



SHIONOGI & CO., LTD.

FY2025 Sustainability Meeting

Presentation

Kyokawa: I am Kyokawa, Vice President of the Corporate Communications Department.

Thank you all for joining us today despite your busy schedules. SHIONOGI & CO., LTD., FY2025 Sustainability Meeting will begin now.

Let me first introduce today's speakers. From the right, Isao Teshirogi, CEO. Next, Ms. Yoriko Goto, Outside Director, Chairperson of the Audit and Supervisory Committee.

Last but not least, Ms. Kyoko Hirose, who was appointed as Outside Director in June of this year.

We would appreciate your frank opinions and questions about our company's governance.

So, let us begin immediately.

CEO Teshirogi, please start.

Teshirogi: Once again, my name is Teshirogi. Thank you for your cooperation today. Since holding our first Sustainability Meeting in 2023 and the second the following year, we, as SHIONOGI, have been exploring what form of Sustainability Meeting best meets everyone's needs. Frankly speaking, we've been experimenting quite a bit. Last year, we received significant feedback expressing a strong desire for more candid, unfiltered dialogue with experts, particularly regarding governance. Therefore, this year, we plan to try a different approach: focusing on Q&A sessions in a face-to-face format only, rather than online.

We would also like to learn from how this year's event went, and depending on what kind of feedback we receive from you and your requests, we may change our style next year.

At our Board of Directors meetings, nearly all outside directors currently speak on almost every agenda item. Today, we have two directors who speak frequently in attendance, Ms. Goto, a member of the Audit and Supervisory Committee, and Director Hirose, who is not on the Audit and Supervisory Committee, to provide their

perspectives on various matters. We would appreciate any questions you may have for them.

Agenda

- 01** Transformation into a Global Company toward Realizing our 2030 Vision (P.3-6)
- 02** Sustainable Growth Centered on In-House Drug Discovery (P. 7-13)
- 03** Corporate Governance (P.14-20)

This is today's Agenda.

Transformation into a Global Company toward Realizing our 2030 Vision



To achieve our 2030 Vision, we will certainly pursue M&A and other initiatives and may add further M&A activities going forward. We are considering when and how to update that Vision; accordingly, however, including the globalization of our business, the overall direction is unlikely to change significantly. Therefore, I would like to share our current position.

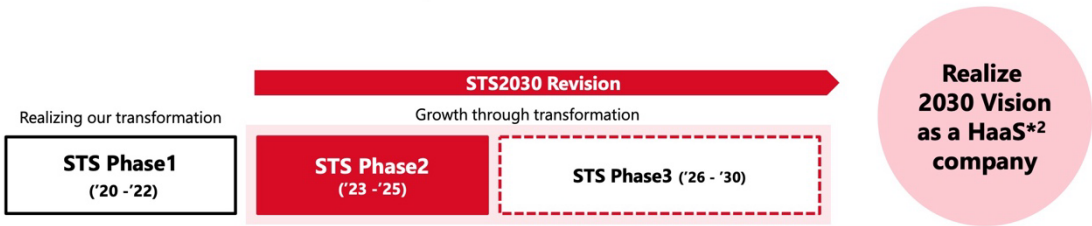
SHIONOGI's^{*1} Vision

Building Innovation Platforms to Shape the Future of Healthcare

SHIONOGI Group Vision (2030 Vision)

- What we want to achieve by 2030 -

**Continuously enhance our "strengths" as a drug-discovery-oriented pharma company,
become the premier partner for other companies/industries for its unique strengths,
build new platforms in the healthcare area**



These are the goals we aim to achieve by 2030. While the overall direction is unlikely to change significantly even by 2040, we are advancing globalization and expanding our business within our areas of expertise.

Transformation Into a Global Company

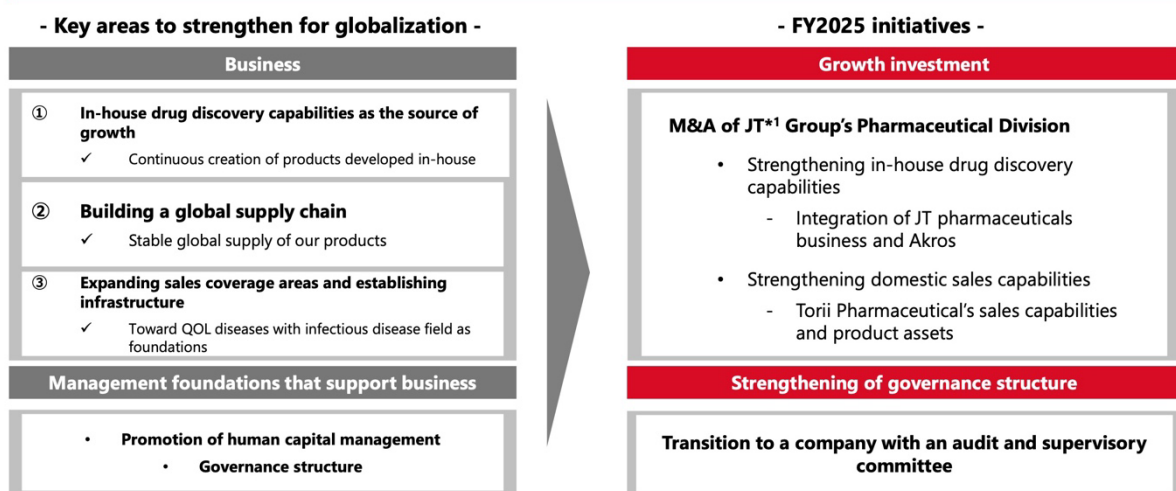
Establish a system to realize SHIONOGI Group Heritage of “research, produce and promote” globally



However, transforming into a global company isn't simply about formulating a global strategy and expecting business to become global on its own. We must consciously advance to the next stage by building a foundation that includes: talent capable of effectively executing that strategy, the culture itself, strengthening governance structures that can assess the strategy's validity. We are proceeding with this in mind, ensuring decisions are made appropriately based on transparent global standards, leaving a record, and maintaining traceability.

Globalizing Business and Strengthening Management Foundations

Step up efforts to strengthen business through growth investments and efforts to strengthen management foundations that support them



6

*¹ Japan Tobacco Inc. SHIONOGI

While advancing the foundation-building, we must naturally pursue the globalization of our business. However, our fundamental policy, or rather, our Heritage, remains rooted in what was frequently used in SHIONOGI terminology: research, produce, and promote. When we say promote, we use the term not so much in the sense of commercial sales, but rather to convey the meaning of delivering to our patients. Expanding this globally is crucial.

First, we will further strengthen in-house drug discovery, which is the source of our growth. We truly believe this is our cornerstone, and as I'll mention later, if our in-house product ratio continues to decline, we risk becoming a company without distinctiveness. That's why we intend to remain utterly committed to this point.

Then, strengthen the global supply chain. Particularly since the Trump administration, the question of how to handle local manufacturing and China has been a major concern. At the very least, how to strengthen supply chains, including those in the United States and Europe. In order to achieve this, in April 2024, we will reintegrate SHIONOGI Pharma, which was previously spun off, into our company to strengthen manufacturing. After establishing a mother factory in Japan, we leverage the

capabilities developed there to build factories in places like the US and Europe. That is where we think it is very important to strengthen the global supply chain.

And strengthening the sales base globally, especially in the US After all, more than half of the market is in the United States, and in terms of profit margins, roughly 70% likely comes from the US, that is the reality of the pharmaceutical industry. While there are questions about how most-favored-nation pricing will be applied under the Trump administration, we still believe strengthening our relationship with the US is crucial for our globalization efforts.

We are currently making steady progress centered on Cefiderocol, but starting next fiscal year, we will advance the globalization of Ensitrelvir and the development of S-892216 as a long-acting injectable successor to Ensitrelvir.

Under this approach, in FY2025, as part of our next phase of strengthening, we plan to execute M&A for the JT Group's pharmaceutical business. This will enhance our domestic sales in Japan while simultaneously strengthening what we refer to as our first and third positions.

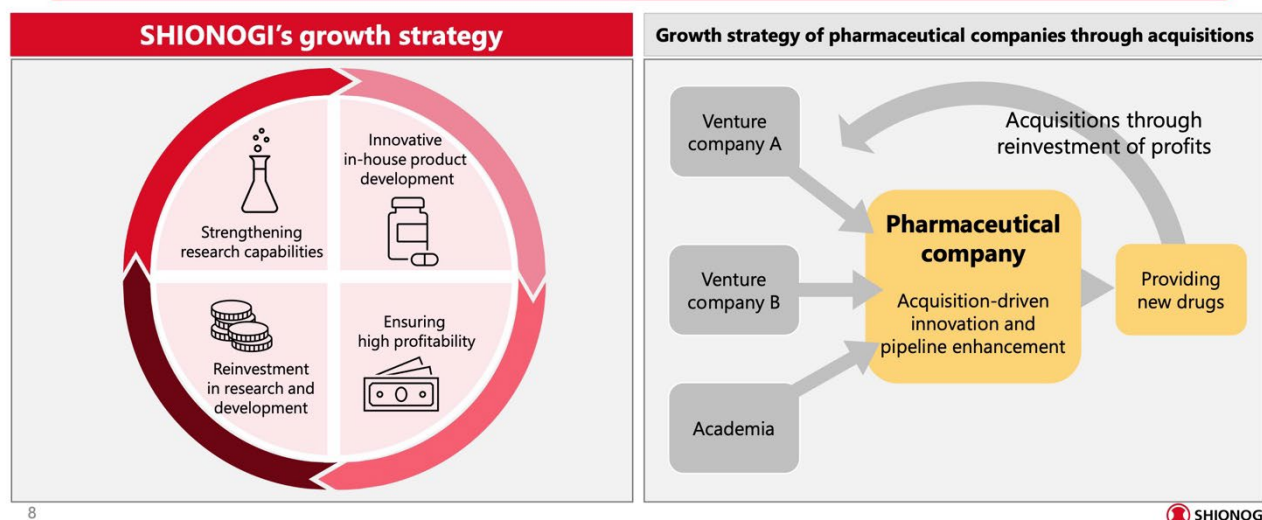
Sustainable Growth Centered on In-House Drug Discovery



Let me delve into that a little bit.

SHIONOGI's Unique Growth Strategy

Providing new medicines globally, based on outstanding research capabilities that drive innovation



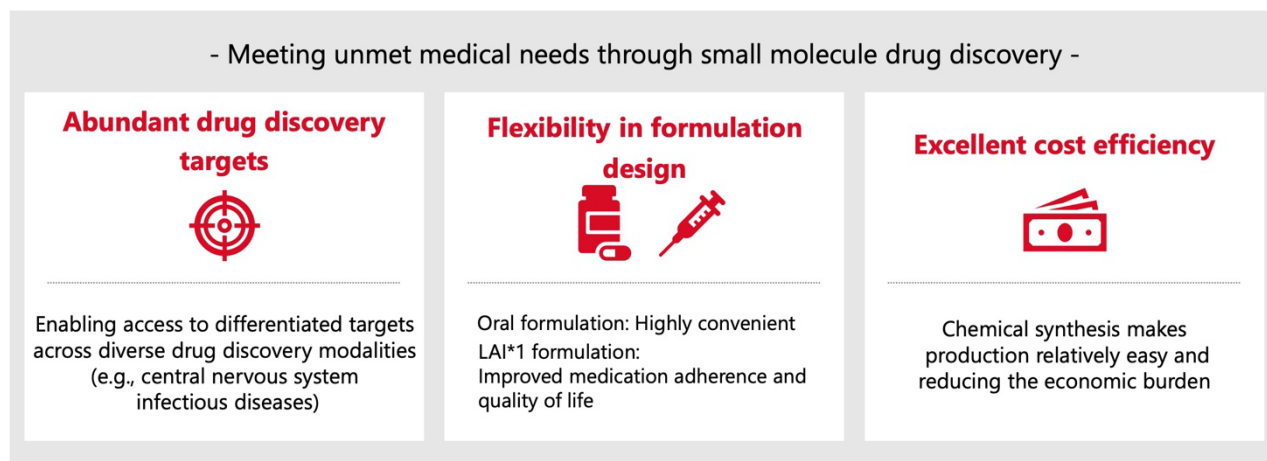
This is a chart that we are very particular about, and if the left side of the picture is not correct, we have doubts about whether we can really do well as a company.

Once you move from the left side model to the right side model, it is very difficult to find examples of pharmaceutical companies around the world that have moved back to the left side. Bringing in something from outside, and it works out extremely well, achieving significant sales in a sense. Then, when the patent cliff arrives, we hypothesize that when it comes to how to compensate for that, it might be quite difficult to return to its own company once again.

In that sense, we really wanted to stick to the model on the left. Although this is a common practice for drug-discovery pharmaceutical companies, we believe that the number of companies of a certain size that continue to do this has really dwindled. We would like to make some kind of progress in this point for the time being, and we would like to stick to it.

Commitment to Small Molecule Drug Discovery

Providing new value through in-house developed small molecule drugs



9

*1 LAI (Long Acting Injectable)  SHIONOGI

In this case, we believe that strengthening our strengths is the way to go, and we would like to focus our efforts on small molecule drug discovery. Of course, it is true that we are partly engaged in antibody drugs, nucleic acid drugs, and vaccines, but our main strength is in small molecule drugs. We would like to be particular here.

For example, how things went during COVID-19. Of course, in 2020 or 2021, vaccines have come out earlier, antibody drugs have come out, and many patients have been saved. However, even though it has weakened at this point, Pfizer's sales of Paxlovid still far exceed those of its vaccines.

As disease patterns continue to evolve, while large-molecule vaccines focused on speed and high-molecular-weight compounds are certainly necessary, considering how society will incorporate them into its healthcare infrastructure, we believe that having both oral medications, pills that can be taken orally, and vaccines effective for both mild/moderate and severe cases would be beneficial for society. This has reaffirmed our recognition of the importance of small molecule drugs.

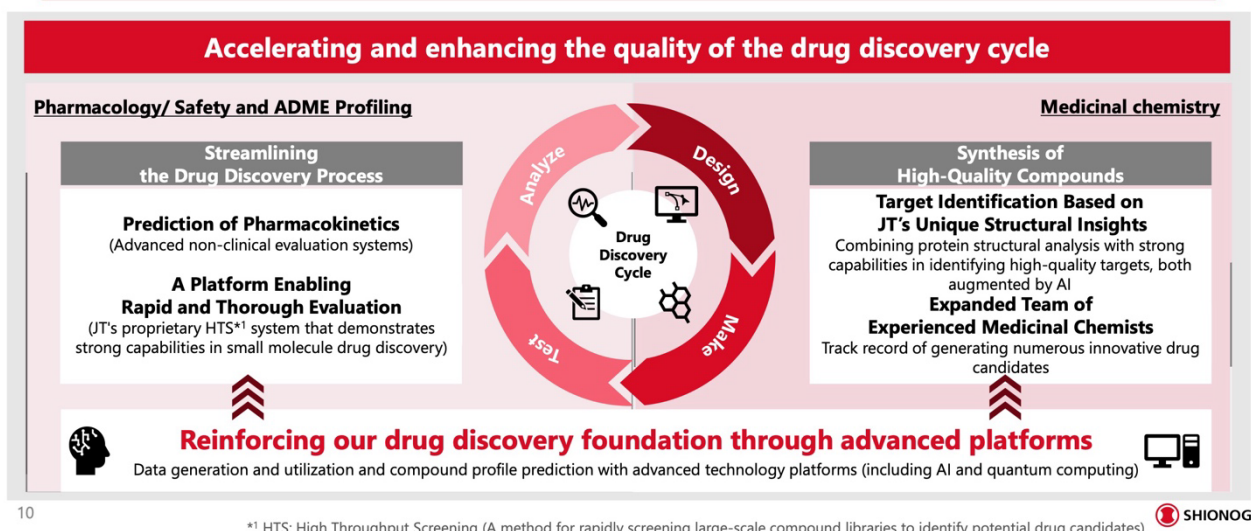
Of course, among these long-acting agents, we have Cabenuva for HIV, our own S-365598, and ViiV's VH184. We believe that developing long-acting versions of small molecules through this process holds tremendous potential.

Just like the Company that MSD recently acquired, there are also approaches focused on small molecules, converting them into long-acting versions for use for prep. Having small molecule capabilities also enables such technologies to come to life. By enhancing these capabilities, we thought we could contribute to patients in need. We would like to move forward with this.

Ultimately, even for those in low- and middle-income countries, while antibody prices may eventually come down, experts in antibody therapeutics tell us that the culture medium is expensive, and the columns used in the final purification step are also costly, so prices won't drop that much. In comparison, some voices point out that low molecule drugs can be taken orally in low- and middle-income countries, which is indeed appealing. Therefore, we believe there is significant value in our continuing to pursue this approach.

M&A Prioritizing the Enhancement of In-House Drug Discovery Capabilities

Strengthening our proprietary pipeline through integration with JT



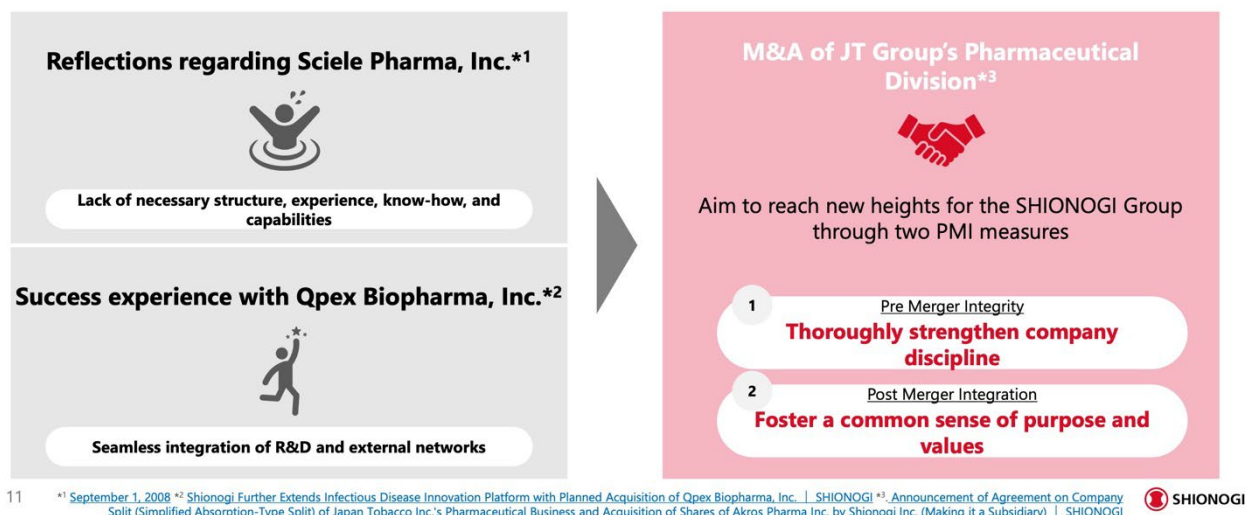
That is one of the objectives of the acquisition of the JT Group's pharmaceutical business in there this time.

Medicinal chemists, a field where numbers are dwindling, even among young students, so we consider it a tremendous achievement to have secured nearly 100 medicinal chemists in a single instance.

While we still had a lot to do in infectious diseases alone, we were not able to do that much in infectious diseases with only our medicinal chemists. While we want to do more and also want to assign chemists to QOL diseases as our next pillar, we still feel that 50 to 60 people is still insufficient at a minimum. Regarding JT's chemists, and, I'll be specific here, their location is advantageous, as both are based in Osaka, allowing for easy communications going and coming. This was a significant opportunity for us. In fact, we will develop a business in Japan that is not followed by generics, like CEDARCURE, which Torii Pharmaceutical is working on. Stabilizing sales is also something we find highly appealing, and we believe this agreement was extremely significant for continuing our stable business operations.

Concept of PMI (Post Merger Integration)

Leverage past experiences to promote PMI for the goal of creating true synergy that goes beyond mere integration



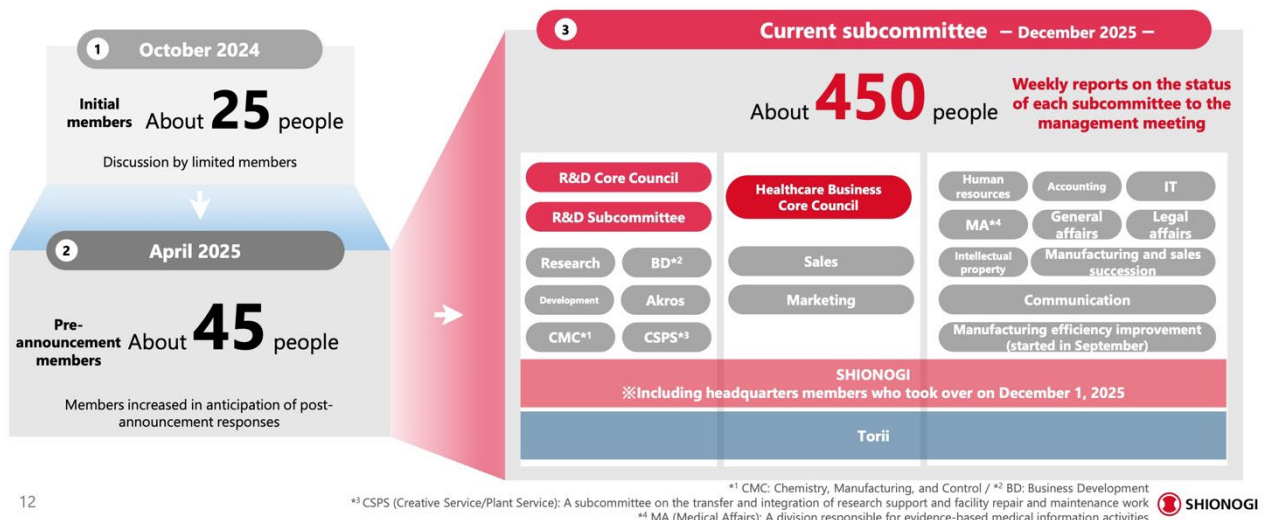
However, I, as a business owner, bought Sciele in 2008, and I consider it to be such a huge failure that it has almost become a traumatic experience. Especially since PMI was practically untouched and bought without any effort, the huge backlash that arose from that is something I truly can't forget.

So it was Qpex, a very small San Diego-based manufacturer specializing in infectious diseases, but it worked there. But a small company called Tetra before that didn't do so well.

After thoroughly analyzing that situation, given the considerable scale of this PMI, we recognized it required a full-scale effort. Consequently, we handled it with great care and meticulously updated the board members throughout the process, clearly communicating how we would do with the PMI. As of December 1, the JT's pharmaceutical division finally became a part of SHIONOGI, and at this point, we believe that things are going very well.

Evolution of Project Structure

Team expansion with consideration given to confidentiality and according to M&A progress



12

Specifically, we first formed a core team in October 2024. Then, just before the actual M&A announcement, we expanded that core to about 45 to 50 members. From there, we advanced the PMI for both companies with nearly 500 people involved in this PMI process. This was centered around the heads of our core organizations, those who are still in their current roles today, leading each subcommittee.

Both Ms. Goto and Director Hirose have strictly told us, demanding a proper report on the outcome of this M&A and the extent of synergies achieved. We intend to disclose this information after conducting thorough monitoring.

To Foster a Common Sense of Purpose and Values

Promoting PMI activities driven by serious commitment from management



13



This is just one example, but I myself, along with four Supervisors, in our company's terminology, have committed significant time and effort here. We are striving for fusion by ensuring that on key dates like September 1 and December 1, we either send messages or make visits to the town hall.

Of course, I would not say that there is zero anxiety among everyone, including SHIONOGI people, about what will happen in the future, but for now, I think that the dream of working together in the future is rather large.

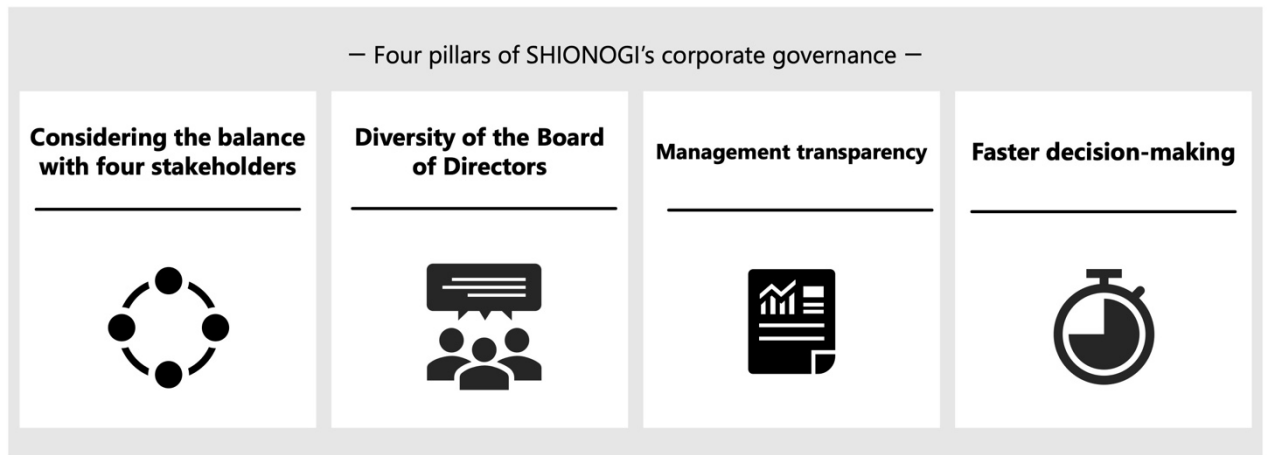
Corporate Governance



We would like to update you on the current state of corporate governance so that you can monitor and strictly supervise the decisions of our executive systems that support our business.

Corporate Governance Strategy

Governance is not just a system but a management foundation that supports sustainable improvement of corporate value



15

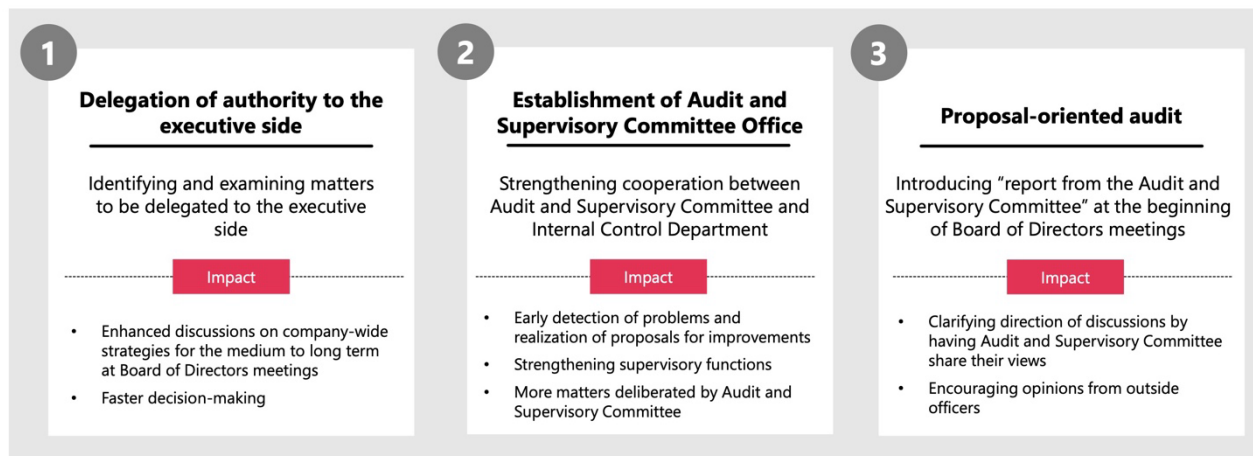
 SHIONOGI

This is the pillars of our corporate governance strategy.

For us at SHIONOGI, the business environment is sure to change, and through dialogue with our stakeholders, we are wondering how we can continue to respond to these changes in the business environment. We believe that it is desirable to make transparent and wise decisions, take risks, including forward-looking ones, and monitor them properly.

Transition to a Company with an Audit and Supervisory Committee (From June 2025)

Establishing a new auditing system to promote both sustainable improvement of corporate value and governance



16

SHIONOGI

Therefore, as a first step, we have shifted to a company with an Audit and Supervisory Committee since the general assembly last year. The three main points are, from a macro perspective, the delegation of authority to the executive side, the establishment of the Audit and Supervisory Committee Office and the functioning of the Audit Supervisory Committee, and proposal-oriented audit.

However, as the head of the executive team, I requested the Board of Directors to understand that we are somewhat apprehensive about the idea that changing the organizational structure would immediately alter the agenda items handled or cause everything to suddenly become strictly by the book. I also believe that our outside directors likely wish to proceed step by step. Therefore, for this year, we have not changed the agenda items to be handled or the scope of matters to be presented to the Board of Directors.

After presenting this to the board for objective review, if they determine it's acceptable moving forward, then based on solid results in one or two years, we can adjust the agenda items as needed. Alternatively, we could transition to a board meeting format focused more on strategic and tactical discussions, perhaps something like a camp-style board meeting. We do want to pursue such approaches, but we won't rush into them

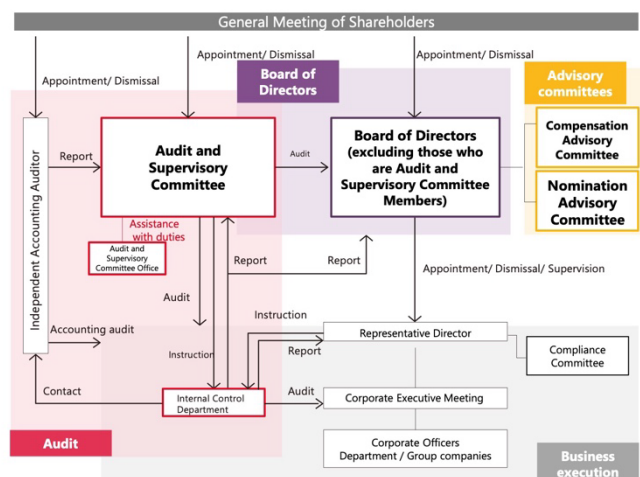
just because the organizational structure has changed. Instead, we intend to proceed step by step, carefully confirming progress at each stage.

Regarding the second and third points, I would like to ask Chairperson Goto of the Audit and Supervisory Committee to take any questions. We have established an Audit and Supervisory Committee Office, and of course, we also have an Internal Control Department. We intend for these resources to be utilized freely and extensively. Naturally, the Chairperson of the Audit and Supervisory Committee holds greater authority than the CEO. Therefore, even within the same internal control framework or the same Audit Office, we expect these resources to be utilized effectively.

It has only been six months, so we are not sure if everything is fully functioning, and we, and perhaps the board members, may still be in the middle of the process, but we are at least trying to continue to evolve.

Corporate Governance System (Since June 2025)

Strong governance realized through proactive operation of the Board of Directors, Audit and Supervisory Committee, and advisory committees



| |
|---|
| Board of Directors <ul style="list-style-type: none"> • Chairperson: Outside director • Number of members: 11 (4 internal, 7 outside) • Number of meetings convened*1: 13 |
| Audit and Supervisory Committee <ul style="list-style-type: none"> • Chairperson: Outside director • Number of members: 5 (2 internal, 3 outside) • Number of meetings convened*1: 11 |
| Nomination/Compensation Advisory Committee <ul style="list-style-type: none"> • Chairperson: Outside director • Number of members: 7 (CEO, 1 full-time Audit and Supervisory Committee Member, and 5 outside members (including 1 Audit and Supervisory Committee Member)) • Number of meetings convened*1: 5 Nomination, 4 Compensation |

Oversight of execution strengthened by having outside directors serving as chairperson

17

*1 Figures for FY2024, with an attendance rate of 100% / *2 Reference figures for the board of company auditors before the transition to a company with an audit and supervisory committee



In this manner, we have transitioned to having all committees, the Audit and Supervisory Committee, the Nomination Advisory Committee, and the Compensation Advisory Committee, chaired by outside directors. Furthermore, directors serving concurrently as audit committee members, or what were formerly known as auditors, have been included in all committees. This arrangement allows us to review both nominations and compensation from dual perspectives. By expanding this to the Audit and Supervisory Committee this time, we are having people from outside the Company view and provide guidance, including the chairperson and the chairpersons of each committee.

Operation of Advisory Committees

**Although we are a company with an audit and supervisory committee,
both advisory committees are functioning effectively**

Nomination Advisory Committee



Main topics of discussion

- ✓ The balance of expertise of the Board of Directors, including outside directors, and the criteria for the appointment, reappointment, and dismissal of directors
- ✓ Judgment on whether to retain the CEO based on their performance review
- ✓ Selection and training of successor candidates for key roles, including CEO, directors, and corporate officers (succession planning)

Compensation Advisory Committee



Main topics of discussion

- ✓ Assessment of compensation levels and various compensation ratios
- ✓ Performance evaluation of directors and corporate officers for the previous fiscal year and performance evaluation indicators for the current fiscal year
- ✓ Compensation system for officers, corporate officers, and organization heads
- ✓ Compensation structure based on transition to a company with an audit and supervisory committee

18

 SHIONOGI

In particular, although we have a bit of history, one of our characteristics is that we have included outside directors as early as 2009, and we have created the Nomination Advisory Committee and the Compensation Advisory Committee, both of which are functioning after very active discussions.

Especially since three years ago, the Nomination Advisory Committee has conducted a very rigorous performance review of my own work. Following this, the external committee members deliberated solely among themselves on whether I should continue in my role. They provided feedback stating that while certain aspects were good, others were not acceptable and suggested I continue for another year under specific conditions.

Naturally, this includes identifying potential successors and cultivating management talent. For those we refer to as young executive officers and directors, positions just below executive officer, we meet with them almost every month. While we do feel a bit sorry for them given the considerable time commitment, we ensure they see firsthand the caliber of individuals present within SHIONOGI.

Mechanisms to Enhance Effectiveness of the Board

Continuously improving the effectiveness of the Board through multifaceted initiatives



19

 SHIONOGI

To enhance effectiveness, we are implementing these measures. Specifically, I hold regular discussions with the outside director, second from the left, at least once every three months, for about an hour to an hour and a half, where we engage in frank and open conversation.

Naturally, the pace of change in our industry is quite rapid. So, we begin by briefly outlining the new developments that have emerged over the past three months and how we are responding to them. Then, we open the floor for your candid questions, to which we provide answers.

I also believe that the pharmaceutical industry itself is a highly complex sector, even as we continue to hold information exchange sessions and study groups exclusively for outside directors, as well as analyses of effectiveness conducted. However, to ensure the directors make sound decisions, we continue to focus on enhancing our preliminary explanations and exploring what else we can do. Yet, we rarely hear feedback on this matter, so today we would appreciate your input.

Board Deliberations

Discussions that contribute to improving corporate value through active involvement of outside directors



Exterior of the new headquarters in Osaka (Photo courtesy of Gran Green Osaka Development Company)

20

^{*1} [Press Release \(July 2024\)](#) ^{*2} BCP: Business Continuity Plan ^{*3} [Press Release \(May 2025\)](#) ^{*4} [Press Release \(December 2024\)](#)  SHIONOGI

Examples of matters deliberated by the Board



Relocation of head office^{*1}

- ✓ Comparison with the alternative option of rebuilding the old head office
 - BCP ^{*2} and appropriateness as the global headquarters



M&A of JT Group's Pharmaceutical Division^{*3}

- ✓ Rationale for transforming into a global company
- ✓ Feasibility of creating synergies through integration



Measures in response to administrative guidance^{*4}

- ✓ Thorough investigation of the causes, Effectiveness of measures to prevent recurrence
- ✓ Ongoing progress reports

Lastly, the reason we moved to GRAND GREEN was actually because our outside directors said rebuilding the current headquarters was unacceptable, arguing that rebuilding in such a small space would not accommodate everything. If that is the case, they said, think of something that will allow all of us to come together and make a proper decision at the global headquarters. In a sense, the proposal from the executive side was completely rejected and we moved to a new place. This is just one example, but I believe you can see that we truly take a fair and balanced approach.

Going forward, our goal is to engage with external stakeholders by sharing our perspectives, ultimately aiming to enhance our corporate value and become a better company. We would appreciate your guidance on this matter as well.

Therefore, I would like to encourage you to ask questions to two of them, including tough ones, without hesitation. Thank you for your cooperation.

Thank you very much.

Kyokawa: Thank you, CEO Teshirogi.

Question & Answer

Kyokawa: We will now move on to the Q&A session.

Now, if anyone has a question, please raise your hand. Well, then, Mr. A.

Participant A: Thank you.

First, sorry if this is a bit of a layman's question, but I would like to ask question to each of you, including CEO Teshirogi, one question each. Regarding the form you mentioned at the beginning. I would like to ask you about the positives and, conversely, the challenges of moving to a company with the Audit Supervisory Committee.

Companies with the Audit Supervisory Committee can include executive actions, I wonder maybe you have that intention, but as you said, the pharmaceutical industry is very complicated. It is difficult for non-specialists to understand. That makes me wonder if you can truly make appropriate judgments regarding execution. In that case, wouldn't it be better for you to be a company with Committees and focus on monitoring instead?

First of all, if there is such a possibility.

Teshirogi: Following a proposal from Ms. Goto, our Board of Directors now requires that the first agenda item always include a report from the Audit Supervisory Committee. Non-audit committee directors have also been making significant efforts to align perspectives with external directors who are not members of the Audit Supervisory Committee. They do this by sharing what was discussed in the Audit Supervisory Committee meetings, identifying key challenges, and aligning what they consider crucial for future monitoring.

The amount of information is probably different, and I think that is rather good from the heterogeneous point of view. I believe that by effectively blending the insights of our audit committee members, who scrutinize even the minutest details, with the perspectives of external parties, who tend to offer broader, higher-level views on this proposal, we are able to reach sound judgments.

Also, regarding our design, and I apologize for being blunt, we do not believe that any woman would suffice as an outside director. However, we have carefully considered capability diversity among our female members, appointing individuals like Ms. Goto, who is a CPA and also serves as an audit committee member; Ms. Takatsuki, who is a lawyer and also serves as an audit committee member; and Ms. Hirose, who is a top-level corporate executive. We believe we have selected them with full consideration of diversity in capability among women. In that sense, we intend to continue requesting that we consider diversity among directors and how to make this board function effectively.

Participant A: Was the transition to a company with an audit supervisory committee a positive one?

Teshirogi: As a first step, I would like to monitor companies with the Audit Supervisory Committees for several years and then consider what form would be best next.

Participant A: Thank you. I am not saying that is wrong. Sorry.

I also have a question for Ms. Goto, I think you are currently working as an outside director at Sumitomo Mitsui Financial Group, and I would like to ask you about the atmosphere of the board, the state of affairs, the content of discussions, and how that is different compared to them.

Also, as you mentioned earlier in the integrated report, I am not sure what you can do in terms of proposal-type audit, so I would appreciate your explanation.

Goto: Thank you for your question.

I think it is not appropriate to compare with other companies. However, I can tell you there are something that I was surprised when I started serving on SHIONOGI's Board of Directors as an auditor. People are incredibly active, and those with extensive knowledge and experience as business leaders speak their minds without mincing words, without pandering to the CEO. When I took office, I was told, "Ms. Goto, we expect you to speak up even more than those people," and that's how I came to be here.

It was not at all the case that auditors had to be reserved because they were with the Company with a Board of Statutory Auditors. After the explanation of the agenda item, even if I didn't raise my hand, the chairperson started asking me first, "Ms. Goto, what do

you think?" I think it's because I was being noisy, but since that happened, I didn't really think much about it either way, as an auditor or whatever.

In transitioning to a company with the Audit Supervisory Committee this time, there were things I wanted to change and things I wanted to do. The major difference between the auditor system and the Audit Supervisory Committee system, as I see it, is the shift away from a single-person system to one that relies on organizational strength. Some of them are full-time workers. One reason is that we wanted to strengthen the Audit and Supervisory Committee's own capabilities by leveraging the meticulous information gathering capabilities of our full-time staff, bringing that expertise to bear, and deepening collaboration with our internal audit team, referred to as the Internal Control Department, by aligning our perspectives and working together. This is where they build organizational strength.

Not only that, but as mentioned earlier regarding the proposal-type audit, the relationship with the board has felt somewhat lacking, specifically, the formal reporting by auditors to the board of directors has been limited to statutory matters.

This time, however, since we are fellow directors, I wanted the Audit and Supervisory Committee to take the lead in identifying these issues and challenges. We would then collaborate with the board to facilitate deeper, more rigorous discussions based on that information.

So, I asked, first of all, let me bring the report from the Audit Supervisory Committee to the beginning of the board meeting. Therefore, we are reporting what we believe to be the issues at hand, and we ask that they keep these in mind as they deliberate on the various proposals.

As for the proposal-type audit that you mentioned earlier, what I want to do is not to say that you should not do this or that, or that we will stop doing this or that, but what I want to do is to have a strong desire for SHIONOGI to develop in the long term. Without that, I don't think I would accept their offer.

I strongly feel that I have been entrusted by our stakeholders to foster their long-term growth and development. Not only that, but I also want to support the important pharmaceutical company as a member of society.

I'm not an expert in pharmaceutical companies, so I can't speak to the specifics of how to ensure success without failure; however, having observed various patterns in organizations, both those that fail and those that succeed, I can apply those insights. I can suggest things like, "Wouldn't it be better to do it this way?" or "How about trying this approach?" I'm not just monitoring; I want to provide more value-added governance. That's why I'm accepting this audit assignment.

Participant A: I understand very well. Thank you very much.

Lastly, I would like to ask Ms. Hirose. We're observing the business from the outside, so we naturally focus on effectiveness. This applies to voting as well. Ms. Hirose's company operates in a completely different business model.

I think Ms. Goto may have already told the answer to this question, but I would like to know what kind of efforts and difficulties are necessary to make effective decisions and discussions, and what kind of things are you paying attention to.

What you're mindful of as an outside director to enhance effectiveness. While this may be a different industry from your area of expertise, I'd like to ask what insights you'd like to bring to the table and what aspects you'd like to focus on.

Hirose: Thank you for your question.

I apologize for speaking about myself, but I've been running a manufacturing company for 24 years, and we also have factories overseas. So when I received the offer to join SHIONOGI as an outside director, I was aware that it was a company in a completely different industry, one with very high profit margins. I knew CEO Teshirogi personally, had read about him in magazines, and recognized him as an exceptionally capable leader.

Personally, I was quite interested in what kind of management practices they employ as a small business owner. And with the Company aggressively pursuing overseas expansion, I've only been an outside director for about five months this year. One thing I've noticed, perhaps because the Company is based in Osaka, is that the outside directors are mostly from Osaka. While Ms. Goto is an exception, and one other director is also different, the rest are all from Osaka. This leads to quite frank opinions being expressed, which has been my impression.

I thought that this created an atmosphere in which it was very easy to express one's opinions. Therefore, I believe that atmosphere is one of their strengths. This year, whether

during board meetings or during the so-called performance reviews, questions were quite direct. In response, the CEO also gave direct answers. I felt this demonstrated a high level of transparency and suggested that frank and constructive discussions were taking place.

Among the outside directors, there are also business owners. Drawing on their extensive experience, they contribute various ideas while sharing insights like, "This is what we do at our company." My impression is that everyone sincerely considers what is truly best for the Company and offers proactive proposals.

I myself am learning a lot, and as Ms. Goto mentioned earlier, I am very impressed that this company is making a great contribution to society and producing products that are committed to the most important aspect of life.

And, this may be a bit off topic, but many of the employees are very hard-working, and women are really playing an active role in the Company. In that sense, I have been paying attention to this company for some time because of the active role played by women, including Director and Executive Vice President Sawada. Also, I previously knew the Company through the popular program, Music Fair, so even though it has only been a little over five months, I feel that the board meeting has a comfortable and frank atmosphere where people can express their opinions.

Participant A: What are some things you pay attention to in order to increase your contribution or effectiveness on the board?

Hirose: I am a business owner myself, and I also operate a factory overseas. While it's important to delegate overseas operations, I believe there's a high likelihood of problems arising if they're left unattended. That's the key point.

And ultimately, it all comes down to people. How we appropriately deploy talent and nurture it is crucial. Naturally, they've been actively recruiting externally as well, and they're deeply committed to developing our internal talent, including women. As a woman myself, I recently had the opportunity to meet with female employees at the factory. I was impressed by how many of them are highly capable and dedicated, and we had a very lively discussion. I hope to continue contributing in this way going forward.

Thank you very much.

Kyokawa: So are there any other questions? Ms. B.

Participant B: Thank you for your valuable talk today.

Since I've been given this opportunity, I would like to ask a question. First, Ms. Goto mentioned earlier that there are patterns in organizations that succeed and those that fail, and that you've experienced this. Pharmaceutical companies have unique characteristics. Sometimes, behaviors that would be considered failures in ordinary companies can actually drive innovation here, especially when persistent R&D is involved—even if it seems excessive or risky. Conversely, practices that appear positive from an external viewpoint may not always succeed within a pharmaceutical company. Based on your experience, are there any patterns or warning signs unique to pharmaceutical organizations? Based on your experience, are there patterns unique to pharmaceutical companies, or are there universal signs of failing organizations that you keep a close eye on? If you have any such insights, I'd appreciate hearing them.

Goto: I haven't had much experience with the unique aspects of pharmaceutical companies, so I realize it's pointless to speculate about areas I'm unfamiliar with; however, since there are other companies pursuing innovation, I do hope they have robust systems in place to encourage that innovation. I don't think there is anything we can do if that part of the work is all done by businessmen, though.

The pattern I mentioned earlier, as CEO Teshirogi always emphasizes, includes things like delivering bad news fast/first, fostering open communication within the organization, establishing clear roles and monitoring systems for front-line and second-line staff, and as discussed earlier, creating mechanisms where people can speak up when they suspect something is wrong.

The other part is to work hard and not be lax about a lot of things. It may have been written somewhere, but the response to the administrative guidance is on page 20, and I know that the board of directors had a lot of arguments about the administrative guidance. At that time, I pointed out that there might be some slackness in the organization, and I am sorry, we had to be very strict. There are many difficult issues, such as why these matters are only being addressed at this pace, and why some stakeholders are not receptive to feedback. I told them they shouldn't assume that nothing can be done just because their suggestions are not being accepted. What is the most important thing, and how should we address it?

I also remember that I told them that they were not at all sincerely grateful to the doctor who pointed out those things to them. Were you truly sincere in your gratitude, genuinely

feeling that there was nothing more appreciated than having this pointed out to the doctor, and that you would earnestly and diligently correct it? You didn't think this doctor was being annoying by saying unnecessary things, did you? That what I told them.

I am not sure if this is strictly governance, but I believe that the mindset and biases within an organization shape its culture. I am concerned about whether management is actively preventing unhealthy organizational cultures from taking root.

I imagined that they don't like it because every time something happens, they loudly call it organizational culture, organizational culture. When investigating causes and implementing recurrence prevention measures, I emphasize that these must become ingrained in the culture and second nature to everyone. I believe this principle applies universally, regardless of industry.

Participant B: Thank you. Thank you very much for your valuable talk, I learned a lot.

Also, Ms. Hirose, you mentioned talent earlier. From an external perspective, it's clear that SHIONOGI is vigorously advancing its human capital initiatives, cultivating the talent needed to achieve its desired future state and 2030 Vision. From your standpoint as a business owner, could you share your assessment of SHIONOGI's human capital efforts? Are there specific areas you see as challenges or think could be further developed?

Hirose: Thank you very much.

At SHIONOGI, we regularly meet with internal candidates for director and executive positions, where we ask candid questions to understand their character and values. The company is making significant efforts in succession planning, and I believe there are many promising candidates for future management roles.

As mentioned earlier, SHIONOGI has recently recruited many talented individuals from outside the company. Meeting and interviewing these external hires, I sense a different atmosphere compared to internal staff, which I believe provides positive stimulation and drives transformation.

Initially, the process of merging may present challenges for both those joining from outside and those already within the organization; however, I believe that by bringing together such diverse individuals, that is precisely how transformation progresses and innovation emerges.

As the CEO mentioned, the integration of researchers from JT through M&A will further enhance diversity within SHIONOGI, enabling us to pursue new goals together.

Also, I think this has something to do with human resources, but the fact that we have moved to a place called GRAND GREEN, which is in a very nice environment right next to Osaka Station, will make communication easier and allow more people to come and go, I have the impression that a new phase has begun. I think it is a good thing that the employees are becoming more motivated.

Participant B: Thank you.

You external directors are meeting candidates at the level of ordinary board members, and you're quite committed to considering even those individuals as succession candidates. Isn't that quite demanding? Not so many companies do that.

Goto: Yes, that's right. I think SHIONOGI works harder than other companies. In SHIONOGI, we started with networking events, then moved on to in-depth discussions explaining various board agenda items. Lately, though, it's shifted even more, we've been inviting people to come present on things like what they personally value and what kind of impact they aspire to make.

Since the CEO is such an outstanding leader, I was somewhat concerned about succession. If the top person is too prominent, others may simply follow without developing themselves. I wanted to confirm whether this was the case at SHIONOGI.

Also, the CEO has a lot of things on his mind, and I would like him to share them properly with the Nomination Advisory Committee members. Instead of sharing information verbally, I requested that proper documentation be maintained and that discussions and reviews proceed in a transparent manner. I believe the documentation is now in place.

Going forward, we will further strengthen our training programs, and I look forward to seeing many excellent leaders emerge who can even surpass CEO Teshirogi.

Participant B: It was encouraging to know that you are working hard with the same feelings. Thank you very much.

Kyokawa: Mr. C.

Participant C: I've seen news releases and various other materials.

There are about three major points I'd like to ask about, or rather, confirm. These aren't questions simply, but rather things I felt when reading press releases and such, or speculations I made based on them. I'd like to share those thoughts while we talk.

First, when looking at the number of companies transitioning to a company with an Audit Supervisory Committee, 2025 shows a high number of companies making the transition. Lately, it's been increasing steadily, and when I wondered which companies were doing this, I came across SHIONOGI's name. When I saw the reason in SHIONOGI's press release, I was disappointed.

That's because it only contained obvious things. Further strengthen supervisory functions and speed up decision-making. That's what all companies transitioning to a company with an Audit Supervisory Committee say. I thought SHIONOGI had seemed more advanced in many ways until now. SHIONOGI is making the switch NOW, and they're going to give the obvious reason? Isn't it a bit off?

But at the same time, in your explanation this time, you talked about growth and M&A. So, since you have obviously talked about it again, in my mind, you may be getting serious about making the transition to a more growth company through M&A.

Then, growth centered on M&A requires very agile decision-making, or rather, decisions must be made firmly. Also, when speed is extremely important, I think that under CEO Teshirogi, it probably doesn't matter what kind of institutional design is used. However, when thinking about successors in the future, it is easier to demonstrate speed and decisiveness if the soil, or rather the environment, is in place. Therefore, SHIONOGI likely believes in separating executive functions from supervision, granting sufficient authority to the executives to solidify its position there. When the board wants to pursue something, they aim to reach a point where they can respond to any question with a genuine "I see." I have a feeling that is what this is about.

If that is the case, I can see why the transition to a company with an Audit Supervisory Committee would be a good idea at a time when the Company is making a more decisive and clearer move toward growth. I have been thinking and mulling things over on my own, but I am not sure if I am right or if there is something different.

What I think is the worst part is that it is really fine to be a company with a Nomination Committee, as long as it means monitoring. However, this year, the Legislative Council reviewed amendments to the Companies Act. Many companies felt it was difficult to

adopt the system of establishing a Nomination Committee or similar statutory committees because the decision-making power of such committees was too strong, and at that point, they are now seeking revision.

Then, the thing everyone is most concerned about will disappear. If they're going to do monitoring, why not just go straight to a Nomination Committee instead of stopping halfway? That said, some companies might feel that approach is a bit too abrupt, they'd rather not jump straight into it. They could transition to a company with an Audit Supervisory Committee first, then when asked, "Haven't you implemented monitoring yet?" they could respond, "We've already made the switch." That kind of thought crosses my mind too. What do you think about this?

Goto: It's difficult for me to answer this question, but transitioning to a company with an Audit Supervisory Committee wasn't a sudden decision. I was told that they were transitioning to a company with an Audit Supervisory Committee and asked to consider taking on the role of chairperson of the audit committee. That's why I accepted the position with that understanding. So it's not that we just happened to fall in step with other companies, or that a Nomination Committee's authority is this or that.

Also, my general impression is that there are various types of companies with a Nomination Committee, etc. Some are really serious about it, while others are different from companies with a Audit Supervisory Committee, so I don't think we can compare them all at once.

Regarding the communication process for this transition, I apologize if I didn't put my heart into it enough; however, in that sense, SHIONOGI has outside directors who are deeply involved in the discussions. We are having serious discussions about this succession and whether or not to allow the CEO to continue, in a truly flat and undisciplined manner.

So, although we have not yet begun to talk about successors in concrete terms, if such a thing comes up in the future, I believe that people who are prepared to move forward without hesitation or discovery are in charge, so there is no need for you to worry too much.

To be able to do so, we are now working very hard, spending more time than other outside directors, and we are all working hard to gather information, and we are also

separately discussing what kind of people are good leaders for SHIONOGI and what kind of conditions are necessary, so I believe that is what we are trying to do.

Participant C: When Ms. Goto took office, it was understood that such considerations were taken into account, and that this was the rationale behind your selection. Thank you very much.

Goto: The reason I decided to involve SHIONOGI is, first and foremost, that I deeply respected CEO Teshirogi as a business leader. I had the opportunity to experience that, but the main reason is actually the integrated report.

I read the integrated report at the time of COVID-19 and thought it was great. I believe that the integrated report from back then actually won an award somewhere. While it was truly remarkable how the entire company united like a blazing fireball to develop a COVID-19 drug, what I found particularly commendable was that it didn't just recount those efforts. It also candidly described the insights gained, the lessons learned, and the shortcomings they recognized in themselves. I thought this was a good company and decided to accept the offer.

Participant C: Thank you.

I also view CEO Teshirogi's company, SHIONOGI, as fundamentally excellent. So I would like to ask various questions from the perspective of whether it will be more wonderful.

Regarding companies with the Audit Supervisory Committee, it didn't seem like they'd been considering this for very long, when the announcement came out, the directors on the internal audit committee were listed as full-time. I still think the full-time position is a remnant from when they had the board of auditors, so they don't need a full-time one, right? Because they are going to use the internal control system to the fullest, it doesn't matter what the full-time position is. If that remained, I couldn't help but feel the Company hadn't really thought things through that thoroughly or for that long.

Secondly, in the explanation related to this M&A, there is a lot about JT on page 10 of the previous slide. Here, it feels like you're really hyping up JT, talking about JT's unique advanced systems, JT's proprietary HTS systems, JT's unique whatever, high-quality target acquisition, all of this is JT's intangible assets, right?

So, it says that the subsequent PMI is crucial. Of course, PMI is important, but when acquiring such intangible assets, and I believe this is largely organizational culture, the

key question is how to maintain and strengthen it. Can it be done? That is the organizational culture that has been nurtured in JT, so how can you continue to maintain and strengthen this culture at SHIONOGI? How have such intangibles been intentionally and strategically formed at that time? If you don't know that, you can't do it. How do you see that?

To ensure you thoroughly implement this, as outlined on page 12, you're operating with this structure. Looking at this, I couldn't help but wonder how it relates to Professor Ikujiro Nonaka's SECI model, which I believe all Japanese executives are familiar with, and how that model might be applied here.

Actually, as an investor, when I see a company trying to transform itself, I use the SECI model in reverse to consider whether this company is actually cycling through SECI. I have seen who the key people are and who are turning it around. And it's actually pretty accurate at predicting success or failure. So, I wonder if that's how external directors in particular should view things. But now, rather than just nurturing and maintaining the intangible assets you've acquired, can you properly assess whether you are successfully cultivating and expanding them as new intangible assets through the integration with SHIONOGI? Or are you even attempting to look at it that way? That's what I'd like to ask.

Goto: Your question now is the first question we asked when we heard about the deal. I wasn't sure if it was okay to acquire JT. I wasn't sure if SHIONOGI could fully utilize these people and deliver value, or if there was compatibility with the SHIONOGI team and how we could create synergy there. Until I understood that, I honestly felt reluctant to say yes. I wondered if it was really okay.

I worried whether SHIONOGI's people could effectively lead JT's people, integrate them into SHIONOGI's positive culture with reflecting JT's culture, and enable them to work freely while delivering value. I have a recollection that CEO Teshirogi explained to us that everything was fine when we discussed this at the board meeting.

As for whether that is actually the case right now, the Board of Directors is also keeping a close eye on it, making sure to examine the situation thoroughly without any preconceived notions. So, how are we doing that part, PMI? How will the researchers in particular take it this time and really work as a part of creating more value in the future when SHIONOGI combines as a whole? We are still focusing on it.

For now, things are going much better than expected, and I've heard that the JT team is incredibly enthusiastic, with many expressing how glad they are to be working together; however, I believe the real test lies ahead.

Therefore, we want to thoroughly verify whether things will truly turn out that way, without cutting corners or letting our guard down.

SHIONOGI itself has already completed the exercises of identifying what kind of people truly benefit the Company, people who are willing to make tough sacrifices. Those who went through that process won't just let things drift when welcoming new people. I am sure they will do that, and I also remember that I asked them a question the other day about whether they would do it.

Participant C: Thank you. I was very encouraged to hear that you are monitoring from that very perspective.

This is the third point, simply. In short, I think you mean making a decisive pivot toward growth. But right now, when viewed from SHIONOGI's investors' perspective, whether you categorize it as a growth stock, a value stock, a dividend growth stock, or something else, it's not a growth stock. A dividend growth stock is the way to go. It is also seen as a relatively value stock.

If you look at what mutual funds in the US have, most of them are value funds. So when you pursue M&A now to become a growth, shareholders are bound to ask, "What are you doing?" They'll say, "You don't need to do that, just give us more returns." So you have to break through that, show a track record that proves you can truly grow, like look, we did it, attract growth investors, and make value investors back off. In order to do so, you have to overcome certain obstacles, and I wonder if all of you are prepared, or at least determined, to do so.

Teshirogi: I effectively made the decision to switch to growth because I was assured that royalties from the HIV franchise were going to be stable for about 20 years from now, so the Company's foundation would not be shaken. Of course, there might be some bumps along the way; however, unless we had absolute certainty that we wouldn't have to resort to painful measures like employee layoffs or factory shutdowns, I felt that pursuing aggressive growth simply didn't align well with this company's nature. That's why I absolutely needed to confirm that point. Therefore, once we had confirmation of how strong the HIV franchise truly is, I believed we had reached the phase where we could

consider how to utilize the cash flow expected to come in over the next 15 years or so and how to transition that into growth. I informed the board that I believed we had entered that phase. And asked, how is this from the Board of Directors' point of view?

I had an idea to ask if we could go to this phase, filling in the blanks as to whether that is my fantasy or no, that is indeed what the story is about. But even if we have an idea and go ahead and buy it, if we end up with all sorts of failures and not only fail to achieve growth but also damage our balance sheet, that's a problem.

Now, if you ask whether we are truly a first-class company in a certain sense, that is not the case. To confirm this, as Ms. Goto mentioned, we implemented early retirement programs to become a new company. From my point of view, we offered an early retirement program for the first time in 15 years, but I think this will take about three years to go to a new direction, growth, to go to a new company.

This will involve a lot of pain, but we hope that our employees will change at that time. I've been saying all along that we want everyone to embrace this new direction, but if some people still feel it's too much to handle and don't want to go along with it, then we'll create an early retirement path for them. If they choose that route and everyone ends up happy and happy, wouldn't that be great?

After taking that step, we're now moving on to growth among those who are ready. So, after discussions with the board members, the executive team made a firm decision to proceed to the next phase of growth. Of course, as you mentioned, our audience will change, and the messages we convey may also evolve; however, I believe we should proceed with this approach for now, while communicating with the board of directors.

Participant C: I understand very well. Thank you very much.

Kyokawa: Mr. D in the front.

Participant D: Thank you. I would like to ask Ms. Goto one point that I would like to add to Mr. C's second question.

In my view, ultimately, you need to effectively integrate JT's invisible differences into SHIONOGI and create value there. If this is a very important goal, I think it is very important how you monitor progress toward that goal as a board or as outside directors.

I think we have heard enough about your thoughts and ideas on monitoring earlier, but I would like to know how you are planning to check the progress of monitoring, and what you are thinking of doing in the future. I would appreciate your comments to the extent you can do.

Goto: We're still in the early stages, and while there are various perspectives, for now we're focusing on understanding the dynamics within this subcommittee. Additionally, we're currently reviewing the research JT has conducted. We're awaiting the results of that review and the subsequent summary, the ideas or findings, regarding how SHIONOGI can effectively utilize this information.

This is to see if there is room for development as a research material, and the rest is about people, as I mentioned earlier. Then, regarding the happiness of those who joined SHIONOGI, or rather, whether they truly integrate, I believe we'll be implementing an engagement survey. So I think we'll proceed while monitoring that kind of data.

Furthermore, since we have not only JT but also Torii present, we plan to frequently and regularly check in on the progress toward each subcommittee's goals, changing themes as we go, including looking at how much performance we're capturing by combining SHIONOGI's products with Torii's strong sales foundation, or rather, the people they have in place.

The Audit Supervisory Committee would focus on the corporate side, while the Board of Directors would monitor the business side, as it is doing now. Our Audit Supervisory Committee intends to check that efforts to incorporate various corporate departments and personnel, develop diverse initiatives, and build an effective, efficient, and lean back-middle functions are carried out robustly and decisively.

Teshirogi: She expressed it very elegantly, but it's no simple matter. It's about making the intangible tangible. For example, regarding whether cost synergies are actually being realized, the math is straightforward. It is landed like this. At the last board meeting, we were told quite sternly to clearly show the numbers demonstrating the specific measures taken in that area that led to this outcome. Regarding the pipeline, we were also told quite sternly to properly verify where synergies were achieved by structuring this pipeline in this way, not just simple addition, but whether 1 plus 1 equals 2.5 or 3.

So, of course, it is the atmosphere and culture as Mr. C mentioned. So, we do check whether the engagement survey results have genuinely worsened or not, and that should be reflected in the data.

So, we were asked to make sure to show that 1 plus 1 became 2.5 or 3 there. It may not be possible in a year, it may not be possible in six months, but we were asked to create a monitoring system that would allow us to properly track this over time, which was our homework assignment in November. I would like to see what we can do to make sure that the executive side says "yes" and shows it to the public.

In particular, I think cost synergies are still easier to see. Regarding how to measure whether 1 plus 1 equals 3 in the research, I found it surprisingly difficult to demonstrate, despite the board demanding we show results. But we were told back in November, including Torii, that we absolutely must demonstrate this properly to prove synergies are being achieved.

Participant D: Thank you. If possible, I thought that the market would be very hopeful if you could explain at next year's briefing that you are properly checking the monitoring system and the KPIs.

One more thing. Alongside the issue of growth, I believe that over the past few years, CEO Teshirogi's messages have placed significant emphasis on the concept of global. However, since the word global is so vague, I have to admit that I don't really understand what you mean by global when I look at your reports.

I'm sure CEO Teshirogi has his own personal vision of what global means, but as for SHIONOGI's management and board of directors, if there is a clear definition of what you consider a global company, and I happen to be the only one who doesn't understand it, I would appreciate an explanation.

Hirose: My understanding is that there are still some pharmaceuticals that are mainly sold domestically, and as the CEO explained earlier, one of the things SHIONOGI needs to do is to expand the sales in Europe and the United States.

Also, in terms of human resources, the US is still very much in the spotlight. This also touched on what activities will be conducted locally, or the idea of transforming Japanese factories into mother factories. The plan is to accumulate manufacturing process know-how in Japan. Since it's unclear how supply chain issues will develop going forward, the

idea is to ensure that when production moves overseas, the system can be reliably transferred. This naturally encompasses sales, manufacturing, and various R&D activities. I understand that this means global, and of course human resources are also global.

Goto: That's the situation, but we've discussed this many times: Are we truly committed to adopting a genuinely global mindset, one that doesn't just add to the Japan's market to the mix, saying "we'll also do this and that here" but instead looks at the entire global landscape to formulate and execute the best possible strategy? Or are we not?

When this M&A was announced, I was against it at first. SHIONOGI's stated ambition to go global suggests seeking growth opportunities beyond Japan and investing internationally to expand outside the domestic market. While I understood that various preparations and foundations were in place, at that time, I couldn't help but wonder, why was SHIONOGI acquiring a domestic company?

There aren't that many people at SHIONOGI who can operate globally, so we have to value them and want them to work effectively as they see fit. But I did feel, "What's the point of using those people for domestic corporate PMI?" That's what I said initially.

As I mentioned, but they said, by acquiring JT's chemists here, they will dramatically enhance their research and development capabilities and launch new products globally. In the long run, Japan's population is inevitably going to decline, so I believe that we have no choice but to seek markets outside of Japan, and they said they would work diligently to ensure their long-term survival. I was told that it also serves as one tool for that purpose, so I thought, "Oh, I see."

As for the foundation, domestically, I thought it was a good deal precisely because they didn't have to consider dispersing their forces. So I wondered if they could strengthen their foundation here and build up their jumping power.

Participant D: Thank you very much.

Kyokawa: We will now bring this session to a close as our time is up.

Thank you all very much.