

Corporate Governance Report

Last Update: July 9, 2021

Shionogi & Co., Ltd.

Isao Teshirogi

Representative Director and President and CEO

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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 customers, society, shareholders, and employees, 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 FY2020, the Company sold its cross-shareholdings in two companies by mutual agreement.

Verification of Appropriateness of Holding Shares

Verification of suitability of possession

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.

【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 revised Shionogi Group Code of Conduct as a standard for the daily activities of Group employees in order to make our Company Policy a reality worldwide. As a corporate group that contributes to the maintenance and improvement of health and the realization of comfortable lifestyles for people around the world, we will create a better future for healthcare, aim to resolve issues faced by patients, doctors and other healthcare professionals, shareholders, investors, and society as a whole, and contribute to the realization of a sustainable and healthy society through our business activities.

In addition, all management staff of the Group will take responsibility for taking the initiative in ensuring that this Code of Conduct is fully understood and implemented, and will establish an effective internal system.

The Group periodically investigates and confirms the level of penetration of the Company Policy and Shionogi Group Code of Conduct, as well as the corporate culture and climate.

Link to the Management Philosophy: <https://www.shionogi.com/jp/ja/company/business.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.

Guidelines

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.

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.

Procedures

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. Currently, there are no non-executive directors, except for outside directors, who serve on the Board of Directors. However, we will flexibly use non-executive directors according to the circumstances of the Group or changes in the business environment.

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

Guidelines

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.

Procedures

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 actively pushed forward with global research and development and expansion of overseas business to achieve the

	<p>Third Medium-Term Business Plan, and secured a medium- to long-term profit foundation. After achieving the quantitative targets of “Shionogi Growth Strategy 2020 (SGS2020),” which was formulated in FY2014, he updated SGS2020 in October 2016, and also achieved these targets ahead of schedule. He announced the Company’s vision toward 2030 "Building Innovation Platforms to Shape the Future of Healthcare," and in June 2020, he has started a new Medium-Term Business Plan “Shionogi Transformation Strategy 2030 (STS2030)” as a strategy to realize the vision and deliver further growth. Through these initiatives, he has vigorously moved forward the business transformation, and therefore we recommend that you vote for his reelection as a Director.</p>
<p>Takuko Sawada Director and Executive Vice President</p>	<p>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 Shionogi Growth Strategy 2020 (SGS2020) forward, and played a central role in formulating the update of SGS2020 in October 2016. She became Vice President in April 2018 and has supervised the Integrated Disease Care Division, Corporate Strategy Division and Pharmaceutical Commercial Division since April 2020 to achieve the new Medium-Term Business Plan “Shionogi Transformation Strategy 2030 (STS2030).” To enhance business management and promote diversity, we recommend that you vote for her reelection as a Director.</p>
<p>Keiichi Ando Outside Director</p>	<p>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 elect him as an outside director.</p> <p>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.</p>

Hiroshi Ozaki Outside Director	<p>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 Business 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 elect him as an outside director.</p> <p>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.</p>
Fumi Takatsuki Outside Director	<p>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 judgments in a just manner by putting priority to social norms and legal compliance from a global perspective. We therefore elect her as an outside director. At the Board of Directors meetings, she points out problems and provides advice on issues that need to be considered, particularly with regard to the execution of business in China, from the perspective of international corporate legal affairs.</p>

《*Kansayaku*》

Name Position	Reasons for nominating the candidate for <i>Kansayaku</i>
Akira Okamoto <i>Kansayaku</i>	<p>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 <i>Kansayaku</i>.</p> <p>Accordingly, we judge that he has the appropriate character and insight to perform the duties of a <i>Kansayaku</i>, and we elect him as a <i>Kansayaku</i>.</p>
Ikuo Kato <i>Kansayaku</i>	<p>Ikuo Kato has served as General Manager of the Development Research Laboratories of the Company and as Representative</p>

	<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 elect him 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 expect that Takaoki Fujiwara will audit the performance of directors from a broad perspective point of view, and we elect him as Outside <i>Kansayaku</i>.</p> <p>At meetings of the Board of Directors and <i>Kansayaku</i> Board, 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.</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, Chairman of Association of Certified Fraud Examiners 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 we elect him as an Outside <i>Kansayaku</i>. At meetings of the Board of Directors and <i>Kansayaku</i> Board, he has provided appropriate advice mainly on finance, accounting and ESG, and has made appropriate recommendations related to the directors' performance of duties from a broad perspective based on his extensive experience and broad insight.</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*. Therefore, we elect him as an Outside *Kansayaku*. At meetings of the Board of Directors and *Kansayaku* Board, he has provided appropriate advice mainly on finance, accounting and DX, and has made appropriate recommendations related to the directors' performance of duties from a broad perspective based on his extensive experience and broad insight.

【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.

When appointing independent outside directors, the candidates will be selected in accordance with the "Requirements" and "Independence Standards" stipulated by the Company in order for them to fulfill their roles and responsibilities as well as the independence standards stipulated by financial instruments exchanges.

【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 FY2020 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 a future challenge was the need to appoint directors of foreign nationality and candidates to succeed from the standpoint of further diversity and succession, in light of the expansion of and changes in the Company's business.

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 continuously provided 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 feedback was received at Board of Directors meetings. Also, ESG-related matters were proposed and reported on several times, and deliberations and resolutions were made on these matters at the Board of Directors meetings.

Future challenges were raised, including the need for further enhancement of reporting on the progress of the medium-term business plan, as well as explanations and discussions on the status of the development of senior management, their selection process and progress in their development. 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, the Board of Directors has continued to provide periodic pre-briefings on the agendas of Board of Directors meetings and has reported on matters resolved at the meetings as appropriate. Also, a tour of the Shionogi Education

and Training Center was conducted.

Opinions expressed about future challenges included securing time at Board of Directors meetings to further enhance discussions.

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 FY2020, 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 Shionogi Education and Training Center (PORT) 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.

We strive to identify our substantial shareholders through stock operations contractors and external organizations.

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)	41,349,800	13.71
Custody Bank of Japan, Ltd. (Trust account)	18,663,300	6.19
Sumitomo Life Insurance Company	18,604,000	6.17
SMBC Trust Bank Ltd. (as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485,000	3.14
JP MORGAN CHASE BANK 385632	9,287,756	3.08
Nippon Life Insurance Company	8,409,142	2.78
Custody Bank of Japan, Ltd. (Trust account 7)	7,484,800	2.48
BNYM TREATY DTT 15	6,982,384	2.31
BANK OF CHINA (HONG KONG) LIMITED-PING AN LIFE INSURANCE COMPANY OF CHINA, LIMITED	6,356,000	2.10
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	4,820,900	1.59

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

Supplementary Explanation

1. The Company owns 10,122,444 shares of treasury stock but the Company is not included in the major shareholders listed above (top 10).
2. The percentage of shares held is calculated as a proportion of 301,463,721 shares, which is the total number of issued shares less 10,122,444 shares of treasury stock.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Pharmaceutical

Translation for reference only

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 51 to less than 100

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	From 3 to 7
Term of Office Stipulated in Articles of Incorporation	1 Year
Chairperson of the Board	Decided by resolution of the Board
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, nine 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>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 elect him as an outside director.</p> <p>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. We therefore reappointed him as an independent director by resolution of the Board.</p>
Hiroshi Ozaki	○	<p>《Other major posts》 Senior Advisor, Osaka Gas Co., Ltd.</p>	<p>Hiroshi Ozaki has abundant practical experience and wide-ranging knowledge in corporate management and organizational</p>

		Outside Director, The Royal Hotel, Ltd.	<p>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 him as an outside director.</p> <p>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. We therefore appointed him as an independent director by resolution of the Board.</p>
Fumi Takatsuki	○	<p>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 two 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.</p> <p>《Other major post》 Partner, OH-EBASHI LPC & PARTNERS</p>	<p>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 judgments in a just manner by putting priority to social norms and legal compliance from a global perspective. We therefore elect her as an outside director. At the Board of Directors meetings, she points out problems and provides advice on issues that need to be considered, particularly with regard to the execution of business in China, from the perspective of international corporate legal affairs. We therefore appointed her as an independent director by resolution of the Board.</p>

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	From 3 to 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
Takaoki Fujiwara	From another company													
Tsuguoki Fujinuma	Certified public accountant													
Shuichi Okuhara	From another company													

* 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 subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

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

d. *Kansayaku* of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

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

g. Major client or supplier of the Company or an executive thereof

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

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

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the *Kansayaku* himself/herself only)

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

l. Executive of a company or organization that receives a donation from the Company (the *Kansayaku* himself/herself only)

m. Others

Outside *Kansayaku*'s Relationship with the Company (2)

Name	Designation as Independent <i>Kansayaku</i>	Supplementary Explanation of the Relationship	Reasons for Appointment
Takaoki Fujiwara	○	<p>« Other major posts »</p> <p>Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd.</p> <p>Director, Sanyo Electric Railway Co., Ltd.</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 expect that Takaoki Fujiwara will audit the performance of directors from a broad perspective point of view, and we elect him as Outside <i>Kansayaku</i> . We therefore appointed her as an independent <i>Kansayaku</i> by resolution of the Board.

Tsuguoki Fujinuma	○	<p>《Other major post》 Auditor, Educational Institution Chiba Gakuen</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, Chairman of Association of Certified Fraud Examiners 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 we elect him as an Outside <i>Kansayaku</i>. We therefore appointed her as an independent <i>Kansayaku</i> by resolution of the Board.</p>
Shuichi Okuhara	○	<p>《Other major post》 Chairman of the Board of Directors, 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>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</p>

			independent point of view as an Outside <i>Kansayaku</i> . Therefore, we elect him as an Outside <i>Kansayaku</i> . We therefore appointed her as an independent <i>Kansayaku</i> by resolution of the Board.
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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 in an appropriate manner.
- (2) Outside directors and *Kansayaku* shall recognize 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 sincerely engages 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 of the Company.

Independence Standards

- (1) Outside directors and *Kansayaku* shall not be a major shareholder of the Group (a shareholder who holds 10% or more of the total outstanding shares of the Group or who is one of the Group's top ten shareholders), or, if such major shareholder is a corporation or organization, the outside directors and *Kansayaku* shall not be a director, *Kansayaku*, executive officer or employee of such corporation or organization.
- (2) Outside directors and *Kansayaku* shall not be a director, *Kansayaku*, executive officer or employee of a company of which the Group is a major shareholder (a corporate that holds 10% or more of the total outstanding shares of the company or that is one of the company's top ten shareholders).
- (3) Outside directors and *Kansayaku* shall not be a director, *Kansayaku*, executive officer or employee of a major business partner of the Group.
A "major business partner of the Group" refers to any of the following:
 - a. A business partner to which the amount of money paid from the Group accounts for 2% or more of the Group's consolidated sales on average over the last three fiscal years of the Group, including the most recent fiscal year
 - b. A business partner from which the amount of money received by the Group accounts for 2% or more of the Group's consolidated sales on average over the last three fiscal years of the Group, including the most recent fiscal year

- (4) Outside directors and *Kansayaku* shall not be a director, *Kansayaku*, executive officer or employee of a company for which the Group is a major business partner.
A “company for which the Group is a major business partner” refers to any of the following (except in the case where (5) applies):
- a. A company from which the amount of money paid to the Group accounts for 2% or more of the company’s consolidated sales on average over the last three fiscal years of the company, including the most recent fiscal year
 - b. A company for which the amount of money received from the Group accounts for 2% or more of the company’s consolidated sales on average over the last three fiscal years of the company, including the most recent fiscal year
- (5) If outside directors and *Kansayaku* are consultants or accounting or legal professionals, the outside directors and *Kansayaku* or the corporation or organization to which they belong shall not receive any of the following remuneration from the Group other than their director or *Kansayaku* remuneration.
- a. (For individuals) Remuneration of ¥10 million or more per year
 - b. (For corporations, organizations, etc.) Remuneration of 2% or more of the consolidated sales of a corporation, organization or the like to which the outside directors or *Kansayaku* belong or ¥10 million or more per year, whichever is higher, on average over the last three fiscal years of such corporation, organization or the like, including the most recent fiscal year
- (6) Outside directors and *Kansayaku* shall not have a position in a corporation or foundation to which the Group contributes ¥10 million or more annually.
- (7) The tenure of the Group’s outside director shall not exceed 10 years.
- (8) 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. Outside directors only receive base remuneration.

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

FY2020 remuneration for directors and *Kansayaku* consisted of ¥475 million for seven directors, of whom four outside directors received ¥56 million, and ¥124 million for six *Kansayaku*, of whom four outside *Kansayaku* received ¥54 million.

The two directors who received total consolidated compensation of ¥100 million or more in FY2020 are as follows.

Name	Position	Category	Amount of remuneration paid (Millions of yen)			
			Total	Base remuneration	Performance-linked remuneration, etc.	Stock options Non-monetary remuneration
Isao Teshirogi	Director	Shionogi & Co., Ltd.	242	84	39	- 118
Takuko Sawada	Director	Shionogi & Co., Ltd.	118	48	21	48

Note: Director remuneration for FY2020 included ¥60 million in bonuses for directors, for which the four outside directors are ineligible.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Remuneration for directors is determined within the total amount of remuneration set by resolution of the General Meeting of Shareholders. This is comprised of monthly fixed base remuneration, bonuses determined by results and other factors for each 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 remuneration is determined based on the base remuneration table according to the position and role of directors with due consideration of the management environment and global trends.

Bonuses are paid as cash remuneration, which reflects performance indicators (core operating profit excluding royalties, sales of assets, etc., profit attributable to owners of the parent and other total performance evaluation as directors) to heighten the awareness of improving performance for each fiscal year. As short-term incentives, they are determined based on the calculation table according to performance such as achievement of targeted profits and other factors in each fiscal year and paid in June of each year.

Stock-based compensation is granted in July of each year based on the grant table according to the position and role of directors. For medium-term performance-linked stock compensation in particular, performance is evaluated based on the status of achievement in FY2022 for the portion to be granted for the three years between FY2020 and FY2022 from the period of STS2030 Phase 1 (FY2020 to

FY2024) to determine the ratio of lifting the transfer restriction (100% to 0%). In addition, when lifting the transfer restriction, 50% of the amount of stock-based compensation, translated into the share price at the time of lifting, is paid as monetary compensation. Using revenue, overseas net sales, core operating profit, ROE and the ranking in total shareholder return (TSR) among 12 competitors including the Company (relative TSR) as quantitative indicators, performance evaluation is determined in consideration of the status of ESG, compliance and development associated with COVID-19.

The Compensation Advisory Committee discusses the ratio of remuneration by type for executive directors in consideration of remuneration levels using companies that have a similar business size to the Company and are included among the relevant business types and categories as the benchmark, and the Board of Directors, in respect of the recommendations given by the Compensation Advisory Committee, determines the details of the remuneration system, etc. so that the ratio of remuneration by type is in line with the recommendations. The policy for determination thereof is as described below <Policy for Determination of Details of Individual Remuneration, etc. for Directors>. In addition, pursuant to the resolution at the Board of Directors meeting held on February 22, 2021, it is considered appropriate that base remuneration and individual bonus amount, etc. are evaluated and determined by a person who bears the ultimate management responsibility, and thus, such evaluation and determination are entrusted to Isao Teshirogi, Representative Director and President. The Compensation Advisory Committee deliberates the policy and criteria for the entrustment and provides the Board of Directors with the results as recommendations for their resolution, and Isao Teshirogi, Representative Director and President, to whom such determination is entrusted, shall make decisions in accordance with said recommendations and the abovementioned resolution by the Board of Directors.

The targeted ratio for each type of remuneration, etc. is set as base remuneration: performance-linked remuneration, etc.: non-monetary remuneration, etc. = 4:3:3 on the premise that all KPIs are achieved. (Note) Performance-linked remuneration, etc. comprises director and *Kansayaku* bonuses, and non-monetary remuneration, etc. comprises restricted stock.

As a result of reflecting the business results of FY2020, the ratio of base remuneration in total remuneration in FY2020 is about 50%. Remuneration for *Kansayaku* is determined within the total amount of remuneration set by resolution of the General Meeting of Shareholders. This encompasses the monthly fixed base remuneration.

As an advisory body to the Board of Directors, the Company's Compensation Advisory Committee consists of five members, a majority of whom are outside directors, and is chaired by an outside director. The Committee duly considers director and *Kansayaku* remuneration. It also discusses various issues concerning remuneration, etc. for directors and executive officers, verifies the levels of remuneration, etc. every year and deliberates the remuneration system, performance evaluation system, etc. for the following fiscal year.

<Policy for Determination of Details of Individual Remuneration, etc. for Directors>

1. Basic policy

Remuneration for directors of the Company is based on a remuneration system linked with shareholder interest so that it fully functions as an incentive for a sustainable increase in corporate value, and it is the Company's basic policy to determine remuneration for each director at a proper level according to their job responsibilities. More specifically, remuneration for executive directors shall comprise base

remuneration as fixed remuneration, performance-linked remuneration, etc. (bonuses as monetary remuneration) and stock-based compensation, and remuneration paid to outside directors who undertake supervisory functions shall only be base remuneration in light of their duties.

2. Policy concerning determination of amount of remuneration, etc. for each individual with respect to their base remuneration (monetary remuneration) (including policy concerning determination of timing or conditions to provide remuneration, etc.)

Base remuneration for directors of the Company shall be monthly fixed remuneration and determined based on the base remuneration table established according to their rank and job responsibilities and taking into consideration the Company's business results, employees' salary levels and levels at other companies.

3. Policy concerning determination of details of performance-linked remuneration, etc. and non-monetary remuneration, etc. as well as calculation method of amount or number thereof (including policy concerning determination of timing or conditions to provide remuneration, etc.)

Performance-linked remuneration, etc. shall be cash remuneration that reflects performance indicators (KPIs) to heighten the awareness of improving performance for each fiscal year, and paid as a bonus in June of each year in an amount calculated according to the degree of achievement against targeted figures for consolidated operating profit and consolidated profit of each fiscal year. The performance indicators to be targeted and the figures thereof shall be set at the time of formulating the Medium-Term Business Plan so that they are in line with the Plan, and reviewed as necessary to accommodate environmental changes taking into account recommendations given by the Compensation Advisory Committee.

Non-monetary remuneration, etc. shall be restricted stock and consist of two parts: the long-term stock-based compensation system which requires being employed by the Company; and the medium-term performance-linked stock-based compensation that is linked to performance. For the long-term stock-based compensation system, the number of shares to be granted shall be determined based on the stock-based compensation table established, according to rank and job responsibility, by the Board of Directors after deliberation by the Compensation Advisory Committee.

With respect to the medium-term performance-linked stock-based compensation, the number of shares to be granted shall be determined based on the stock-based compensation table established, according to rank and job responsibility, by the Board of Directors after deliberation by the Compensation Advisory Committee. Restricted stock shall be granted in July of each year, and performance shall be evaluated based on the status of achievement in FY2022 for the portion to be granted for three years between FY2020 and FY2022 from the period of STS2030 Phase 1 (FY2020 to FY2024) to determine the ratio of lifting the transfer restriction (100% to 0%). In addition, when lifting the transfer restriction, 50% of the amount of stock-based compensation, translated into the share price at the time of lifting, shall be paid as monetary compensation. Using revenue, overseas net sales, core operating profit, ROE and the ranking in total shareholder return (TSR) among 12 competitors including the Company (relative TSR) as quantitative indicators, performance evaluation is determined by the Board of Directors, after deliberation on the overall evaluation by the Compensation Advisory Committee, in consideration of the status of ESG, compliance and development associated with COVID-19.

4. Policy concerning determination of the ratio of the amount of monetary remuneration, the amount of performance-linked remuneration, etc. or the amount of non-monetary remuneration, etc. to the amount of individual remuneration, etc. for directors

The Compensation Advisory Committee discusses the ratio of remuneration by type for executive directors in consideration of remuneration levels using companies that have a similar business size to the Company and are among the relevant business types and categories as the benchmark. The Board of Directors (representative directors who are entrusted pursuant to Item 5), in respect of recommendations given by the Compensation Advisory Committee, determines the details of the remuneration system, etc. so that the ratio of remuneration by type is in line with the recommendations, and also the amounts of individual remuneration, ensuring consistency with the purposes of the recommendations.

The targeted ratio for each type of remuneration, etc. is set as base remuneration : performance-linked remuneration, etc. : non-monetary remuneration, etc. = 4:3:3 (if all KPIs are achieved).

(Note) Performance-linked remuneration, etc. comprises director and *Kansayaku* bonuses and non-monetary remuneration, etc. comprises restricted stock.

5. Matters concerning determination of the details of individual remuneration, etc. for directors

The specific details of the remuneration amount for each individual shall be entrusted to representative directors pursuant to a resolution at the Board of Directors, and the details of the authority shall be evaluation and allocation of bonuses taking into account the amount of base remuneration for each director based on the base remuneration table and results of the business of which the director is in charge.

The Compensation Advisory Committee deliberates the policy and criteria for the entrustment to representative directors and provides the Board of Directors with the results as recommendations for their resolution, and representative directors who are entrusted as described above shall make determinations in accordance with said recommendations and resolutions by the Board of Directors.

The amount of stock to be allotted to individual directors as stock-based compensation based on the stock-based compensation table shall be resolved by the Board of Directors taking into account recommendations given by the Compensation Advisory Committee.

The Compensation Advisory Committee consists of five members, a majority of whom are outside directors, and is chaired by an outside director. In addition to the foregoing, the Compensation Advisory Committee discusses various issues concerning remuneration, etc. for directors and executive officers, verifies the levels of remuneration, etc. every year and deliberates the remuneration system, performance evaluation system, etc. for the following fiscal year.

[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, which he assumed at external entities before retirement as a director of the Company, upon request of the Company or entities	Part-time position with remuneration	June 23, 2020	One year

* The appointment of Motozo Shiono to this position is renewable as necessary, and was approved after deliberation at the Board of Directors meeting held on June 22, 2021.

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 *Kansayaku* Board to ensure business execution based on appropriate management decisions. Using this system, the Company strengthens the audit capabilities of the *Kansayaku* Board 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 *Kansayaku* Board 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 one outside director after FY2012 to promote highly transparent and equitable management by drawing on perspectives from outside the Company. At present, the Company formed a team of five directors, including two female directors. 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.

Business execution involves nine divisions – the Pharmaceutical Research Division, which engages in research and development; the Drug Development and Regulatory Science Division; the CMC R&D Division, which is engaged in development of manufacturing technology; the Pharmaceutical Commercial Division, which communicates information about drugs; the Integrated Disease Care Division, which collects and analyzes healthcare information to maximize the value of the Company; the Global Business Division, which strategically promotes overseas business development; the Corporate Strategy Division, which manages the Management & Product Strategy Meeting where decisions about business execution are made; the Administration Division, which supports corporate activities in terms of personnel, organization, and laws and regulations; and the DX Promotion Division, which will be newly established in FY2021 as a division responsible for building infrastructure for data utilization and IT/security to support the creation and realization of healthcare solutions using digital technology. Business execution also involves the Corporate Quality Assurance Supervisor, who is responsible for assuring the quality of marketed products. The Corporate Executive Meeting thoroughly

deliberates on the execution of business, and the Board of Directors makes decisions on matters that affect management.

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. The *Kansayaku* Board consists of two full-time *Kansayaku* and three Outside *Kansayaku*. *Kansayaku* attends important meetings such as the Board of Directors and Corporate Executive Meeting, express necessary opinions, and conduct business audits and accounting audits in accordance with the “Code of Audit and Supervisory Board Member Auditing Standards” by directors and each person in charge of business execution regarding to verifying the legality and validity of our business. *Kansayaku* receives reports from the Accounting Auditor on the details of the accounting audit and take measures such as exchanging opinions. In addition, *Kansayaku* also regularly receives reports from the Internal Control Department on the content of internal audits and take measures such as exchanging opinions. 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.

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: May 31, 2021; disclosure on website: May 25, 2021
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. For shareholders who are unable to attend the meeting in person, a video and narration of the business report have been disclosed on the website since the 155th General Meeting of Shareholders held in June 2020 to revitalize the meeting and ensure access to information, and at the 156th General Meeting of Shareholders, the Company is working to revitalize the General Meeting of Shareholders and introduce information accessibility by incorporating live streaming.

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 immediately after announcing year-end and first-half results, and gives an R&D presentation once a year. About 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 Executive Vice President, senior executive officers and the Vice President of the Finance & Accounting Department. The Director and Executive Vice President, senior executive officers, the Vice President of the Finance & Accounting Department and the Vice President of the Corporate Communications Department hold teleconferences with analysts and institutional investors to present first and third quarter financial results. In FY2020, the Company held a briefing on the Medium-Term Business Plan and a

	<p>briefing on the establishment of a joint venture with Ping An Insurance Group of China.</p> <p>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.</p>
Regular Investor Briefings for Overseas Investors	<p>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. In FY2020, affected by the spread of COVID-19, the Company made efforts to secure opportunities for dialogue by actively participating in virtual conferences hosted by securities companies and holding individual meetings with analysts and institutional investors remotely.</p>
Posting of IR Materials on Website	<p>The Company provides information for investors that include information about financial results, press releases, annual and quarterly securities reports, the Shionogi Business Report, presentation materials and presentation recordings, the Integrated Report, the status of the development pipeline, the Corporate Governance Report, 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	<p>Corporate Communications Department</p>

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, manufacture, 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/investors, customers, society and employees – with optimal balance. Based on this belief, we have formulated the Code of Conduct to realize the Company Policy, as well as the Shionogi Group Compliance Policy as a standard for compliance. All officers and employees are committed to putting them</p>

<p>Implementation of Environmental Activities, CSR Activities etc.</p>	<p>into practice.</p> <p>Under the Company Policy, the Group's management philosophy, we aim to solve social issues and meet medical needs through our business activities to grow into a company that is needed by society and share the results of our efforts with our stakeholders. To achieve this goal, we identify materiality (material issues) that the Group will work on as a priority, based on its importance to society and relevance to our business, and conduct activities for fulfilling our corporate responsibilities with respect to economic, social and environmental 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 people through our various business activities. Therefore, we established the Shionogi Group EHS Policy. We also formulated the Shionogi Group EHS Action Targets based on the identified material issues, 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>With the establishment of the Integrated Disease Care Division in April 2020, we conduct the following CSR activities, thereby providing solutions to problems for patients and their families and offering care for the entire range of diseases through various approaches, mainly by taking advantage of our strengths in drugs, with the aim of achieving the vision outlined in the new Medium-Term Business Plan STS2020 announced in June 2020:</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 training and awareness-raising activities to improve the skills of supporters, so as to promote greater understanding of developmental disabilities, achieve earlier detection and intervention, and realize consistent support according to life stages.
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	<p>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 antimicrobial resistance (AMR).</p> <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> <p>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.</p> <p>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.</p> <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>In FY2020, we established the Sustainability Management Office to promote the penetration of our initiatives on the identified material issues within the Group and to provide information to our stakeholders.</p> <p>For more details, please see the FY2020 Integrated Report and Environment Report: https://www.shionogi.com/jp/ja/investors/ir-library/annual-report-integrated-report.html</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	Based on one of the Values in our management philosophy, "Build greatness out of diversity," the Group aims to continue to create innovations that society needs by integrating diverse human resources with various characteristics and values toward a common goal. To promote diversity in corporate governance, 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) A system to assure appropriate execution of the Directors' duties in accordance with the related regulations and the Articles of Incorporation:

The Group constantly implements transparent and proper management, taking into account the stance of our four stakeholders, shareholders/investors, customers, society and employees, to meet the expectations of society.

Shionogi implements the Basic Views on Corporate Governance, which was enacted to realize optimal corporate governance. By doing so, Shionogi aims to secure the transparency and traceability of and fairly, speedily and decisively conduct decision-making and the execution of duties, from organizational approvals to Board of Directors' resolutions, keeping in mind its aim to achieve the sustainable growth of the Shionogi Group and improve its corporate value in the medium and long term.

To establish a proper corporate governance system, Shionogi introduced outside directors based on the institutional design for a company with a *Kansayaku* Board. This will facilitate the implementation of global decisions that factor in an objective viewpoint from outside the Company, including its shareholders. Note that as advisory bodies, the Company established a Nominating Advisory Committee and a Compensation Advisory Committee.

The Board of Directors, in accordance with the Board of Director Regulations, will made decisions based on appropriate business judgments and will also grasp and supervise the execution of duties in a timely manner, and prevent the violation of laws and regulations, and the Articles of Incorporation. In the event a director discovers that another director has violated laws and regulations, and/or the Articles of Incorporation, the director shall immediately report to the *Kansayaku* Board and the Board of Directors and make corrections.

Outside directors, as an independent director, shall recognize the corporate responsibility the Company should fulfill, and contribute to the achievement of highly transparent management based on their expert knowledge. Directors shall maintain and implement an internal control system to secure the reliability of financial reporting, and adequately evaluate and report on internal control reports and their effectiveness.

The *Kansayaku* will audit the execution of duties by the directors, and the directors will co-operate in such audit.

The Company will constantly keep the officers and employees informed about "The Company Policy of Shionogi" set forth as the Company's philosophy and "Shionogi Group Code of Conduct" providing how the officers and employees should act, and the compliance committee presided by a representative director will establish and promote the measure for the compliance with related laws, regulations and ethical behavior in its business operations.

Based on the Shionogi Group Code of Conduct, the Company consistently and resolutely resists the influence of antisocial forecast and precludes any connection with them.

(2) A system for storage and management of information related to execution of the directors' duties:

The minutes of the Board of Directors' meetings, the corporate executive meetings and the compliance committee meetings, and approval information and other matters approved by the representative director, etc., will be properly and strictly stored in the manner appropriate to the form they have been recorded in and will be accessible for the appropriate period in accordance with the related laws and regulations.

(3) A system and other rules for management of risk of loss:

The Group recognizes the business risks related to the decision-making and execution of duties by each organization, and shall basically independently carry out risk management and solutions.

In addition to providing an adequate response, including creating opportunities and avoiding and/or reducing risk, the Company also aims to build and operate a Enterprise Risk Management, that is part of its management strategy, to control business risk in the group overall, which includes risks such as pandemics, natural disasters, terrorism and cyber terrorism (crisis). In particular, material risks that could impact management and solutions to these risks shall be discussed and decided at corporate executive meetings and Board of Directors' meetings. In accordance with these solutions, the organization in charge collaborates with related organizations to implement measures.

Crisis risk management, in accordance with regulations, aims to establish and carry out a comprehensive management system, including business continuity plans. The main purpose for implementing this management is to ensure respect for human life, give consideration to the local community, contribute to and prevent the erosion of corporate value. In the event a crisis occurs, the Company exerts efforts to overcome the said crisis through quick response.

Furthermore, the Shionogi Group shall implement sustainability activities aimed to contribute to the sustainability of society and at the group's continuous growth by utilizing its business activities to solve various social needs, including economic, social and environmental needs, and to address medical needs.

The Internal Control Department (section for internal control) will verify the management system for various risks independently from the Company's other divisions.

(4) A system to assure efficient execution of the directors' duties:

The Company aims to clarify its role of executing and supervising operations and also is introducing a corporate executive officer system to implement agile and flexible management. The regularly (weekly)-held corporate executive meeting will fully discuss the material matters regarding the business operation, and the Board of Directors will make a decision based on the result of such deliberation. The decision at the Board of Directors meeting and the results of deliberation at the corporate executive meeting will be communicated to the general manager of the related department allocated the role of execution of business operations. A suitable individual, within the scope of their authority and responsibilities, shall perform procedures to implement the smooth execution of operations in accordance with rules for administrative duties and the division of duties. In the execution of operations, Shionogi shall constantly anticipate business risks, interpreting positive risks (offensive risks, business opportunities) and negative risks (defensive risks) as being one in the same, setting criteria for decision-making based on the level of business risk, and making sure not to miss any opportunities.

- (5) A system to assure appropriate execution of the employees' duties in accordance with the related laws, regulations and the Articles of Incorporation:

The Company will further promote the measures for the compliance with the related laws and regulations and ethical behavior in its business operations mainly through the compliance committee in accordance with "Shionogi Group Compliance Policy".

A secretariat of the Compliance Committee has been established in the General Administration Department. It will implement compliance training and harassment training, as well as assist each department in managing compliance and harassment risk.

In addition, to verify the effectiveness of its internal control system, the Company will enhance internal audits by the Internal Control Department to strengthen its monitoring capabilities, and will make full use of its internal reporting system and consultation hotlines to work for the prevention and early detection of misconduct and prevention of its recurrence.

- (6) A system to assure appropriate operation of business by the corporate group comprised of the company and subsidiaries:

The Company and the group companies will improve the value of the corporate group, and keep the Group companies informed about The Company Policy of Shionogi and Shionogi Group Code of Conduct in order to fulfill the corporate group's social responsibility.

Directors will receive reports on business operations from group companies, and will properly manage and guide group companies based on the "Rules for Management of Shionogi Group Companies" in order to realize The Company Policy of Shionogi, Shionogi Group Code of Conduct, and Business Plan.

Group companies will promote appropriate and efficient business operations by conducting business management in accordance with the policies and guidelines mentioned above.

Operating divisions, including the Pharmaceutical Research Division and Human Healthcare Division, and administrative divisions, including the General Administration Department and the Finance & Accounting Department, will manage and provide support for appropriate business operations of group companies, with the Human Resources & Administration Department in charge of overall administration.

The Internal Control Department will conduct surveys as required to ensure the appropriateness and effectiveness of the business operations of group companies. In addition, the Finance & Accounting Department and the Internal Control Department conduct audits of group companies.

- (7) Matters regarding employees assigned to assist the *Kansayaku*'s duties by the request from the *Kansayaku*, and matters regarding independence of such employees from the directors:

The Company will assign employees to assist the *Kansayaku*'s duties according to the request from the *Kansayaku* based upon their needs. The Company will ensure the system that the employees assigned will be independent from the directors. The Company will make it generally known among the directors and employees that employees assigned to assist the *Kansayaku*'s duties follow the instructions of *Kansayaku*.

- (8) A system for reporting to the *Kansayaku* by directors and employees, and other systems regarding the reporting to the corporate auditors:

The *Kansayaku* will attend the material meeting such as the Board of Directors and the corporate executive meeting, etc. and establish the system to obtain the information relating to the business operation and management, and efficacy of the internal control in a timely manner. The *Kansayaku* may directly instruct directors and corporate officers etc. to report on the business operations. The

directors or responsible employees for execution will inform the *Kansayaku*, either in writing or orally, of a fact that could cause substantial damage to the Company or group companies, a potential and actual situation that markedly impairs the Company's reputation, and illicit or wrongful acts by the officers or employees such as breaches of the law. The Company will guarantee that officers or employees of the Company or group companies who make reports to the *Kansayaku* do not receive unfavorable treatment as a result of making such reports. When a *Kansayaku* makes a claim to the Company for prepayment of expenses or other reason related to the execution of these duties, the Company will promptly process such expenses or debt, except where it is considered necessary.

(9) Other systems to assure effective audits by *Kansayaku* :

The *Kansayaku* will improve upon the audit to make it more effective by cooperating with the accounting auditors and the Internal Control Department in conducting the audit as well as in advising and recommending, and by regularly holding opinion exchange meetings with the representative directors. In addition, to ensure the effectiveness of audits throughout the group, the *Kansayaku* have established the "Group Company Audit Liaison Committee" and hold meetings regularly to exchange opinions on the status of management at 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.