

Corporate Governance Report

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Shionogi & Co., Ltd.

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Securities Code: 4507

The corporate governance of Shionogi & Co., Ltd. (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The Shionogi Group (the “Group”) has created a corporate governance system to make its Company Policy – the Group’s management philosophy – a reality worldwide. In conformity with the spirit of the Corporate Governance Code that went into effect in Japan, the Group defines corporate governance as a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees and local communities, and based on this, the Board of Directors established the Group’s Basic Views and Guidelines on Corporate Governance to realize the best possible corporate governance.

Shionogi & Co., Ltd. (the “Company”) fulfills its fiduciary responsibility to shareholders and its obligations to stakeholders in accordance with the Basic Views and Guidelines on Corporate Governance, and the Group shall work to achieve sustainable corporate growth and increased corporate value over the medium- to long-term.

Link to the “Basic Views and Guidelines on Corporate Governance”

<https://www.shionogi.com/jp/ja/company/cg/basic.html>

Basic Views and Guidelines

In accordance with the Company Policy – the Group’s management philosophy – we believe it is our social mission to continually discover, develop and supply useful and safe medicines as well as to promote their appropriate use to help improve the health, medical treatment and quality of life of people around the world.

Based on our firm belief that strict compliance and efforts to fulfill this social mission translate into greater corporate value, we aim to generate sustained growth and achieve increases in corporate value through constructive communication with stakeholders, supported by transparent and fair management that continuously implements measures to adapt to changes in the operating environment.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

【Supplementary Principle 4.8.1】 Effective Use of Independent Directors

The Company does not hold meetings composed exclusively of independent outside directors, but holds meetings organized by standing *Kansayaku* twice a year for the exchange of information and learning between outside directors and outside *Kansayaku*. In addition, the Company provides information about the pharmaceutical industry and the Shionogi Group to outside directors and outside *Kansayaku*, and works to improve cooperation between outside directors and outside *Kansayaku*, and between outside directors/outside *Kansayaku* and senior management. Independent outside directors actively participate in discussions at Board of Directors meetings.

[Disclosure Based on the Principles of the Corporate Governance Code]

【Principle 1.4 Cross-Shareholdings】

Guideline

The Group shall only hold shares of companies if management judges that holding the shares will increase the Group's corporate value and contribute to the sustainable enhancement of corporate value from the two perspectives of economic rationale and strategic validity. The Group shall sell all other shares, taking into account the share price, market trends and other factors.

In FY2019, the Company sold its cross-shareholdings in eight companies by mutual agreement.

Verification of Appropriateness of Holding Shares

Each year, the Board of Directors shall conduct a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital cost and other aspects regarding individual cross-shareholdings and judge the necessity of holding the shares. The Board of Directors shall also disclose the results of such verification.

Standards for Exercising Voting Rights

The Group shall confirm the corporate value of companies in which it invests and the presence or absence of issues that may have a detrimental impact on shareholder value, and shall exercise its voting rights for or against measures pursuant to due consideration. The Group shall talk with the issuing companies about matters such as the details of proposals as necessary.

【Principle 1.7 Related Party Transactions】

The Board of Directors shall sufficiently consider and approve any related party transactions that the Group may conduct with officers or major shareholders, and shall confirm that such transactions are conducted in accordance with proper procedures.

【Principle 2.6 Functioning as Owner of Corporate Pension Assets】

The Company manages assets in order to secure stable funds for payment of future benefits, and shall regularly monitor the management of pension plan assets and, when necessary, reconsider the asset mix through the Pension Plan Asset Management Committee, which is composed of personnel from the Finance & Accounting Department and the Human Resources Department.

【Principle 3.1 Full Disclosure】

i) Company objectives (e.g., business principles), business strategies and business plans;

Company Policy

The Group's Company Policy, established in 1957, defines the aim of the Group's corporate activities as "striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." This eternal and unwavering corporate philosophy embodies our vision for Shionogi and our value to society. We established our Action Guidelines as a code of conduct and a standard for the daily activities of Group employees in order to make our Company Policy a reality worldwide.

The Group set a vision toward 2030. The vision we aim to achieve is to create the future of healthcare on a new platform. To respond to a rapidly changing business environment, we will transform from a drug discovery-based pharmaceutical company, which is to provide ethical drugs, to a healthcare service provider, thereby continuing to offer new values to solve problems for patients and social issues comprehensively. To that end, we need to use creativity and expertise to enhance our strengths as a drug discovery-based pharmaceutical company and become a core of co-creation by being chosen by other companies and industries with unique strengths in building a new healthcare platform. Considering these environmental changes, we reconsidered the former Action Guidelines, and identified five "Values" as vital set of values which are necessary for accomplishment of new Vision. Our comprehensive contribution to society shall range from those connected to medical care, including patients and their families, doctors and pharmacists, to shareholders and investors through activities based on our Company Policy and newly established "Vision and Values".

In addition, Group officers and employees shall act as specified by the ethos of the Charter of Conduct we established in 1998. Senior management shall also demonstrate total commitment to this charter through their personal example and shall establish effective internal systems.

Link to the Company Policy and the Action Guidelines:

<https://www.shionogi.com/jp/ja/company/business/policy.html>

Link to the Charter of Conduct: <https://www.shionogi.com/jp/ja/company/business/constitution.html>

Link to the Shionogi Growth Strategy STS2030 (FY2020 through FY2030):

<https://www.shionogi.com/jp/ja/company/strategy/sts2030.html>

ii) Basic views and guidelines on corporate governance based on each of the principles of the Code; The Basic Views and Guidelines on Corporate Governance are covered in I. 1. Basic Views.

iii) Board policies and procedures in determining the remuneration of the senior management and directors;

The guidelines and procedures of the Board of Directors (the Board) in setting director remuneration are covered in II. 1. Director Remuneration.

iv) Board policies and procedures in the appointment of the senior management and the nomination of directors and *Kansayaku* candidates; and

The guidelines and procedures of the Board in the nomination of director candidates are as follows.

Guideline

In order allow us to enhance business oversight by directors, improve management transparency, and promote highly equitable management, the Company will nominate the candidates for directors in accordance with the following views and guidelines from the standpoint of diversity, in addition to the

Company's financial results, compliance status and other factors. In appointing outside directors, we shall select candidates based on the Requirements and Independence Standards the Company has set.

Composition of the Board of Directors

- (1) Independent directors shall account for half or greater than half of the board.
- (2) Various aspects including management experience, specialized knowledge in areas including law and finance, and medical and pharmaceutical viewpoints shall be considered.
- (3) Ensuring diversity in terms of gender, age, nationality and expertise shall be considered.

In the event of wrongdoing or a serious legal violation in execution of duties by a director that causes a significant loss to the Group, or if an event occurs that disrupts the Group's business operations, and after sufficient investigation and decision by the Board of Directors to dismiss the representative director of the Company and executive officer responsible, the Company will proceed with the dismissal procedures of said director at the General Meeting of Shareholders.

Procedure

The Nomination Advisory Committee, which is comprised of a majority of independent outside directors and chaired by an independent outside director, shall deliberate fairly, transparently and rigorously, and its conclusions shall inform decisions about candidates by the Board of Directors.

The guidelines and procedures of the Board in the nomination of *Kansayaku* candidates are as follows:

Guideline

Kansayaku shall maintain a fair and objective perspective in enabling the proper expression of opinions and helping to enable improved management soundness and transparency, and shall conduct audits of the execution of duties by directors (business audits) and accounting-related audits (accounting audits). Therefore, the Group's guideline is to nominate *Kansayaku* candidates who have the managerial experience, legal knowledge, and/or appropriate knowledge of finance and accounting required for the fulfillment of these roles and obligations.

In appointing outside *Kansayaku*, we shall select candidates based on the Requirements and Independence Standards the Company has set.

Procedure

The Nomination Advisory Committee, which is comprised of a majority of independent outside directors and chaired by an independent outside director, shall deliberate fairly, transparently and rigorously, and its conclusions shall inform decisions about candidates by the Board of Directors in agreement with the *Kansayaku* Board.

v) Explanations with respect to the individual appointments and nominations based on iv).

The reasons for selecting and nominating each of the candidates for directors and *Kansayaku* are as follows:

«Director»

Name Position	Reasons for nominating the candidate for Director

Isao Teshirogi Representative Director and President and CEO	Isao Teshirogi became Representative Director and President and CEO in 2008. He has pushed forward with global research and development and expansion of overseas business in Europe and Asia to achieve the goals of the Third Medium-Term Management Plan, and secured the Company's medium-to-long-term profit foundation through globally competitive drug discovery capabilities and evolution of the Company's royalty business model. Given the steady achievement of the quantitative targets in the Medium-Term Management Plan, Shionogi Growth Strategy 2020 (SGS2020), which was formulated in FY2014, he carried out an update of SGS2020 in October 2016. As part of that update, he set new quantitative targets from the perspectives of growth, efficiency and shareholder returns. These targets were achieved ahead of schedule, particularly profit targets.
Takuko Sawada Director and Executive Vice President	Since her appointment as a Director of the Company in 2015, Takuko Sawada has served as Senior Vice President of the Corporate Strategy Division and as a Senior Executive Officer. She has also moved Medium-Term Management Plan Shionogi Growth Strategy 2020 (SGS2020) forward, and played a central role in formulating the update of SGS2020 in October 2016. Since she assumed the post of Vice President of the Company in April 2018, she has been supervising the Health Care Strategy Division, the Management Strategy Division, the Human Health Care Division, and other operations. To enhance the business management and promote diversity, we recommend that you vote for her reelection as a Director.
Keiichi Ando Outside Director	Keiichi Ando has practical experience as a corporate executive at a financial institution and broad insight on finance. He also coordinated the extremely difficult adjustments between the national government and the governments of Osaka Prefecture and Osaka City for the airport management business of Kansai, which was then at a crossroads, and his experience and insight built the foundation of Kansai Airports, which plays a leading role in the current Kansai economy. Thus, he recognizes the corporate responsibility we should fulfill and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. We therefore recommend that you vote for his reelection as an outside director. At Board of Directors meetings, he presents many questions and opinions from the perspective of human resources and the use of assets that are important management resources, and provides

	appropriate advice about budget planning and management and capital policies, including investments.
Hiroshi Ozaki Outside Director	Hiroshi Ozaki has abundant practical experience and wide-ranging knowledge in corporate management and organizational management as a manager of a company based in Kansai. He also serves as chairman of the Osaka Chamber of Commerce and Industry, and developed and implemented a medium-term plan from FY2017 aimed at promoting the economic growth of Osaka and Kansai. In the Medium-Term Management Plan, he is focusing on promoting the life science industry. Taking advantage of his wealth of experience and knowledge, he has made management judgments from an objective and neutral perspective. We therefore recommend that you vote for his reelection as an outside director. He also provided advice on business and marketing, raised issues concerning alliances, and gave many other dissenting and supportive opinions at Board of Directors meetings.
Fumi Takatsuki Outside Director	Fumi Takatsuki has not been involved in corporate management but engaged in international corporate legal affairs. We expect her as a lawyer to make management judgements in a just manner by putting priority to social norms and legal compliance from a global perspective. We therefore recommend that you vote for her election as an outside director.

《Kansayaku》

Name Position	Reasons for nominating the candidate for <i>Kansayaku</i>
Akira Okamoto <i>Kansayaku</i>	Akira Okamoto has served as General Manager of administrative units including the Business Support Center and the Human Resources Department, and is well-versed in corporate management. Recently, he has been involved in enhancement of the Company's corporate governance and upgrading and operation of the internal control system as General Manager of the Internal Control Department. He provides appropriate recommendations and advice on management decisions and execution of duties from a neutral point of view as a corporate auditor. Accordingly, we judge that he has the appropriate character and insight to perform the duties of a <i>Kansayaku</i> , and he was appointed as a <i>Kansayaku</i> at the Annual General Meeting of Shareholders in 2015.
Ikuo Kato <i>Kansayaku</i>	Ikuo Kato has served as General Manager of the Development Research Laboratories of the Company and as Representative

	<p>Director and President and Chairman of the subsidiary. He is not only well-versed in research and development, but has insight on corporate management. He has made appropriate recommendations and advice on directors' management decisions and performance of duties from an independent standpoint as a <i>Kansayaku</i>. We judge that he has the appropriate character and insight to perform the duties of a <i>Kansayaku</i>, and therefore recommend that you vote for his reelection as an <i>Kansayaku</i>.</p>
<p>Takaoki Fujiwara Outside <i>Kansayaku</i></p>	<p>Based on his extensive experience and broad insight as a director of Hankyu Hanshin Holdings, Inc. and a manager of a group company of Hankyu Hanshin Holdings, Inc., we believe that Takaoki Fujiwara is well qualified to conduct audits on directors' performance of duties from a broad perspective. Therefore, he was appointed as an Outside <i>Kansayaku</i> at the Annual General Meeting of Shareholders in 2018.</p> <p>At meetings of the Board of Directors and Board of Corporate Auditors, he has provided appropriate advice mainly on compliance, human resources and labor management, and has made appropriate recommendations related to the directors' performance of duties from a broad perspective based on his extensive experience and broad insight as a director of Hankyu Hanshin Holdings, Inc. and a manager of a group company of Hankyu Hanshin Holdings, Inc.</p>
<p>Tsuguoki Fujinuma Outside <i>Kansayaku</i></p>	<p>Tsuguoki Fujinuma has professional expertise in finance and accounting. He has held the important post of Chairman and Advisor of the Japanese Institute of Certified Public Accountants, as well as a number of public offices, and has extensive experience and broad insight as an outside director and outside <i>Kansayaku</i>. In the past, he has not been involved in company management in any capacity other than as an outside director or outside <i>Kansayaku</i>, but based on his experience as a certified public accountant, we believe that he will be able to carry out audits of the Company with higher quality from the viewpoint of finance and accounting, and he was appointed as an Outside <i>Kansayaku</i> at the Annual General Meeting of Shareholders in 2019.</p>
<p>Shuichi Okuhara Outside <i>Kansayaku</i></p>	<p>Shuichi Okuhara is a certified public accountant and has professional expertise in finance and accounting. We are in a social environment where alliances within the industry and cross-industrial alliances are more important than ever. We believe that he will be able to carry out audits of the Company in response to a rapidly changing business environment based on his experience as a director of Nippon Venture Capital.</p>

For these reasons, we expect that he will reflect his experience in audits of the Company with respect to the appropriateness of directors' management decisions and performance of duties from an independent point of view as an Outside *Kansayaku*. We therefore recommend that you vote for his election as an Outside *Kansayaku*.

【Supplementary Principle 4.1.1 Roles and Responsibilities of the Board (1)】

The Group has introduced an executive officer system to separate management and business execution and support dynamic and flexible management and business operations, enabling the Group to respond rapidly to significant changes in the operating environment.

The Board of Directors shall make decisions in accordance with laws and regulations, the Group's Articles of Incorporation, key business plans, and resolutions in the rules governing the board regarding issues such as investments and loans in excess of predetermined amounts and the acquisition and disposal of fixed assets. Responsibility for making decisions about important matters associated with the management of business execution not covered by resolutions in the rules governing the Board shall be delegated to the management team primarily to executive officers.

From FY2016, the Board of Directors shall re-examine the resolutions and matters to be decided by the Board to expand the scope of delegation to the management team, and intends to strengthen the supervisory functions of the Board by clearly specifying matters to be reported related to the execution of duties.

【Principle 4.8 Effective Use of Independent Directors】

Our guideline shall be to appoint independent directors to half or greater than half of board seats in order to further enhance the oversight of business execution by directors, heighten management transparency, and promote management that is perceived as highly fair by stakeholders outside of the Company.

【Principle 4.9 Independence Standards and Qualification for Independent Directors】

The Independence Standards for independent directors and *Kansayaku* are covered in II. 1. Independent Directors/*Kansayaku*.

【Supplementary Principle 4.11.1 Preconditions for the Board and *Kansayaku* Board Effectiveness】

The Board's overall balance among knowledge, experience and capabilities, basic views concerning diversity and size, and policies and procedures for appointing directors are covered in I. 1. Principle 3.1 Full Disclosure iv.

【Supplementary Principle 4.11.2 Preconditions for Securing the Effectiveness of the Board and *Kansayaku* Board】

The concurrent positions of Director and *Kansayaku* are covered in "Directors" and "*Kansayaku*" in II. 1. The number of concurrent positions is determined within a reasonable range that persons in charge can fulfill their roles and responsibilities.

【Supplementary Principles 4.11.3 Preconditions for Board and Kansayaku Board Effectiveness】

The Board of Directors analyzed and evaluated its effectiveness in FY2019 by conducting questionnaires and interviews of individual directors and *Kansayaku*, with a focus on (1) Framework, (3) Roles and Responsibilities, and (6) Operation in “6. Directors and the Board” in the “Basic Views and Guidelines on Corporate Governance” set by the Company.

The following is a summary of the results:

1. Framework

We assess that the Board of Directors has currently secured the necessary framework from the standpoint of various attributes, including expertise and experience, and diversity. However, raised as one of future challenges was the need of appointing directors of foreign nationality and candidates to succeed from the standpoint of further diversity and succession.

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

2. Roles and Responsibilities

Regarding the reporting and supervision of the status of senior management development, reports were made to outside directors and the President and opinions were exchanged at meetings. In addition, the status of compliance activities was reported twice a year and received feedback at Board of Directors meetings.

Future challenges were raised, including promoting discussions on the med- to long-term business plan, enhancing explanations and discussions on the senior management appointment process and the senior management development status, and increasing the reporting contents of ESG.

The Board of Directors will continue to explore ways to improve its roles and responsibilities.

3. Operation

In order to further stimulate discussions at Board of Directors meetings, which was raised as a challenge in the previous year, basic information and lectures were provided to help directors to understand the pharmaceutical company, and agendas of Board of Directors meetings were briefed in advance on a regular basis. A tour of the Setsu Plant was also held. Furthermore, the rules governing the board were revised to establish a system that reports the progress of resolutions.

Future challenges were raised, including examining tours of other sites and securing time for further discussions at Board of Directors meetings.

The Board of Directors will continue to explore ways to improve its operation.

Based on the above, we assess that the Company’s Board of Directors has been operated appropriately and its effectiveness has been secured. We will use the results of this self-evaluation as a basis for making continuous improvements to make the Board of Directors even more effective.

【Supplementary Principle 4.14.2 Director and *Kansayaku* Training】

The Company shall endeavor to enable directors and *Kansayaku* to make candid opinions and proposals by providing, at all times, management information including that on business, finances, organization and other aspects as well as knowledge necessary for directors and *Kansayaku* to fulfil their roles and

obligations. Moreover, we shall provide and arrange training opportunities as required and assume the associated costs.

In FY2019, the Company organized meetings to exchange opinions between the President and outside directors (“opinion exchange meetings”) and the *Kansayaku* hosted meetings to share information and study with senior management (“information sharing and study meetings”). The Company conducted a tour of the Settsu Plant to help directors to understand the Company’s business, thereby strengthening cooperation and exchanging information among outside directors and between outside directors and senior management.

【Principle 5.1 Policy for Constructive Dialogue with Shareholders】

Guideline

As a company widely trusted by society, the Group believes that improving management transparency is an important obligation. This belief is the basis for our Disclosure Policy, which calls for the Group to continuously disclose appropriate company information fairly and at the proper time.

Link to the Disclosure Policy: <https://www.shionogi.com/jp/ja/company/policies/shionogi-disclosure-policy.html>

Dialogue

The Group subscribes to a spirit of fair disclosure for communication with shareholders. We disclose appropriate information fairly and at the proper time, and management and the department in charge of investor relations cooperate in energetic initiatives to contribute to sustained growth and increased corporate value over the medium and long term.

In addition, we have created a system for close cooperation among departments that facilitates dialogue regarding management strategy, shares, investor relations, finance and other issues, and the officer responsible shall manage this system.

As one of the initiatives to facilitate dialogue in addition to individual meetings, the Company holds four meetings to present quarterly financial results and a meeting to explain about R&D every year. Furthermore, as a tool to facilitate constructive dialogue, the Company has published its *Integrated Report* since FY2015.

As part of constructive dialogue with the aim of increasing corporate value, the Company holds small meetings that are attended by representative directors, analysts and institutional investors on a regular basis, with due attention paid to fair disclosure rules.

Control of Insider Information

The Group has formulated its Disclosure Policy, Information Management Standard and Rules to Prevent Insider Trading. The Group controls insider information in disclosing information, and thoroughly educates and instructs directors, officers and employees regarding information control and rules to prevent insider trading.

2. Capital Structure

Foreign Shareholding Ratio	More than 30%
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[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	38,091,800	12.53
Japan Trustee Services Bank, Ltd. (Trust account)	19,167,800	6.30
Sumitomo Life Insurance Company	18,604,000	6.12
SMBC Trust Bank Ltd. (as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485,000	3.12
BNYM TREATY DTT 15	8,566,744	2.82
Nippon Life Insurance Company	8,409,142	2.76
Japan Trustee Services Bank, Ltd. (Trust account 7)	6,955,600	2.28
JP MORGAN CHASE BANK 385632	6,700,605	2.20
Japan Trustee Services Bank, Ltd. (Trust account 5)	5,208,500	1.71
Japan Trustee Services Bank, Ltd. (Trust account 9)	5,148,500	1.69

Controlling Shareholder (except for Parent Company)	—
Parent Company	None
Supplementary Explanation	
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3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Pharmaceutical
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

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II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with <i>Kansayaku</i> Board
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[Directors]

Number of Directors Stipulated in Articles of Incorporation	7
Term of Office Stipulated in Articles of Incorporation	1 Year
Chairperson of the Board	Chairman of the Board (unless double as the President)
Number of Directors	5
Appointment of Outside <i>Kansayaku</i>	Appointed
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Keiichi Ando	From another company								○			
Hiroshi Ozaki	From another company											
Fumi Takatsuki	Lawyer											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*Kansayaku*

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/*Kansayaku* are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Keiichi Ando	○	<p>The Company conducts banking transactions with Sumitomo Mitsui Banking Corporation, from which Keiichi Ando retired as director in April 2012. However, eight years have passed since he retired as director of Sumitomo Mitsui Banking Corporation, so we believe that this does not create a conflict of interest with our shareholders and does not interfere with his independence.</p> <p>《Other major posts》 Outside Director, TSUBAKIMOTO CHAIN CO. Outside Director, DAIHEN Corporation</p>	<p>At Board of Directors meetings, Keiichi Ando presents many questions and opinions from the perspective of human resources and the use of assets that are important management resources, and provides appropriate advice about budget planning and management and capital policies, including investments.</p> <p>In addition, we appointed him as an outside director because he has practical experience as a corporate executive at a financial institution and broad insight on finance. He also coordinated the extremely difficult adjustments between the national government and the governments of Osaka Prefecture and Osaka City for the airport management business of Kansai, which was then at a crossroads, and his experience and insight built the foundation of Kansai Airports, which plays a leading role in the current Kansai economy.</p> <p>He recognizes the corporate responsibility the Company should fulfill and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. We therefore reappointed him as an independent director by resolution of the Board.</p>
Hiroshi	○	《Other major posts》	Hiroshi Ozaki has abundant practical experience and wide-

Ozaki		Representative Director and Chairman, Osaka Gas Co., Ltd. Outside Director, Asahi Broadcasting Corporation	ranging knowledge in corporate management and organizational management as a manager of a company based in Kansai. He also serves as chairman of Osaka Chamber of Commerce and Industry, and developed and implemented a medium-term plan from FY 2017 aimed at promoting the economic growth of Osaka and Kansai. In the Medium-Term Management Plan, he is focusing on promoting the life science industry. We expect him to draw on this wealth of experience and knowledge to recognize the corporate responsibility the Company should fulfill and make management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. We therefore appointed him as an independent director by resolution of the Board.
Fumi Takatsuki	○	Fumi Takatsuki is a partner of OH-EBASHI LPC & PARTNERS, to which the Company has paid attorney's fees for some specific cases concerning international corporate legal affairs that the firm specializes in. The amount of the fees is less than one percent of the annual net sales of OH-EBASHI LPC & PARTNERS. The Company has no recurring contractual relationship with OH-EBASHI LPC & PARTNERS where she works as a partner. «Other major post» Partner, OH-EBASHI LPC & PARTNERS	Fumi Takatsuki has been involved in international corporate legal affairs. We expect her as a lawyer to make management judgements in a just manner by putting priority to social norms and legal compliance from a global perspective. We therefore appointed her as an independent director by resolution of the Board.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination Advisory Committee	Compensation Advisory Committee
All Committee Members	5	5
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	3	3
Outside Experts	0	0
Other	1	1
Chairperson	Outside Director	Outside Director

Supplementary Explanation

The "Other" member of Nomination Advisory Committee is an Outside *Kansayaku*.
The "Other" member of the Compensation Advisory Committee is a corporate *Kansayaku*.

[*Kansayaku*]

Establishment of <i>Kansayaku</i> Board	Established
Number of <i>Kansayaku</i> Stipulated in Articles of Incorporation	7
Number of <i>Kansayaku</i>	5

Cooperation among *Kansayaku*, Accounting Auditors and Internal Audit Departments

Kansayaku responsibilities include creating audit plans, reporting in tandem with external auditors on the status of audits they conduct with external auditors, and exchanging opinions regarding the specifics of these responsibilities.

Kansayaku receive monthly periodic reports from the Internal Control Department regarding the details of internal audits, with additional responsibilities including the exchange of opinions. Moreover, *Kansayaku* structure systems including audits in cooperation with the Internal Control Department to quickly deal with issues including problems within the internal control system.

Appointment of Outside <i>Kansayaku</i>	Appointed
Number of Outside <i>Kansayaku</i>	3
Number of Independent <i>Kansayaku</i>	3

Outside *Kansayaku*'s Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m

			<p>He has therefore been appointed as an outside <i>Kansayaku</i> by resolution of the Board so that he can appropriately make proposals regarding the management decision-making and execution of duties of the Board from a viewpoint that emphasizes his independence as a <i>Kansayaku</i> while being aware of corporate responsibility the Company should fulfill and having no bias in favor of corporate executives or specific interested parties.</p>
<p>Tsuguoki Fujinuma</p>	○	<p>《Other major post》 Auditor, Chiba Gakuen</p>	<p>Mr. Tsuguoki Fujinuma has professional expertise in finance and accounting. He has held the important post of Chairman and Advisor of the Japanese Institute of Certified Public Accountants, as well as a number of public offices, and has extensive experience and broad insight as an outside director and outside corporate auditor. In the past, he has not been involved in company management in any capacity other than as an outside director or outside <i>Kansayaku</i>, but based on his experience as a certified public accountant, we believe that he will be able to carry out audits of the Company with higher quality from the viewpoint of finance and accounting.</p> <p>He has therefore been appointed as an outside <i>Kansayaku</i> by resolution of the Board so that he can appropriately make proposals regarding the management decision-making and execution of duties of the Board from a viewpoint that emphasizes his independence as a <i>Kansayaku</i> while being aware of corporate responsibility the Company should fulfill and having no bias in favor of corporate executives or specific interested parties.</p>

Shuichi Okuhara	○	<p>« Other major post » Director, Nippon Venture Capital</p>	<p>Shuichi Okuhara is a certified public accountant and has professional expertise in finance and accounting. We are in a social environment where alliances within the industry and cross-industrial alliances are more important than ever. We believe that he will be able to carry out audits of the Company in response to a rapidly changing business environment based on his experience as a director of Nippon Venture Capital.</p> <p>He has therefore been appointed as an outside <i>Kansayaku</i> by resolution of the Board so that he can appropriately make proposals regarding the management decision-making and execution of duties of the Board from a viewpoint that emphasizes his independence as a <i>Kansayaku</i> while being aware of corporate responsibility the Company should fulfill and having no bias in favor of corporate executives or specific interested parties.</p>
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[Independent Directors/*Kansayaku*]

Number of Independent Directors/ <i>Kansayaku</i>	6
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Matters relating to Independent Directors/*Kansayaku*

In appointing independent directors/*Kansayaku*, we shall select candidates based on standards set by financial instrument exchanges and the Requirements and Independence Standards the Company has set for independent directors/*Kansayaku* to fulfill their roles and responsibilities.

Requirements

- (1) Outside directors and *Kansayaku* shall have outstanding insights and capabilities based on experience and specialized knowledge in management, and shall be able to exercise them.
- (2) Outside directors and *Kansayaku* shall know their roles, and shall take every opportunity to provide candid opinions and advice to the Company's management.
- (3) Outside directors and *Kansayaku* shall have a character that facilitates credible working relationships with the Company's management as well as stakeholders.
- (4) Outside directors and *Kansayaku* shall not act contrary to the interests of shareholders and

shall not be interested parties with the Company.

Independence Standards

- (1) Outside directors and *Kansayaku* shall not be a director, *Kansayaku*, executive officer or employee of a company that is among the Group's major shareholders (shareholders with more than 10 percent of outstanding shares of the Group or one of the Group's top ten shareholders) or is among the companies of which the Group is the major shareholder (company that the Group owns more than 10 percent of outstanding Shares or the Group is one of the top ten shareholders of a company).
- (2) Outside directors and *Kansayaku* shall not be a director, *Kansayaku*, executive officer or employee of a company that is among the Group's major suppliers (company for which transactions with the Group account for more than 1 percent of its or the Group's revenue).
- (3) Excluding director or *Kansayaku* remuneration from the Group, outside directors and *Kansayaku* shall not receive annual remuneration in excess of ¥10 million nor receive remuneration that exceeds 1 percent of the annual revenue of a company, institution or other organization.
- (4) Outside directors and *Kansayaku* shall not have a position with a corporation or foundation to which the Group contributes more than ¥10 million annually.
- (5) The tenure of the Group's outside director shall not exceed 10 years.
- (6) The tenure of the Group's outside *Kansayaku* shall not exceed 12 years (3 terms).

[Incentives]

Incentive Policies for Directors	Introduction of Performance-Linked Compensation System, Etc.
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Supplementary Explanation

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. In addition to base monthly remuneration and performance-linked bonuses determined by results for the fiscal year and other factors, a resolution was approved at the 153rd General Meeting of Shareholders on June 20, 2018, for the introduction of restricted stock compensation plan in lieu of the existing stock option plan, in order to further promote shared value with shareholders and provide an incentive to directors to promote continuous enhancement of corporate value by further increasing the linkage between director compensation and medium- and long-term business performance. In addition, it was resolved to set the amount of compensation at a maximum of ¥750 million. This limit applies only to base compensation.

The total number of shares of the Company's common stock to be issued or disposed for the granting of restricted stock is 75,000 shares or less per year.

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors
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Supplementary Explanation

FY2019 remuneration for directors and *Kansayaku* consisted of ¥412 million for seven directors, of whom four outside directors received ¥51 million, and ¥117 million for six *Kansayaku*, of whom four outside *Kansayaku* received ¥51 million.

The two directors who received total consolidated compensation of ¥100 million or more in FY2019 are as follows.

Name	Position	Category	Amount of remuneration paid (Millions of yen)				Restricted stock compensation	
			Total	Base remuneration	Bonus	Stock options	Medium-term performance- linked	Long-term
Motozo Shiono	Director	Shionogi & Co., Ltd.	114	72	4	-	17	21
Isao Teshirogi	Director	Shionogi & Co., Ltd.	160	84	30	-	22	24

Note: Director remuneration for FY2019 included ¥51 million in bonuses for directors, for which the four outside directors are ineligible.

Policy on Determining Remuneration Amounts
and Calculation Methods

Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Guidelines

Remuneration standards shall involve a system of remuneration that supports execution of duties by directors that continuously expands corporate value over the medium- to long- term. It shall involve appropriate performance-based remuneration, enable the Group to secure outstanding personnel, and enable fulfillment of the obligation for explanation to shareholders and other stakeholders.

Calculation Methods

The total remuneration for directors is determined within a limit set by resolution of the General Meeting of Shareholders (within 750 million yen resolved at the 153rd General Meeting of Shareholders on June 20, 2018). This is comprised of base monthly remuneration, performance-based bonuses determined by results and other factors for the fiscal year, and restricted stock compensation introduced in FY2018 (consisting of medium-term performance-linked compensation and long-term stock-based compensation). Outside directors only receive base remuneration.

Base monthly remuneration is determined according to the position and responsibilities of directors with due consideration of the operating environment and global trends. Bonuses are determined according to the following indicators: (1) core business operating income (operating income, excluding net of royalty income, etc.) and the status of achievement of the consolidated profit target, which are indicators of results for the fiscal year under review; and (2) qualitative evaluation of results for the fiscal year under review. Qualitative evaluation of results are comprehensively made based on such factors as growth from the previous fiscal year (net sales, ordinary income, and strategic investments for growth), efficiency (operating margin, cash flows, return on equity (ROE), return on invested capital

(ROIC), and cash conversion cycle (CCC)), shareholder return (share price), and sociality (status of compliance, and degree of achievement of plans for improvement in the ESG (environment, social and governance) dimensions)).

A new stock-based compensation system, which replaced the stock option system, was introduced for directors (excluding outside directors) in FY2018 by resolution of the 153rd General Meeting of Shareholders on June 20, 2018. This is comprised of long-term stock-based compensation, which is conditional on the holding of office as director, and medium-term performance-linked compensation.

With regard to long-term stock-based compensation, the number of shares to be granted is determined based on the stock-based compensation grant table decided by the Board of Directors after deliberations of the Compensation Advisory Committee. The same number of shares of restricted stock is granted every year, and transfer restrictions will be removed at the time of the resignation or retirement as director.

With regard to medium-term performance-linked compensation, the number of shares to be granted is determined based on the stock-based compensation grant table decided by the Board of Directors after deliberations of the Compensation Advisory Committee. The same number of shares of restricted stock is granted every year, and the restriction removal rate (100% to 0%) is determined after the collective performance evaluation is conducted at the end of the final fiscal year of SGS2020 for the period during which shares of restricted stock are granted three times. At the time of the removal of transfer restriction, 50% of the amount of stock compensation translated at the share price at the time of the removal of transfer restriction is paid as monetary compensation. For performance evaluation, using ROE as the SGS2020 target, sales of new products and core business operating income as core business indicators, and the position of the Company in terms of total shareholder return (TSR) among 13 companies including competitor companies in the same industry (relative TSR) as the shareholder return indicator, and taking into account the ESG dimensions including compliance, the Compensation Advisory Committee deliberates on the overall evaluations, and after such deliberations, the evaluation is decided by the Board of Directors.

The total remuneration for *Kansayaku* is determined within a limit set by resolution of the General Meeting of Shareholders (within 170 million yen resolved at the 154th General Meeting of Shareholders on June 18, 2019). This encompasses base monthly remuneration.

Procedures

For remuneration for directors, the Compensation Advisory Committee, which is chaired by an outside director and comprised of three outside directors, a company director and a *Kansayaku*, shall deliberate on monthly base remuneration, performance-based bonuses, and restricted stock compensation, and present a proposal to the Board of Directors. The Board of Directors shall resolve the proposal. Evaluation of each director shall be left up to the Representative Director. However, the evaluation concept shall be confirmed by the Compensation Advisory Committee and the Board of Directors.

Future Policy

Shionogi continues to provide directors with incentives that further increase the linkage between compensation and the medium- and long-term business performance and continuously enhance corporate value, and to explore a stock-based compensation plan suited to the Company in order to share value with shareholders. The share of basic compensation in total compensation, which was approximately 75 percent in FY2013, was reduced to less than 50 percent in the last fiscal year. The Company is designing a compensation plan to further reduce the proportion of basic compensation to

around 40 percent. However, performance-based bonuses for the fiscal year under review were reduced year-on-year because the indicators of results underperformed. This resulted that basic compensation accounted for more than 50% of total.

[Supporting System for Outside Directors and/or *Kansayaku*]

For matters related to proposals by the Board that are deemed to be crucial and to require advance reference materials and discussion, managers, including the manager of the Secretary Office and the general manager of the Administration Department, and corporate *Kansayaku* shall provide information in an appropriate manner, including direct discussion, to outside directors and outside *Kansayaku*, respectively.

In addition, information, which is obtained through means including the proceedings of important meetings, collaboration between accounting auditors and the Internal Control Department, and the exchange of opinions with the Representative Director, are shared with *Kansayaku*.

[Status of Those Who Retired as Representative Director and President, etc.]

Name	Title & Position	Tasks	Working Form & Conditions (full-time, part-time, remuneration, etc.)	Retirement Date	Term of Office
Motozo Shiono	Special Advisor	1. Providing advice based on his accumulated experience and expertise to the incumbent management team only upon request; having no access rights to information related to business management, including Board of Directors materials; and having no involvement in management judgement 2. Passing on the established personal connections to the incumbent management team, thereby contributing the incumbent management team to promote stable business management and further growth 3. Providing support and advice in penetrating the Company Policy 4. Performing duties in the posts,	Part-time position with remuneration	June 23, 2020	One year

which he assumed at external entities before retirement as a director of the Company, upon request of the Company or entities

Total number of advisors, etc. who used to be the Representative Director and President, etc.: 1

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions

The Company has opted to be a company with a Board of Corporate Auditors to ensure business execution based on appropriate management decisions. Using this system, the Company strengthens the audit capabilities of the Board of Corporate Auditors and the monitoring functions of the Internal Control Department and promotes cooperation between these two parties, thereby facilitating the smooth operation of its management oversight system. The Company has a framework that separates business management and business execution, under which the Board of Directors is responsible for making management decisions in line with the Group's medium- to long-term plans, while the Business Execution Framework that is mainly comprised of executive officers is responsible for business execution through rapid and flexible decision-making. The Board of Corporate Auditors and the external auditors form the Audit Framework for overseeing management and auditing business execution. The Boards and the Frameworks form the structure that fulfills their respective roles and responsibilities from an independent perspective.

Board of Directors

Aiming to strengthen the Board's oversight of business execution, the Company appointed two outside directors for the first time in FY2009 and added three outside directors after FY2012 to promote highly transparent and equitable management by drawing on perspectives from outside the Company. In FY2020, the Company formed a team of five directors, including two female directors, in order to further strengthen management and promote diversity. The appointment of these outside directors (more than half of the five directors) is allowing the Company to maintain a system that ensures fair and efficient management. All three outside directors are independent appointments and understand corporate responsibility of the Company, contributing to increasing transparency in management.

The Board of Directors is advised by the Nomination Advisory Committee (three outside directors, one inside director, and one outside *Kansayaku*) and the Compensation Advisory Committee (three outside directors, one inside director, and one corporate *Kansayaku*), which are chaired by outside directors. To ensure management decisions are equitable, these committees carefully assess the aptitude of candidates for director positions, the impact directors have on business management, and the suitability of individuals for certain roles and their respective levels of remuneration.

Business Execution Framework

In addition, the Company has introduced an executive officer system to support dynamic and flexible business operations, enabling the Group to respond rapidly to significant changes in the operating environment. The Company has also established the Corporate Executive Meeting as a body to discuss business execution. It is composed of directors, *Kansayaku* and the corporate officers responsible for business execution and meets every week in principle. The Corporate Executive Meeting is a forum for

discussing issues related to business execution and important management matters. In principle, the Board meets every month to make decisions on important matters that affect the Company's business and to oversee business execution.

Business execution involves eight divisions – the Pharmaceutical Research Division that engages in research and development; the Global Development Division; the CMC R&D Division that is engaged in development of manufacturing technology; the Human Health Care Division that communicates information about drugs; the Health Care Strategy Division that is established in FY2020 to collect and analyze healthcare information to maximize the value of the Company; the Global Business Division that strategically promotes overseas business development; the Corporate Strategy Division that manages the Management & Product Strategy Meeting where decisions about business execution are made; and the Management Support Division that support corporate activities in terms of personnel, organization, and laws and regulations. Business execution also involves – which along with the Quality Assurance Management that is responsible for assuring the quality of marketed products.

Audit Framework

To ensure directors and each organization in the Company conduct their duties in a legally compliant and appropriate manner, the Company has established systems to enable *Kansayaku* and the Internal Control Department, which is responsible for conducting internal audits, to carry out audits of business execution and exchange opinions with the representative directors as required. In addition, the Company has concluded an audit contract under which Ernst & Young ShinNihon LLC serves as its external auditor for conducting accounting audits. The certified public accountants who are the employees who conduct accounting audits for the Company are Yuka Hayashi and Yasuhiro Kozaki.

3. Reasons for Adoption of Current Corporate Governance System

The Shionogi Group has adopted a Company with a *Kansayaku* Board corporate governance system to support efficient management oversight. Using this system, the Group is working to strengthen the audit capabilities of *Kansayaku* and the monitoring functions of the Internal Control Department to ensure business execution is based on appropriate management decisions. In order to separate business management and business execution, the directors are responsible for making management decisions in line with the Group's medium- to long-term plans, while the executive officers are responsible for implementing business strategy, resulting in business execution based on rapid and flexible decision-making. Half or greater than half of the Company's directors are outside appointments and we plan to reinforce business oversight and audit functions by increasing the number of outside *Kansayaku*.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company has a basic policy of sending notifications no less than three weeks before the date of the general shareholder meeting. Notifications sent: June 2, 2020; disclosure on website: May 25, 2020
Scheduling AGMs Avoiding the Peak Day	The Company selects a day for the General Meeting of Shareholders on which many other companies are not holding their meetings so that many shareholders may attend.
Allowing Electronic Exercise of Voting Rights	The Company has allowed electronic exercise of voting rights since the voting at the 144th General Meeting of Shareholders held in June 2009.
Participation in Electronic Voting Platform	The Company has participated in an electronic voting platform and enabled its use since the voting at the 144th General Meeting of Shareholders held in June 2009.
Providing Convocation Notice in English	The Company translates the Notice of Convocation into English and makes it available on its website.
Other	The Company announces the General Meeting of Shareholders on its website prior to sending the Notice of Convocation, and works to make voting smoother.

2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	The Company codified its disclosure policy on January 1, 2012, and announced its commitment to fair disclosure by providing information on its website in both Japanese and English.
Regular Investor Briefings for Analysts and Institutional Investors	The Company gives presentations of financial results every six months after announcing year-end and first-half results, and gives an R&D presentation once a year. Nearly 100 analysts and institutional investors participate in these meetings, at which the Representative Director and President primarily gives presentations with support as needed from the Director and Vice President, senior executive officers and the general manager of the Finance and Accounting Department. The senior executive officers, the general manager of the Finance and Accounting Department and the general manager of the Corporate Communications Department hold teleconferences with analysts and institutional investors to present first and third quarter financial results. Furthermore, the Company holds small meetings with analysts and institutional investors on a regular basis, with due attention paid to fair disclosure rules. The Company also holds individual meetings with analysts and institutional investors in an appropriate manner.
Regular Investor Briefings for Overseas Investors	The Company makes English recordings or transcripts of presentations in Japan available on its website in a timely manner. In addition, we visit North America, Europe and Asia multiple times during the year to hold

	constructive dialogue with institutional investors aimed for improving corporate value. The Company also participates in conferences held by securities companies in Japan and overseas to provide information.
Posting of IR Materials on Website	<p>The Company provides information for investors that include information about financial results, news releases, annual and quarterly securities reports, the Shionogi Business Report, presentation materials and presentation recordings, the Integrated Report, the status of the development pipeline, and non-financial matters. Major IR materials in English are disclosed at the same time as those in Japanese.</p> <p>Investor relations information website in Japanese: https://www.shionogi.com/jp/ja/investors.html</p> <p>Investor relations information website in English: https://www.shionogi.com/global/en/investors.html</p>
Establishment of Department and/or Manager in Charge of IR	Corporate Communications Department

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	<p>In accordance with the Company Policy – the Group’s management philosophy – we believe it is our social mission to continually discover, develop and supply useful and safe medicines and to help improve the health, medical treatment and quality of life of people around the world, and we make every effort in our daily business activities to enable Shionogi people to contribute to all stakeholders. In the course of such business activities, we believe it is important to always ask ourselves “For whom does a company exist?” and continue to face our four stakeholders – shareholders, customers, society and employees – with optimal balance. Based on this belief, we have formulated the Action Guidelines and Charter of Conduct, which are our codes of conduct, as well as the Shionogi Group Compliance Policy as a standard for compliance. All officers and employees are committed to putting them into practice.</p>
Implementation of Environmental Activities, CSR Activities etc.	<p>In order to realize our target of achieving – “continuous growth hand in hand with society as a drug discovery-based pharmaceutical company” – in accordance with the Company Policy, the Group’s management philosophy, we conduct activities for fulfilling our corporate responsibilities with respect to economic, social and environmental issues while we work to create innovative drugs and address social issues.</p> <p>EHS Promotion Activities</p> <p>As a pharmaceutical company and corporate citizen that contributes to the maintenance and improvement of the health and wellbeing of people as well as their comfortable lives, we recognize an obligation to protect the environment, prevent pollution and protect the safety and health of</p>

	<p>people through our various business activities. Therefore, we established the Shionogi Group EHS Policy and formulated the Shionogi Group EHS Action Targets comprising the items below, and are implementing them in all of our corporate activities, including the supply chain.</p> <ol style="list-style-type: none"> (1) Promote energy conservation and global warming control measures (2) Promote resource conservation and waste control measures (3) Optimize the management of chemicals (4) Build an EHS management system (5) Protect sound water circulation (6) Contribute to the protection of biodiversity (7) Work toward zero accidents resulting in lost work time (8) Develop EHS efforts throughout the supply chain (9) Promote healthy and productive management <p>CSR Activities</p> <p>We have engaged in activities under the former Medium-Term Business Plan SGS2020. To advance further, we have established the Health Care Strategy Division in April 2020. Under the new organization, we conduct the following CSR activities, thereby providing solutions to problems for patients and their families and offering various approaches throughout diseases by taking advantage of our drugs:</p> <ol style="list-style-type: none"> i) Support for children's bright futures: Together with organizations related to support for developmental disabilities (local governments, NPOs, universities, etc.), we conduct activities to promote greater understanding of developmental disabilities, achieve earlier detection and intervention, and realize lifelong support. ii) Promoting appropriate use: In cooperation with government agencies, healthcare professionals, NGOs, etc., we provide educational seminars and disseminate online contents regarding the proper use and management of opioids, the prevention of infectious diseases, and the fight against antimicrobial resistance (AMR). <p>We are also conduct the following activities to offer medical access without disturbance by social challenges, including the country's economic situation and the person's disabilities:</p> <ol style="list-style-type: none"> i) Eliminating barriers for people with disabilities to taking medicine: We conduct activities to eliminate communication barriers between people with disabilities and healthcare professionals when receiving medication instructions. ii) Contributing to maternal and child health in low- and middle-income countries: We conduct activities to reduce maternal, neonatal and infant mortality rates and enhance people's health in Kenya, which is supported by donations of the Company and employees.
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	<p>We also provide support such as research grants through a foundation and donations to disaster areas by the Social Contribution Support Association we established jointly with employees and labor unions.</p> <p>For more detail, please see FY2019 Integrated Report: https://www.shionogi.com/content/dam/shionogi/jp/investors/ir-library/annual-report-integrated-report/pdf/ir2019_all_j.pdf</p>
Development of Policies on Information Provision to Stakeholders	Regarding information disclosure, as in V Other 2. Other Matters Concerning to Corporate Governance System, we have established a system and policy (Disclosure Policy) for disclosing appropriate information at the appropriate time.
Other	To promote diversity, we have increased the number of female directors to two in the Board in FY2020 and also appointed one non-Japanese as an executive officer responsible for business execution.

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

Shionogi's basic policy for its internal control system is as follows. We have established and operate our internal control system in compliance with this policy.

The Basic Policy for Construction and Operation of Internal Control System

The Company will promote clear and reliable operations by sharing their philosophy and their sense of values contained in "Shionogi's Policy" among the Company, officers and employees and by execution of the Company's duties satisfying the requirements of "compliance."

For the purpose of enhancing effective execution, the Company will prepare and operate systems that assure appropriate business operations as follows:

(1) Systems for ensuring that the execution of duties of directors complies with laws and regulations and the Articles of Incorporation:

The Board of Directors shall make decisions based on appropriate management judgments in accordance with the Board of Directors Regulations, and supervise the execution of duties to prevent the violation of laws and regulations and the Articles of Incorporation.

The Board of Directors shall implement the Basic Views and Guidelines on Corporate Governance, which was established to realize the best possible corporate governance, thereby achieving a sustainable growth of the Group and increasing corporate value over the medium and long term.

In the event that a director finds an instance of other directors' violation of laws and regulations and the Articles of Incorporation, the director shall immediately report to *Kansayaku* and the Board of Directors to correct the violation.

In order to establish a proper corporate governance system, the Company shall introduce outside directors to make comprehensive decisions from objective views of third parties, including shareholders.

Outside directors shall recognize corporate responsibility which the Company should take from their perspective as independent directors, and contribute to improving the transparency of management. Directors shall maintain and implement internal controls to ensure the reliability of financial reporting, and appropriately evaluate and report on the effectiveness of the internal controls.

Kansayaku shall audit the execution of duties of directors, and directors shall cooperate in audits.

The Company shall constantly keep officers and employees informed about the Company Policy and the Action Guidelines set forth as the Company's philosophy and the Charter of Conduct providing how officers and employees should act. The Compliance Committee presided by the Representative Director shall establish and promote measures for ensuring compliance with laws and regulations and ethical behavior in business operations.

Based on the Charter of Conduct, the Company shall consistently and resolutely resist the influence of antisocial forces and preclude any connection with them.

(2) Systems related to the retention and management of information pertaining to the execution of duties of directors:

The Company shall establish a security system for information related to the execution of duties of directors, including documents and signatures electronically recorded. The minutes of Board of Directors meetings, management meetings and Compliance Committee meetings, documents on decisions approved by the Representative Director, and the like shall be properly and strictly retained

and managed in the manner appropriate to the form they have been recorded in and accessible for appropriate periods in accordance with laws and regulations and other rules.

(3) Regulations and other systems concerning the management of risk of loss:

The Company shall establish, improve and maintain a comprehensive risk management system, including a business continuity plan, in accordance with the Shionogi Group Risk Management Policy.

Each division shall understand internal risk factors, and take appropriate measures depending on the degree of the risk to avoid or decrease risks. Especially, measures for significant risks which may affect business management shall be discussed and determined at management meetings, etc. Based on the determined courses of actions, responsible divisions shall take necessary measures in cooperation with related divisions.

Moreover, with regard to emergency risks, including disasters, accidents and wrongdoings, the Company shall specify a Crisis Management Policy, based on which the Company shall define an Outline of Disaster Control Measures, an Outline of Pandemic Control Measures, and an Outline of Corporate Wrongdoing Control Measures. By doing so, the Company shall promote crisis management to pay due respect to human lives, give consideration and contribution to regional communities, and prevent damage to corporate value.

In accordance with the Shionogi Group EHS* Policy, the Group shall protect the environment, prevent pollutions, and secure safety and health of coworkers and regional communities in conducting business activities, thereby contributing to creating an environment that allows people to work without worries and achieving an affluent society. (*EHS: Environment, Health and Safety)

The Internal Control Department (the Internal Audit Division) shall verify various risk controls from an independent standpoint.

(4) Systems for ensuring that the execution of duties of directors is performed efficiently:

The Company has an executive officer system to clarify roles between management execution and management supervision, and conduct dynamic and flexible business operations. Material matters in the execution of duties shall be fully discussed at regular (weekly) management meetings, and based on the deliberation results, decisions shall be made by the Board of Directors.

Resolutions by the Board of Directors and the contents of deliberations at management meetings shall be promptly informed to the heads of divisions in charge of duties, and duties shall be executed in accordance with rules pertaining to duties and the allocation of business operations.

(5) Systems for ensuring that the execution of duties of employees complies with laws and regulations and the Articles of Incorporation:

The Company shall promote measures for further ensuring compliance with laws and regulations and ethical behavior in business operations under the leadership of the Compliance Committee in accordance with the Shionogi Group Compliance Policy.

A secretary office of the Compliance Committee shall be established in the Administration Department to provide training on compliance and harassment and support divisions for the management of compliance and harassment risks.

To verify the effectiveness of the internal control system, the Company shall enhance internal audits by the Internal Control Department to strengthen its monitoring capabilities, and make full use of the internal reporting system and consultation hotlines to prevent and early detect misconduct.

- (6) Systems to ensure the propriety of business activities in the corporate group comprised of the Company and group companies thereof:

The Company and group companies shall keep officers and employees informed about the Company Policy and the Action Guidelines in order to improve the corporate value of the Group and fulfill social responsibilities.

Directors shall receive reports on business operations from group companies, and properly manage and guide group companies according to the Rules for Management of Shionogi Group Companies, thereby implementing the Company Policy, the Action Guidelines, business plans and the like.

Group companies shall conduct business management in accordance with the policies and guidelines mentioned above, thereby promoting appropriate and efficient business operations.

Business operations of group companies shall be appropriately managed and supported by business divisions, including the Pharmaceutical Research Division and the Human Health Care Division, and management divisions, including the Administration Department and the Finance & Accounting Department. Overall management shall be carried out by the Administration Department on behalf of management divisions.

The Internal Control Department shall conduct investigations, when necessary in order to evaluate the appropriateness and effectiveness of business operations of group companies. In addition, the Finance & Accounting Department and the Internal Control Department shall audit group companies.

- (7) Matters related to the employees (assistant employees) if *Kansayaku* have requested that employees be appointed to assist with the duties of *Kansayaku*; and matters related to the independence of the assistant employees from directors:

The Company shall appoint employees if *Kansayaku* have requested that employees be appointed to assist with the duties of *Kansayaku*.

To appoint employees to assist with the duties of *Kansayaku*, the Company shall establish a system that ensures the independence of the employees from directors.

The Company shall keep officers and employees informed that the employees, who assist with the duties of *Kansayaku*, follow instructions from *Kansayaku*.

- (8) Systems for directors and employees to report to *Kansayaku*, and other systems related to reporting to *Kansayaku*:

The Company shall establish a system that *Kansayaku* attend important meetings, including Board of Directors meetings and management meetings, to obtain information regarding the execution and management of business operations and the effectiveness of internal controls, when necessary.

The *Kansayaku* Board may directly ask directors and the COO to report on business operations.

In the event that significant damage may be or was caused to the Company or group companies, the credibility of the Company or group companies was eroded, or misconduct, including legal violation, egregious injustice or the like is found, a director or the COO shall immediately report, orally or in writing, to *Kansayaku*.

The Company shall ensure that officers and employees of the Company and group companies who report to *Kansayaku* are not subject to any unfavorable treatment on the ground of having made the said report.

If *Kansayaku* request the Company to make a payment or an advance payment of expenses with respect to the execution of their duties, the Company shall perform the procedures except in cases where it proves that the expenses relating to such request is not necessary for the execution of duties of *Kansayaku*.

(9) Other systems to ensure that audits by *Kansayaku* are performed effectively:

Kansayaku shall cooperate with accounting auditors and the Internal Control Department in conducting audits and making advice and recommendations. *Kansayaku* shall exchange opinions with the Representative Director at regular meetings, thereby enhancing the effectiveness of audits. In order to ensure the effectiveness of audits within the Group, *Kansayaku* shall regularly organize a Group Company Audit Liaison Committee meeting to exchange opinions about issues and risks for group companies.

2. Basic Views on Eliminating Anti-Social Forces

The Company is confronted by anti-social forces that disturb social order and threaten the safety of citizens and employees, and that damage corporate value if we have any dealing with them. The General Administration Department and the Legal Affairs Department lead our efforts to preclude relationships with anti-social forces.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

The Company has not implemented anti-takeover measures. However, in the event of a takeover bid involving Shionogi's shares, the Board of Directors shall exercise impartial judgment and clearly explain its rationale to shareholders.

2. Other Matters Concerning to Corporate Governance System

The Company's Internal System for Disclosing Appropriate Company Information at the Appropriate Time

At the Company, important matters that significantly affect the investment decisions of investors, such as financial results information and the status of R&D progress, are discussed by the Corporate Executive Meeting, with some matters receiving the authorization of the Board.

The disclosure procedures for this information and information and other matters that internal departments and subsidiaries have indicated are urgent are as follows.

- (1) For financial information, the director responsible for the Corporate Communications Department is responsible for information disclosure, along with the director responsible for accounting and finance, the general manager of the Finance and Accounting Department, and the general manager of the Corporate Communications Department.
- (2) For non-financial information, the director responsible for the Corporate Communications Department, the executive responsible for information disclosure, and the general manager of the Corporate Communications Department determine the necessity and timing of disclosure of company information and disclose appropriate information at the appropriate time.

The Company will work to ensure that the scope and content of disclosed information are valid and the timing of disclosure is appropriate in order to disclose information quickly, accurately and fairly. Shionogi will also continuously implement required revisions to maintain and improve the previously mentioned system and Disclosure Policy for smoothly promoting disclosure procedures.