

Among these, about R&D and sales, we feel that sales are on the rise. We have never been completely nothing to sell, but from a situation where there was not much to sell, now we have some products to sell like Xocova and we feel that the environment is becoming one where we can see results coming in. We think that there are areas where we can play an active role and are making progress.

On the other hand, the environment for selling new products and those who cannot easily keep up with changes in the sales environment have been declining a bit, and we wonder if there is a slight polarization, but we believe that the overall trend will continue to rise.

As for R&D, we believe that it is also becoming polarized. We think that those who can actually feel that new drugs are being developed or new medicines are being created are motivated. Even if we are working in the pharmaceutical industry, it doesn't necessarily mean that they will be involved in research and development and that the medicine they create will be released to the public, so we think that people who don't realize this are not motivated.

We think that there is still a big issue to be addressed in terms of managers making sure that their collaborators are fully aware of their vision and the results they are achieving, and that they are fully evaluating these things.

Along with the revision of the personnel system, we have been enhancing manager training and we believe that we can create a tone for overall improvement in R&D by focusing on communicating clearly where we are aiming, where our results have been achieved, and what we value in their activities. These are our challenges.

Hyogo : Thank you. Looking at the company as a whole, is that area currently recognized as an issue? I would like to know if the issues you have just mentioned are the challenges, or if there are any other issues that you recognize as challenges in the four new KPIs that you have established.

Kawamoto : We think the biggest issue is as you said, as I have just described. While the personnel systems have changed and while we have regraded them, I think that the challenge for the whole Company is that managers can explain everyone's roles properly and make sure they are fully understood. How much we can do this, this is what we would like to focus our efforts on.

In this context, the next challenge, which I touched on a little in our initial discussion, is the fact that we are seeing a slight increase in the number of career hires, and we believe that our human resources are becoming more diversified.

In this kind of situation, we think that there will soon be a period when various conflicts will arise as various blood is introduced into SHIONOGI, which has always been a company that has been devoted to SHIONOGI, and this will lead to the creation of innovation. I think the next issue for us is how we can help them understand the Company's philosophy.

As we welcome more and more diverse people into our company, we would like to work on how to help them understand the Company's vision, heritage, and various other things.

Teshirogi : I think I have to tell you this straight out, but the most difficult part in terms of average scores is manufacturing. There has always been a shortage of people here. I heard that it is very hard because there is not enough people. We have a lot of people who are having a hard time every day because even if we hire people on a temporary or contract basis, they often end up quitting. We think that how to improve the situation is not just a problem for our company, but for Japan as a whole.

Looking at the Company-wide score, we are still struggling in this area. We need to accelerate continuous production, for example, or reduce the number of workers to make products as much as possible. The issue related to human resources is really serious.

Hyogo : Thank you very much. My second question is for the outside directors. You have been talking about sustainable profit growth and increasing corporate value, but unfortunately the rate of profit growth has been low for the past few years, and looking at the current PER, the corporate value is in the 10x range, which is lower considering the 15x of the Tokyo Stock Exchange, and this is the current situation your result has been degraded, I guess.

Since it is an infectious disease, there may be on and off seasons, so I think there may be a considerable amount of volatility risk in the Company's performance.

I would like to ask you, from the viewpoint of outside directors, do you feel that the Company has a firm mechanism for sustainable profit growth and increased corporate value? I can see from the slides from earlier that the past track is great, but the current situation is an awareness of the problems with the lack of profit growth.

Stock prices have unfortunately declined over the year, as seen since January 1st. With the market being so lively, I'd like to know what kind of discussions are being held about whether there is a sense of awareness of the issues involved.

Ando : I’m Ando. Thank you. As I may have mentioned before, sustainable growth is very difficult in this industry. It's still not so easy.

Now, we are trying our best to transform ourselves into a HaaS company, and we are trying to smooth out the patent cliff and break away from the royalty-only approach, which is a big problem that all pharmaceutical companies and other companies are facing.

In some ways, I feel that is the industry that is the furthest away from sustainable growth. That is why we are very aware of the crisis, and one of our biggest management challenges is how to break away from management that relies on patent cliffs.

And since it depends on infectious diseases, it inevitably depends on epidemics. This would have a structural factor that would have to destabilize corporate earnings very much. So now, Revision 2030 is exactly how to change such a business model into a stable profit structure, and the transformation into a HaaS company is fully committed to that.

With the emergence of two new pillars in the field of infectious diseases, Xocova, Xofluza and the development of a vaccine business, we have changed our business structure so that we can generate stable revenue, regardless of trends, and we are now working to develop products and services that contribute to our customers' health in a comprehensive manner, from prevention to check-ups to follow-up care, as we transform into a HaaS company.

However, this is not easy to do. Therefore, I think it will take a long time to reach 2030, but I wonder how the current business model can be reformed during this period. We believe this is a very big challenge.

Hyogo : Sorry, I may not have explained it well. One of the characteristics of the pharmaceutical industry is that even if profits decline in a single year, if the pipeline has value in the medium to long term, there will likely be an increase in profits in the future and this will be incorporated in the form of valuations.

While there are other companies in the same industry with high multiples like this, the fact that the multiples are at the 10x level now is a sign that the visibility into the future has not improved.

It is not difficult for people in the capital markets to see that the cost of capital is rising because the risk of the business portfolio is high, so I would like to see a thorough discussion in the Board of Directors about things like the ideal portfolio and why the multiple is not rising, from various perspectives.

I don't think it's a situation where you can simply say that Teshirogi-san is great and leave everything to him, so I would like to see more discussion about how to raise corporate value, even if it may seem a little naive. This is just my opinion.

Ando : As you just pointed out, we are very conscious of the need to increase our corporate value. Therefore, how the current stock price or PER ratio is compared to other companies in the same industry. We are also discussing the position of our company in the evaluation of each pharmaceutical company since Covid and so on.

So, in the end, in such a situation, how can we change our business model from the patent cliff I mentioned earlier to one that generates stable earnings? The 2030 Challenge is now underway, and the Board of Directors is committed to moving forward in this direction.

Hyogo : Thank you. I have high expectations and look forward to seeing the results.

Ando : Inevitably, the stock prices of pharmaceutical companies are highlighted by what new drug candidates and pipelines they have. There is a lot of attention focused on blockbusters and other developments in the oncology field, and we are naturally also paying close attention to the status of our pipeline.

In that sense, what the next pillar of our business will be, and if we need to have a wider range of new areas such as QOL diseases than infectious diseases, or even modalities. Or how can we further strengthen our small molecule technology development capabilities? We are also discussing such issues. Thank you very much.

Kyokawa : Mr. Yamaguchi.

Yamaguchi :I'm Yamaguchi from Citigroup. Thank you for your presentation today.

The first question is a bit related to what you just mentioned, and I understand that M&A is one of the things your company, with a good amount of cash per share, is considering on an ongoing basis.

In the case of M&A in the Later Stage, I understand that the availability and cost of assets can be quite challenging. However, from an external perspective, it seems that the process is dragging on without reaching

a conclusion. What are the specific issues that are causing problems, such as mismatched valuations or simply a lack of available assets?

Or, if you wait a little longer, it will be decided, or anything is fine, but if you could tell me a little about what is being discussed in M&A right now, I think it would be worthwhile. How about it? This is the first question.

Ando : As one of the major choices for growth strategy, M&A is crucial. I believe this is truly important. It is very Cash Rich and I wonder if relying solely on share repurchases and dividends is really enough. Although it may be misleading to say it is really enough, M&A is also a very important option, so we must make sure to pursue it properly.

The starting point, after all, is how it can and should be used in growth strategies. Of course, there is the matter of working hard with the current forces, and it's really difficult. If we need to expand our modality even further, or if we need to strengthen our capabilities in the cancer field, for example, M&A is always one of our key strategies, and it is something that is always on our minds. And, of course, the president is always thinking about it.

However, it is difficult to say exactly how we are progressing, but we are always aware of this. This company is very financially stable. However, as you just pointed out, it is also important to consider the issue of price, the partner, and our true strategic field, so blindly purchasing unrelated companies is not a good idea.

Also, as discussed at the Board meeting, we are trying to transform ourselves into a global company, and this is the STS2030 Revision. We are currently undergoing a transformation into a global company, which poses a significant challenge for us. Then the U.S. market, how to make it more aggressive, is always really debated as well.

There is some talk about Qpex and such, but it is very difficult to work on our own. It is also tight in terms of human resources. In this sense, we are constantly thinking about M&A of outside companies, including such personnel, or cooperating with them as partners, as one of our key strategies.

Yamaguchi : One more question, briefly. There has been a lot of talk about succession, and I've been able to learn a lot by hearing things that I don't usually get to hear. I think that you and Mr. Shiono have worked together for quite a while, and it would be natural for you both to continue working as CEO and COO for a while, rather than changing roles suddenly. Is there any chance of that happening?

Ando : I think that's quite possible. That is for sure. Even though one person is currently holding two positions, it is fine to have a CEO and a COO.It is a matter of choosing the best option from a wide range of options. As an independent outside director, I also consider this to be something that happens.

As I mentioned earlier, if the president is deemed unfit for the position as president, it is our most important role as independent outside director to firmly address the matter, including the possibility of a replacement. I would like to do that properly, and I consider that there are various possibilities in every direction, taking into account such assumptions.

Yamaguchi : Thank you very much.

Kyokawa : Thank you. It has been a lot of them raising their hands in the venue, but we will go to the web once. Continuing on, Ms. Sogi of Bernstein, please.

Sogi :My name is Sogi from Bernstein. Thank you very much. There was a discussion about hiring external talent in the field of human resources, but when I visited your company's research institute this year, I still got the impression that the researchers in the small molecule field have a deep pool of talent.

On the other hand, I have the impression that the Biologics team is building up their experience from scratch themselves, which is quite time-consuming and difficult.

Considering overseas, I think that in order to advance research on new modalities, etc., your company should consider hiring a wide range of outside personnel to accelerate research in these new fields. What is your company's current approach to recruiting human resources, especially for new modalities, and how is it progressing?

Kawamoto : Kawamoto would like to answer your question. Thank you for your question. We have been very active in the R&D and research fields in terms of career recruitment. In addition to the new modalities, we are also working on acquiring the human resources that SHIONOGI needs to truly create medicines, after a thorough reviewing the kind of people and the level they are needed by the R&D Supervisory Unit. Regarding the R, I believe that it is a major issue that highly skilled professionals are not readily available in the market. However, this fiscal year, we have managed to acquire about 20 individuals through career recruitment for R&D Supervisory Unit. I consider it a significant achievement that approximately half of them are at a lead level and the other half are at a high level.

Having said that, I think that the honest truth is that we are still unable to recruit where we want to recruit, so we are searching for a wider range of recruiting methods compared to the past. However, I consider that we are still not successful in recruiting.

In that case, I believe it is important to focus on internal talent development. It is crucial to consider how to nurture individuals who were not recruited through a one-year career hiring process, including opportunities such as studying abroad.

Sogi : Thank you.

Kyokawa : Mr. Hashiguchi.

Hashiguchi : My name is Hashiguchi from Daiwa Securities. Earlier, Mr. Ando mentioned the importance of converting to a HaaS company, but it is difficult. From your perspective as an Independent Outside Director, do you feel that the progress of the 2030 Vision is going well?

From your comment that it is difficult, it sounds as if you feel that you still need to work one or two more efforts. What are your thoughts?

Ando : It's really difficult, well. I have a feeling that this is not easy. In fact, there is also the question of converting to a HaaS company and whether that revenue stream will really be profitable. Therefore, we are a drug-discovery type company, we need to strengthen that first and foremost, although a drug-discovery has a lot of meaning.

As we had discussed earlier, we need to strengthen our pipeline. At the same time, we must transform ourselves into a HaaS company by reforming our business model in order to generate stable earnings. We are looking for both of them.

There are, after all, many difficult issues. We are working on a variety of new initiatives, but we are also aware that it is a very difficult task to determine whether these initiatives will really generate enough revenue to support the numbers we have in mind or not.

However, the recent problems with the Covid virus and the influenza virus have reaffirmed the importance of the small molecule business, and there is a growing awareness of the need for prevention, testing, post-treatment, and total health, as well as the social need for domestically produced vaccines. In this sense, I

believe that our company's reputation as a company focusing on small molecules and infectious diseases has been enhanced.

After all, we must firmly achieve the 2030 Vision, even in the midst of difficulties. We are not yet perceiving that we are progressing smoothly. As I mentioned earlier, we are trying to transform ourselves into a global company, but there are still some areas where we are lacking. We are highlighting in the board of directors the fact that, realistically, numbers have not been keeping up.

So, what are we going to do about it, including M&A-type things as one of the options I mentioned earlier? You mentioned earlier about modality. Is it really okay to remain a company that is strong in small molecules? Or is it not necessary to acquire new modalities such as middle molecules, polymers, genes, antibody drugs, and so on? We are discussing this extensively, including with the Board of Directors.

So basically, although we are getting by numerically, we always have a sense of crisis regarding management.

Ozaki : Including my own experience, I believe that if a company is determined to change in this way and works hard, we can change. Of course, it won't be that easy, and we may get hurt a lot, fall down, and get covered in mud, but going into new fields is something that SHIONOGI must do now, and going out into the world is something we must do too.

From the top to the general public, we will do it ourselves as our commitment, and we will make everyone else do it. It is absolutely necessary to buy assets or partner with others as a means to achieve this, but we believe that we can do it if we have the determination to do so.

When CEO Teshirogi and the executive team make such decisions, we, as external board members, offer kind words while also wielding the "whip of love" and say, "You should do it this way." However, if something seems off and it might jeopardize the company's going concern, we must absolutely put a stop to it. I think it is our role to be more and more proactive in this area, but also to ensure that company do not die, even if they are injured.

As a result, if we challenge ourselves and do it, we will probably open up a new era in relative terms and become a company that can grow in a different way. The good thing about SHIONOGI is that we have a pretty good idea of where we need to go with this and how we should do this.

While there are many companies that do not know where to go, SHIONOGI knows where to attack, and I recognize that our challenge is to do what we can to address this issue.

Hashiguchi : Thank you very much.

Kyokawa : Thank you. Then I apologize for being a little past your time. This concludes the 2024 Sustainability Meeting.

We have prepared a questionnaire regarding today's event and the recently issued Integrated Report, and would appreciate your cooperation. For those attending via the web, a survey page will appear after disconnecting from Zoom, and we would appreciate your cooperation.

Thank you very much for joining us today despite your busy schedule.

[END]