

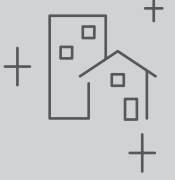













Material Issues to Realize a Sustainable Society and Support Shionogi's Growth

Shionogi aims to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare.” To do this, we need to devote energy to achieving constant innovation and at the same time fulfill its duty as a public entity by taking account of social needs. By building a solid business foundation able to respond flexibly to changes in the environment, we are taking action to position Shionogi as a company whose future continuation is important to all stakeholders. In this section, we present the Group's specific initiatives and results in the area of material issues to realize a sustainable society and support Shionogi's growth.



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Improve access to healthcare


Shionogi believes that its basic stance should be as stated in the Company Policy: "to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." With this stance established as the basis of our value to society, we have progressed to our present position with our sights firmly set on the basic mission of a pharmaceutical company: to protect the health and wellbeing of the people we serve. Access to healthcare is a serious issue for many people around the world, and Shionogi is committed as part of its social responsibility as a pharmaceutical company to continuing the pursuit of this Company Policy through earnest initiatives to improve healthcare access.


Initiatives to improve access to healthcare

With a view to improving access to healthcare, we issued the Shionogi Global Health Access Policy Statement, which sets out our commitment to fulfilling our corporate mission by working, not only through our own efforts but also with a wide range of partners, to contribute to better health for people around the world, especially in developing countries. Specifically, we are progressing with the initiatives outlined below.

- 1) Since its foundation in 2013, we have been a continuous participant in the GHIT Fund, Japan's first private-public partnership of its kind, through which we are working proactively to overcome infectious diseases.
- 2) To improve access to healthcare, it is important to communicate medical knowledge accurately, improve disease awareness and rates of diagnosis among patients, and promote the proper use of medicines. To support the proper use of anti-infectives, we participated in the Industry Roadmap for Progress on Combating Antimicrobial Resistance, which aims to fight antimicrobial resistance by implementing the Davos Declaration of January 2016.
- 3) Since the patent for the anti-HIV agent dolutegravir, which is licensed to ViiV Healthcare, is available free of charge, generic manufacturers can manufacture low-priced generic versions and distribute them to more than 130 low-income and lower middle-income countries.
- 4) To reduce infant, child, and maternal mortality rates in Narok County, Kenya, we are collaborating with the international NGO World Vision to support improved access to healthcare services and improved nutrition through the Mother to Mother SHIONOGI Project.

Shionogi's initiatives for access to healthcare have received external recognition. With specific reference to its AMR initiatives, Shionogi was the only Japanese pharmaceutical company to qualify for inclusion in the Antimicrobial Resistance Benchmark 2018 survey, and was also recognized in the survey as having the highest annual ratio of R&D investment for anti-infectives of any of the companies surveyed (based on investment as a proportion of net sales).

 Please refer to page 35 for details of the GHIT Fund and proper use of anti-infectives; pages 30–33 for details of AMR initiatives.

 Detailed information on the Shionogi Global Health Access Policy Statement
<http://www.shionogi.co.jp/en/company/policy/access.html>

Intellectual Property and Access to Healthcare

Intellectual property is an extremely important business asset for pharmaceutical companies. Under Shionogi's intellectual property strategy, we protect various innovations, such as drug compounds, applications, crystalline forms, manufacturing methods, formulations, drug discovery targets and basic research technologies. As part of drug in-licensing and out-licensing activities, we conduct due diligence with respect to intellectual property and take every possible step to prevent Shionogi's business activities from infringing a third party's intellectual property. We also carry out brand design activities aimed at building trust in the Shionogi brand and preventing counterfeiting. Shionogi works to protect its intellectual property, employing all legal means necessary if Shionogi's intellectual property appears to have been infringed.

Shionogi does not consider that the system of intellectual property rights is in itself a barrier to drug access, but we are aware that in certain situations a degree of flexibility is required.

In view of this, until the issue of drug access is resolved, we will refrain from applying for and enforcing patents in developing countries facing economic challenges that are classified as LDCs*1 or LICs*2.

Meanwhile, developing countries account for more than 40% of the total global supply volume of the anti-HIV agent *Tivicay* (dolutegravir), which is licensed to ViiV Healthcare, and its combination drugs *Triumeq* and *Juluca*. Registering dolutegravir in the Medicines Patent Pool has allowed generic manufacturers to manufacture dolutegravir, either as a single-ingredient formulation or combined with other anti-HIV agents, and distribute it to more than 130 low-income and lower middle-income countries. As one of the patent holders of dolutegravir, Shionogi contributes to this initiative.

*1 LDCs: Least Developed Countries

*2 LICs: Low Income Countries

Improving access to healthcare in Africa: Mother to Mother SHIONOGI Project



One project through which Shionogi seeks to serve the health of people worldwide is an initiative operated since 2015 in partnership with the international NGO World Vision. The aim is to reduce mortality among pregnant women and new mothers and babies in the Osupuko district of Narok County, Kenya.

Kenya has very few clinics for its large land area, which means that it is very difficult to arrange for pregnant women to receive the antenatal care that would ensure mother and child can return home in good health after the birth — a perfectly normal expectation in Japan. To tackle the high mortality rate for pregnant women and children up to 5 years of age along with other issues affecting mothers and their young children, we are engaged in building clinics and providing healthcare services to remote regions through traveling clinics and other projects. We are also working to improve access to healthcare by providing education on healthy living, nutrition, hygiene and related matters to healthcare professionals, local health workers, and community members.

The expansion of facilities through building of clinics, obstetrics wards, and other facilities has meant that, compared to before the start of the project, the number of pregnant women receiving antenatal examinations (4 times or more) has increased by 40-fold (from 5 before the project to 198 in its third year), the number of births at related clinics by 3.5-fold (from 6 before the project to 21 in its third year), and the number of children under five years receiving preventive vaccination by

23-fold (from 13 before the project to 305 in its third year). These figures reflect a progressive improvement in local health conditions.

With the project now in its fourth year, local awareness and behavior has begun to change as people appreciate the importance of giving birth at a medical facility and of receiving healthcare services at a clinic. Toward achieving Universal Health Coverage (UHC), we will continue supporting good health practice for mothers and babies worldwide to contribute to the health of people around the world.



A baby born at a health center with its mother



Hygiene education in action: mothers learn how to purify water

Participation in Access Accelerated*¹

Shionogi has participated in Access Accelerated since 2017.

The Mother to Mother SHIONOGI Project is an initiative to improve access to healthcare for mothers and babies by enhancing local health services. As an Access Accelerated program, it was featured in the Access Accelerated Year Two Report. We will continue to promote initiatives through Access Accelerated to contribute to reaching one of the health targets of SDG 3: to reduce premature deaths from non-communicable diseases by one-third by the year 2030 through prevention and treatment and to promote mental health and well-being.

*¹ Access Accelerated: an initiative that brings together more than 20 pharmaceutical companies from Japan, the US, and Europe to work with the World Bank, the Union for International Cancer Control (UICC), governments and other bodies to improve access to non-communicable disease (NCD) prevention, treatment and care in low- and lower middle-income countries.





Supply socially responsible products and services

In the more than 140 years since its foundation, Shionogi has never been responsible for a case of pharmaceutical damage to health. In keeping with the Company Policy of "striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve," our commitment to never allowing errors to occur has been passed down undiluted throughout our history. Accordingly, we strive to ensure quality and safety so that customers know they can rely on Shionogi medicines.

Ensuring quality and safety in products and services

Our approach to manufacturing: high-quality drugs in stable supply at competitive cost

To put into practice the Company Policy, we take Safety, Quality, Delivery, Low Cost, and Environmental Consciousness as the basis of our manufacturing activities. Going forward, we will

continue to maintain an awareness of these five principles as we pursue earnest initiatives to realize a stable supply of high-quality drugs at reduced cost.

Initiatives to improve manufacturing quality

To consistently deliver a stable supply of high-quality drugs, Shionogi has put in place a quality assurance system based on Japanese and overseas GMP*¹, allowing us to pass the inspections of regulatory authorities in the US and Europe. Each drug product must undergo an individual inspection for compliance with GMP. Shionogi obtains a GMP compliance certificate for all products before initiating drug manufacturing at our facilities.

At our manufacturing facilities, each lot is subject to tests and inspections to monitor product quality at every stage from

receipt of raw materials through to the finished product. We also perform quality trend assessment and stability monitoring in an effort to realize continuous quality improvement. All data relating to drug manufacturing and quality are subject to appropriate document management to ensure the completeness of data as part of a system to consistently deliver the best possible medicines.

*1 GMP: Good Manufacturing Practice (regulations for pharmaceutical manufacturing control and quality control)


Initiatives for stable supply


Shionogi undertakes analysis of procurement risk for each product and responds through multisourcing and designation of safe inventory levels. By implementing this management cycle, we work to strengthen our system of stable supply. At the three Shionogi plants, we have put in place risk management and business continuity management systems to prepare for the event of suspension of operations through earthquake, fire, explosion, new strains of influenza, terrorist attacks or other major disasters and to facilitate rapid recovery and continuity. In this way, we work to ensure a system that will allow us to fulfill our responsibility to provide a stable market supply in all eventualities.

We maintain regular communication with significant contract manufacturers and suppliers in Japan and overseas to ensure that they share the Shionogi approach to stable supply and to set key performance indicators as common reference points to promote mutual understanding and strengthen coordination.

We support the Principles set out in PSCI*² (whose code of conduct we require business partners to comply with) and, by complying with Japanese subcontracting law and other relevant regulations, we ensure that procurement activity is founded on honesty, fairness, equity, and transparency. At the same time, we work for sustained increase in corporate value so as to win still greater trust from our stakeholders.

*2 PSCI: Pharmaceutical Supply Chain Initiative (a non-profit body formed by more than 40 pharmaceutical companies worldwide to promote CSR-based procurement in the pharmaceutical industry)

 Please refer to page 72 for details of our risk management and business continuity management systems; page 56 for details of PSCI.

 Detailed information on the PSCI Principles (a code of conduct we require our business partners to comply with) <https://pscinitiative.org/resource?resource=1>

Establishment of Shionogi Pharma

The new company Shionogi Pharma Co., Ltd., was established on October 1, 2018, to integrate the manufacturing-related functions of the Shionogi Group and began operations on April 1, 2019. In addition to pharmaceutical manufacturing functions, Shionogi Pharma is equipped with manufacturing and sales capabilities with functions in quality assurance and in supply chain, sales, and operations management. It thus has potential to develop a contracting business not only in drug manufacturing but also in investigational drug studies, analytical testing, pharmaceutical engineering, and other areas.

Through strengthening of manufacturing-related functions, we aim to move swiftly ahead with measures to ensure stable supply at reduced cost, maximize the value of long-listed drugs, and expand our contracting business. In this way we will not only advance Shionogi's business strategy, but also contribute to maintaining and improving the health of people around the world.



Technology development and manufacturing bases

- **Settsu Plant (Head Office):** main plant handling formulation and packaging for global distribution
- **Kanegasaki Plant:** integrated manufacturing base specializing in antibiotics
- **Tokushima Plant:** manufacturing plant for general APIs, intermediates, and highly potent APIs
- **Amagasaki Office:** R&D (manufacturing technology development), manufacturing base for investigational drugs

One-stop contract manufacturing system — offering solutions to customer issues

Shionogi Pharma's strengths lie in the following three points:

1. As a CDMO*¹, Shionogi Pharma is equipped with all relevant functions from preparation of, formulation, and packaging to analysis and pharmaceutical engineering. It is thus able to provide a one-stop contract manufacturing system covering all stages from drug development to commercial manufacturing.
2. Technological prowess built up over a long history
3. Experience and trust based on a record of stable supply of high-quality drugs

*1 CDMO: Contract Development and Manufacturing Organization

On the basis of these strengths, Shionogi Pharma aims to provide services that meet customer needs and to contribute to the further development of the pharmaceutical industry. Shionogi aspires further to become a technology development-focused manufacturing company with emphasis on manufacturing technology, developing new manufacturing methods and products for global application. Shionogi Pharma operated booths at the CPhI Japan exhibition in March 2019 and at Interphex Japan in February and July 2019. There, we engaged in dialog with customers from Japan and overseas to analyze what issues customers face as a first step toward building a contract operations business.

A socially responsible system of quality management

The mission of the Corporate Quality Management Division is to ensure compliance with all regulations in operations relating to quality, safety, and pharmaceutical regulatory affairs, and to thereby ensure the reliability of these activities across the whole Group. This means that it coordinates closely with Group companies worldwide in the US, Europe, Asia, and other regions, working to improve the quality of Shionogi products and information, ensure safety through a robust pharmacovigilance

system, and implement pharmaceutical compliance in the rapidly changing regulatory environment. In this way, it helps to fulfill Shionogi's responsibilities as a corporate citizen.

Going forward, we will continue to comply with regulations and take advance measures to avoid risk so as to make Shionogi a company that patients can have confidence in and all stakeholders can trust.

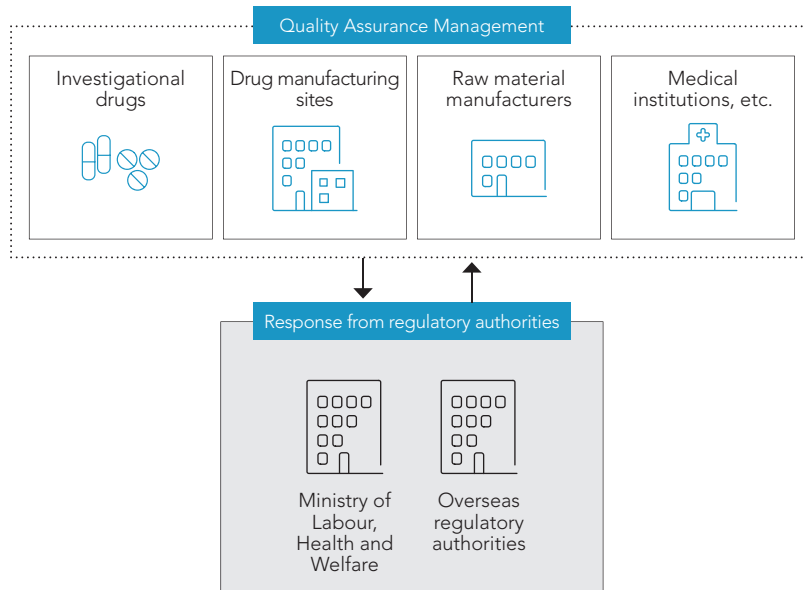
Action on quality assurance

To strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve, businesses must act efficiently with an approach to risk that takes preventive measures in advance rather than reacting after an issue has emerged. Among the quality risk scenarios envisaged, some are associated with the launch of new businesses and the establishment of new Group companies. Anticipating potential risk and devising mitigating measures makes it possible to respond appropriately and minimize the impact if and when the risk materializes. Through the Shionogi Group Quality Policy, which is subject to continuous improvement, Shionogi confirms that all products and data in Japan and overseas, from the development to the

post-marketing stage, are covered by appropriate risk-preventive action of this kind.

Additionally, to implement these activities Group-wide, including in overseas operations, we put in place a quality assurance system compliant with the regulation of the relevant country. In addition to presenting a unitary policy, we also operate integrated information management, thus realizing a global quality assurance system for Shionogi products.

 Detailed information on Shionogi Group Quality Policy <http://www.shionogi.co.jp/en/company/policy/quality.html>



Building a pharmacovigilance system

Pharmacovigilance system

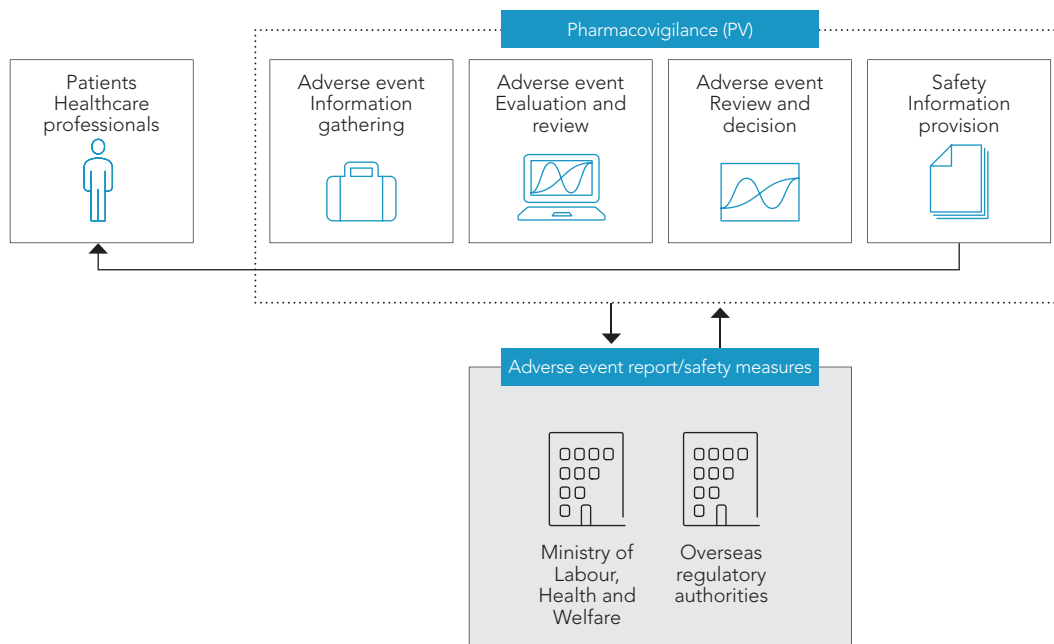
As set out in the Shionogi Group Drug Safety Policy, Shionogi gives utmost priority to the safety of patients and participants in clinical trials. Accordingly, we operate procedures for reliably gathering and evaluating safety information at all stages from development to post-marketing and have put in place a system which allows necessary safety measures to be rolled out rapidly through close coordination between safety management divisions in all Group regions, including overseas. Additionally, for drugs where it is considered necessary, a special pharmacovigilance system is put in place with specific procedures stipulated for the individual product. Through measures of this kind, we promote proper use tailored to the specific characteristics of the product.

 Detailed information on the Shionogi Group Drug Safety Policy <http://www.shionogi.co.jp/en/company/policy/safety.html>

Education for improved safety awareness

In order to ensure that safety measures are correctly implemented, it is vital that management and employees understand the importance of gathering and evaluating safety information. At Shionogi, in order to handle safety information appropriately, we formulate procedural manuals and provide in-house education. Within Japan, as well as regular training on gathering of safety information designed mainly for medical representatives (MR), we also provide safety education for general employees. In this way we work to improve awareness of safety in our business management.

Safety education: fiscal 2018 achievement record:
Safety control divisions 5 courses; Medical representatives 6 courses; Management 1 course; Company-wide education 1 course



Measures to stop counterfeit medicines

There is an increasing risk worldwide from counterfeit medicines, which not only represent a missed opportunity for patient treatment but may also result in health damage. Shionogi believes that, in addition to reliably delivering products to patients around the world living with disease, we also need to protect patients through initiatives to prevent the counterfeiting of medicines. To do this, Shionogi not only participates in industry activities to prevent the circulation of counterfeit medicines, but is also working under the lead of the Quality Assurance Department on a product security strategy through the Global Anti-Counterfeit Committee, whose members are drawn from various functions in Japan, the US,

and Europe. Within Japan, in response to the case of a counterfeit version of a hepatitis C therapeutic drug that emerged in January 2017, a range of ministerial ordinances have been revised, resulting in a major review of in-house distribution management procedures and a comprehensive inspection of drug package seals and other areas. Going forward, we will carry on with continuous improvement of sealing, packaging and other areas, staying abreast of technological advances and of practice across the rest of the industry.



Secure human resources to support growth

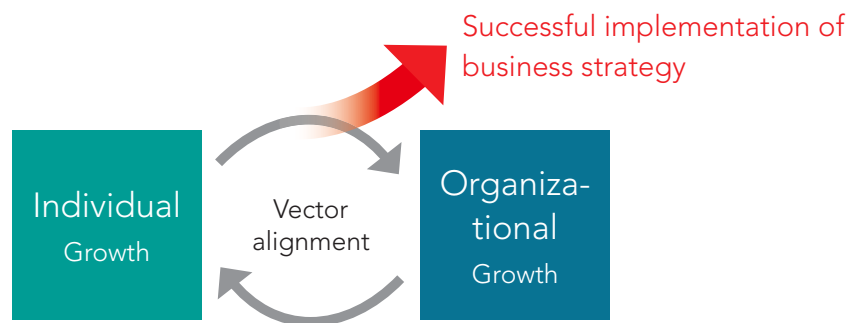
For Shionogi, creation of value depends wholly on its human resources. A diverse environment where people learn to respect and integrate different values and perspectives in a mutually motivating atmosphere can stimulate wide-ranging innovation. Leveraging this rich individuality as an energizing force, we provide our employees with opportunities to grow towards a future career path and provide them with a supportive work environment. This enables us to secure human resources who can drive sustained growth, leading both to personal growth and to growth of Shionogi as a company.

Cultivating human resources to underpin competitiveness

Career development at Shionogi

Approach

To put the Company Policy into practice globally, our aim is to succeed against global competition by cultivating strong individuals to build our organization based on the policy that people are the source of competitiveness for human resources development.



People experience motivation and work satisfaction when they have achieved growth in their career and been able to contribute to the wider organization. We focus on individual strengths and value the ability for self-realization in the workplace.

Within the context of everyday discussion and dialog, we encourage individuals to proactively seize opportunities by communicating their wishes to senior staff based on future career projections. In response, senior staff create an environment that supports growth by assigning projects to optimally match team members' strengths. In this way, we promote self-motivated human resources development oriented toward career growth.

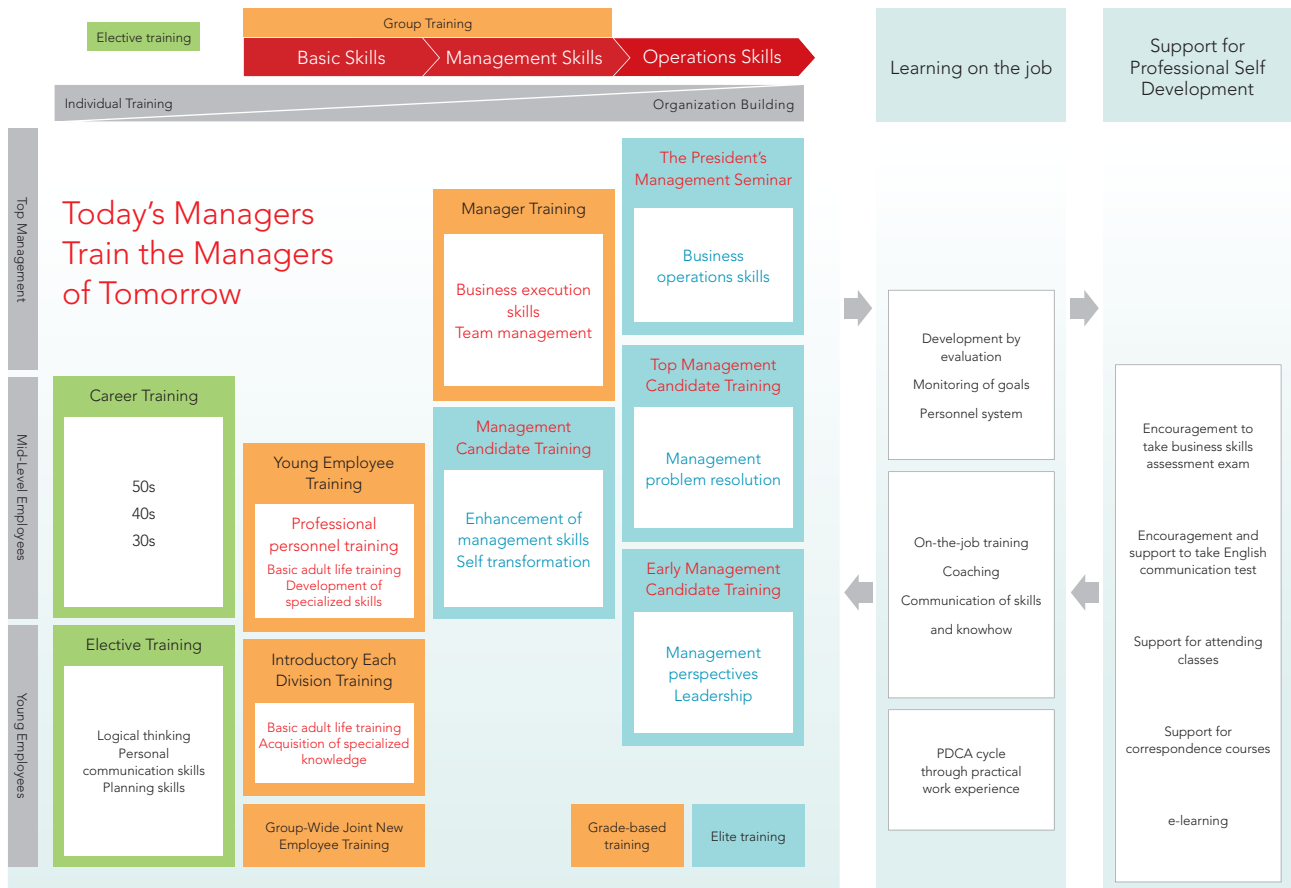


Cultivating next-generation leaders

Employee growth is the essential driver of Shionogi's growth. To deliver new value to society, we establish an outline of the human resources profile and the managerial profile that the company requires, and managerial staff take corresponding

responsibility for employee development. So that each individual employee can evolve toward continuous development in their thinking and their actions, we support all employees to take control of their own future growth.

Outline of Human Resources Development



The President's Management Seminar

The President's Management Seminar, which is led by the President in person, is a forum set up in 2012 to cultivate senior management candidates. Each year around ten candidates are selected to participate in a total of seven to nine seminars held roughly every month over the course of the year. In the seven years since its inception, the program has turned out over 50 graduates in all, including half of our current corporate officers and around 40% of heads of organization. Through this program, Shionogi cultivates its next generation of leaders by developing diverse human resources with a tenacious approach who can consider issues from a company-wide perspective.

Shionogi Group himself confirms the content of discussions at Group companies. At the twice yearly general meeting of shareholders and at business briefing events, the president of the Shionogi Group and officers of Group companies are engaged in comprehensive discussion, providing them with a forum to deepen their understanding of the stakeholder perspective and hone their business instincts.

Senior management development through management experience at Group companies

Senior management candidates take on roles as presidents, non-executive directors, and auditors of Group companies, where they gain management experience. The president of the

Divisional rotation of corporate officers

Shionogi carries out a system of corporate officer rotation across divisions. This rotation allows corporate officers to experience management of a number of divisions so that they can practice management not as the representative of one division but from a company-wide perspective.

Promoting diversity and inclusion

Continuous innovation is vital to ensure that companies remain viable and continue fulfilling their responsibility to society. Shionogi emphasizes diversity and inclusion as a driving force of innovation. Learning to respect and integrate diverse values and perspectives within a mutually motivating atmosphere can stimulate wide-ranging innovation, which increases our ability to benefit patients and society and in turn strengthens Shionogi's business viability.

Guided by this approach, in 2018 we established a system to promote diversity and inclusion on a Group-wide basis by creating the Diversity Council, which coordinates the separate efforts of individual organizations to facilitate diversity and inclusion. A Diversity Vision was also created so that all employees can engage in promoting diversity and inclusion on the same level as each other.

Diversity Vision (Establishment in December 2018)

Understand yourself and others,
and celebrate individual diversity.

Allow the wide variety of unique qualities to
inspire creativity and innovation.

We will

have an unbiased understanding of others, knowing that everyone has a different perspective;
connect and resonate with diverse personalities to foster an inclusive spirit and generate abundant ideas;
and, driven by such spirit and ideas, create new value and grow with society for our collective future.

Creating a supportive workplace for people with disabilities

Shionogi is actively engaged in employing people with disabilities from the following perspective: progressing with the adaptation of workplaces so that people with and without disabilities can work vigorously.

Since 2014, we have been working to create supportive work environments in which people with disabilities can develop their abilities. To create further employment opportunities, in April 2018 we established Shionogi Smile Heart Co., Ltd., which was certified as a special subsidiary company in July 2018.

Aspiring to be an organization where barriers to communication are removed and all people can fully tap their innate potential and thrive irrespective of their disability status, we are rolling out an initiative known as the Project for Barrier-Free Communication. As the project applies equally to our own organization, we are working on ways of guaranteeing appropriate access to information so that anyone can participate in meetings independently. Using

voice recognition apps to convert speech to text and inserting subtitles into video presentations are among the specific measures for employees with hearing impairment whose introduction is making it the norm for all employees to have guaranteed access to information. Meanwhile, as part of in-house training activities, we use simulations and other methods to give employees an understanding of the unique experience of hearing impairment.

Going forward, we will continue working to create an environment where people with disabilities who wish to work can join the Shionogi family, where they can pursue their career vigorously, their individual abilities are respected and their work duties and working environment are adapted to their particular disability.



Please refer to page 39 for details of external initiatives as part of the Project for Barrier-Free Communication.

Supporting work-life balance

To help our employees achieve an appropriate work-life balance, we have taken steps to offer more convenient work solutions by actively introducing a discretionary work system and a flextime system. Close to 100% of eligible female employees take childcare leave and return to work afterwards, while more than 20% of eligible male employees currently take childcare leave. We have also introduced a variety of options to support diverse employee lifestyles. These include a system that lets sales staff choose their work location to adjust to major life changes, such as getting married or taking on childcare responsibilities, a leave system for volunteering, a leave system for bone marrow donors, and a leave system to support learning.

Since 2005, we have been working to comply with Japanese legislation designed to create more supportive environments for child-rearing. This requires us to draft a series of employer action plans, whose content has included efforts to increase the uptake rate of annual paid leave, introduction of partial pay for childcare leave, and support for employee personal development during leave periods. We have also held relevant training seminars for managerial staff and have introduced a system of interviews to give guidance to employees about to start or complete a leave period. In recognition, we have three times received the Kurumin Mark, which is awarded by the Japanese Ministry of Labour, Health and Welfare to companies that support child-rearing.

Promoting the empowerment of women

At Shionogi, we are committed to providing employees with a work environment in which they can develop their strengths, express themselves as individuals, and develop professionally regardless of gender.

As a result of our initiatives to date, the ratio of female managers has been rising steadily and now stands at 10% in our domestic Group companies. With the male-female gap in average years of service also now closed (males 17.1 years, females 17.8 years), Shionogi is evolving into a company where it is considered only natural that women are active in the workplace.

In response to Japanese legislation for female empowerment, employers are required to publish relevant action plans.

In fiscal 2019, as part of our plan for the period April 1, 2019 to March 31, 2021, we set the goal of having at least 10% of managerial positions occupied by women by the end of fiscal 2020. Among other initiatives in our continuing support for women's professional advancement, we plan to (1) conduct seminars and other educational activities on the subject of diversity company-wide (2) hold seminars on female career development for managerial staff (3) introduce a discretionary work system, a flextime system, and a homeworking system (4) look at measures to support employees returning to work from child-rearing leave, for instance provision of useful information during leave on a voluntary basis.

Awards for Diversity

New Diversity Management Selection 100

Shionogi has rolled out initiatives to support employee career development and to promote female advancement in the Human Health Care Division. The thinking behind these and other initiatives is that supporting diverse human resources to develop their strengths will not only lead to personal growth but will also contribute to the growth of the organization. These efforts were recognized when Shionogi was selected for inclusion in the fiscal 2015 New Diversity Management Selection 100 project.



Leading Company for Women's Advancement in Osaka City

As a company that takes active measures to create a supportive work environment for women, Shionogi was certified in fiscal 2015 as a leading company for women's advancement in Osaka City.



Kurumin Mark

Shionogi has three times been awarded the Japanese Minister of Labour, Health and Welfare's Kurumin Mark, which recognizes it as a company that supports child-rearing.



'Eruboshi' Grade 3 award and certification as an outstanding equal opportunities employer

Shionogi Techno Advance Research, a Shionogi domestic Group company where around half of employees are women, aims to realize a work environment where women can continue energetically pursuing their career while coping with life's milestones such as pregnancy, childbirth, child-rearing, and taking on career responsibilities. As part of these efforts — partly in response to a survey of workplace morale in fiscal 2016 — the company was inspired to set up a Women's Advancement Promotion WT, whose activities are led by employees. In December 2017, the company received Grade 3, the highest rating, in the 'Eruboshi' awards, which were set up under Japanese legislation for female empowerment. In May 2018, it was designated by Osaka Prefecture as an outstanding equal opportunities employer.



Protecting the health and safety of employees

Health management


Shionogi takes focused measures to provide an environment in which employees can approach their work vigorously and thereby maintain health. We believe that this not only increases employee productivity but also helps to secure

high-quality human resources. Our basic approach to activities to maintain and improve health is set out in the Shionogi Health Declaration 2018, which guides our efforts to adapt and improve the work environment.

Selected as Health and Productivity Stock for Four Consecutive Years

In February 2019, Shionogi was selected as a Health and Productivity Stock and as one of the 'White 500' group of organizations certified for Outstanding Health and Productivity Management. Health and Productivity Stocks are stockmarket-listed enterprises selected in a program operated jointly by the Japanese Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange to recognize companies that take a managerial perspective on employee health management and offer a strategic response. Shionogi's activities to maintain and improve health have received strong public recognition, indicated by our inclusion in the selection for the fourth successive year since 2016.




 Detailed information on Shionogi Health Declaration 2018
<http://www.shionogi.co.jp/en/company/csr/index.html>

Occupational health and safety

We work to protect employee safety and health and create an optimal work environment by putting in place a relevant management system, operating a Health and Safety Committee, and taking other measures to prevent work-related accidents and ensure health and safety in the workplace.

The Settsu and Kanegasaki Plants have received certification under OHSAS 18001 (Occupational Health and Safety Management System Standards) and practice continuous improvement. Meanwhile, to create a safer operating

environment by preventing accidents due to chemical substances, we have put in place a management system using safety data sheets and maintain optimal chemical hazard guidelines.

 Please refer to our EHS Report for details of health management and occupational health and safety.
<http://www.shionogi.co.jp/en/company/csr/activities/environment.html>



Respect human rights

Shionogi, which has declared its wish to create a more vigorous society, recognizes the importance of respect for human rights and related initiatives. We believe that it is important for each employee to respect human rights and to act from a high ethical stance in accordance with international standards such as the Universal Declaration of Human Rights and the ILO's international labor standards. The Shionogi Charter of Conduct, which lays down standards for employee conduct, contains clear statements regarding Respect for the Individual and Acceptance of Diversity.

Since joining the PSCI*1 in 2017, Shionogi has been progressing with human rights initiatives embracing all of its corporate activities, including suppliers.

*1 PSCI: Pharmaceutical Supply Chain Initiative (a non-profit body formed by more than 40 pharmaceutical manufacturers worldwide to promote CSR-based procurement in the pharmaceutical industry)

Please refer to page 56 for detail of participation in PSCI.

Detailed information on Shionogi Charter of Conduct
<http://www.shionogi.co.jp/en/company/business/guideline.html>

Action on UN Global Compact

With business operations set to extend worldwide, Shionogi has the responsibilities of a global corporate citizen and needs to contribute to resolving social issues as part of its management activities. Accordingly, in August 2019 Shionogi declared its participation in the United Nations Global Compact.

In the interests of sustainable growth, Shionogi endorses the essential values expressed in the ten principles of the United

Nations Global Compact relating to human rights, labor, the environment and anti-corruption. Going forward, Shionogi will continue to support and respect the protection of human rights, avoid complicity in human rights abuses, and promote still more energetically global-level initiatives to eliminate forced labor and child labor.

WE SUPPORT



The Ten Principles of the UN Global Compact

| | | |
|-----------------|--|---|
| Human Rights | | Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses. |
| Labour | | Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation. |
| Environment | | Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies. |
| Anti-Corruption | | Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. |

Ensuring the safety of participants in clinical trials

Clinical trials carried out by Shionogi are conducted in compliance with the Helsinki Declaration, the ICHGCP and other guidelines, and Japan's Pharmaceutical Affairs Law or other regulations applicable in the country where the trial is conducted. In the case of participation in a clinical trial, written informed consent is obtained based on the free will of the participants and the utmost efforts are made to protect the participants' human rights, ensure their safety and improve their well-being.

Specifically, in all clinical trials that Shionogi carries out, the highest priority is shown for ethical concerns. To guarantee the appropriateness of the trial in scientific and medical terms, it is conducted in accordance with a trial protocol that has been

reviewed and approved by independent review committees established within the Company and within the medical institution (ethics committee/institutional review board). Additionally, during the conduct of the clinical trial, a staff member of the medical institution is responsible for collecting safety information on the participants, and where safety information relating to newly observed serious adverse events in the participants is received, a prompt report is made to the participating medical institutions and the regulatory authority of the relevant country in accordance with GCP, the regulatory provisions of the country, and company regulations. In this way, the utmost efforts are made to ensure the safety of participants in the clinical trial.



Reinforce supply chain management

To ensure that corporate social responsibility is fulfilled, as well as monitoring its own organization, Shionogi needs to build relationships of trust and cooperation with suppliers, who are important business partners. The Shionogi Group's Procurement Policy sets out a basic approach designed to ensure that procurement activity is founded on honesty, fairness, equity, and transparency, and forms the basis on which we work together with suppliers to strengthen supply chain management.

Promoting CSR procurement

Participation in PSCI

The PSCI Principles form a code of conduct which we require business partners to comply with. They cover a comprehensive range of fields including not only the environment and health and safety but also employment rights, ethical standards, and

associated systems of management. Shionogi not only supports the PSCI Principles itself, but also requires its suppliers to abide by them.

PSCI Principles (Extracted items only)

[Ethics]

1. Business integrity and fair competition
2. Identification of concerns
3. Animal welfare
4. Privacy

[Environment]

1. Environmental authorizations
2. Waste and emissions
3. Spills and releases

[Health and Safety]

1. Worker protection
2. Process safety
3. Emergency preparedness and response
4. Hazard information

[Labor]

1. Freely chosen employment
2. Child labor and young workers
3. Non-discrimination
4. Fair treatment
5. Wages, benefits and working hours
6. Freedom of association

[Management systems]

1. Commitment and accountability
2. Legal and customer requirements
3. Risk management
4. Documentation
5. Training and competency
6. Continual improvement



 Detailed information on PSCI Principles
<https://pscinitiative.org/resource?resource=1>

Audit activity

We require suppliers of important pharmaceutical raw materials to undergo an EHS*1 audit to check on safety measures in the manufacturing process and elsewhere and ensure environment-conscious operations. Our Suppliers' EHS/CSR Management Guidance sets out EHS risk categories and risk management procedures for suppliers and stipulates which conditions they must meet according to their assigned management level. We carry out a survey using the PSCI's self-assessment questionnaire to confirm

the supplier's status in areas including ethics, labor, the environment, and health and safety.

In fiscal 2018, 24 suppliers consented to the code of conduct based on the PSCI Principles and underwent a questionnaire-based written audit. Subsequently, visits were made to nine of the suppliers to carry out on-site audits.

*1 EHS: Environment, Health and Safety



Protect the environment

At Shionogi, we have built up a company-wide management system based on the Shionogi Group EHS Policy, whose EHS activities embrace not only the Group but also its supplier partners.

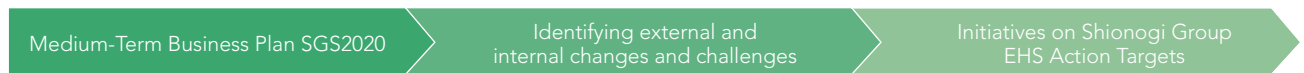
Our medium-term business plan Shionogi Growth Strategy 2020 (SGS2020) is a growth strategy looking ahead to the year 2020 and sets out initiatives aimed at addressing social issues and increasing corporate value. We recognize environmental protection, which is also addressed in the United Nations' SDGs, as a key issue for companies to tackle in their operations. Accordingly, we have carried out an assessment of EHS-related business risks and environmental impacts and responded by setting the Shionogi Group EHS Action Targets, whose key point activities are outlined below.

- 1) Antimicrobial resistance (AMR): reduce environmental burden arising from antibiotic manufacturing
- 2) Climate change: assess climate change-related risks associated with CO₂ emissions and water resources and formulate response strategies
- 3) Recycling-based society: formulate strategy for resource recycling and waste treatment/disposal (water, plastics)

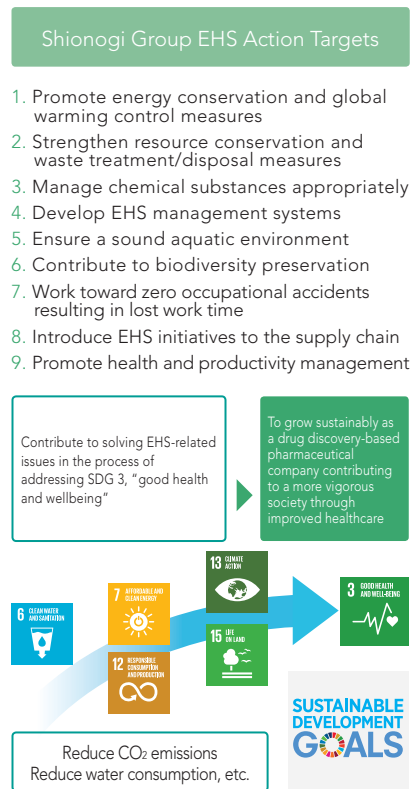
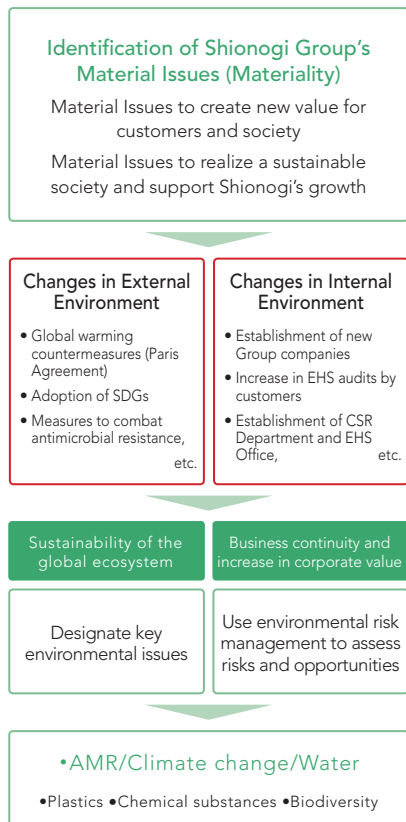
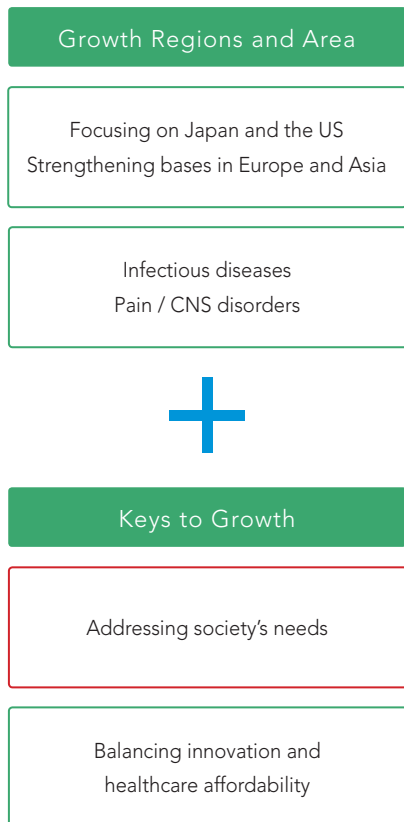
Please refer to pages 30–33 for details of our AMR initiatives.

Our EHS Report carries further information on EHS-related business risks and identified material issues and details of our EHS activities: <http://www.shionogi.co.jp/en/company/csr/activities/environment.html>

Detailed information on Shionogi Group EHS Policy <http://www.shionogi.co.jp/en/company/policy/ehs.html>



To grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare



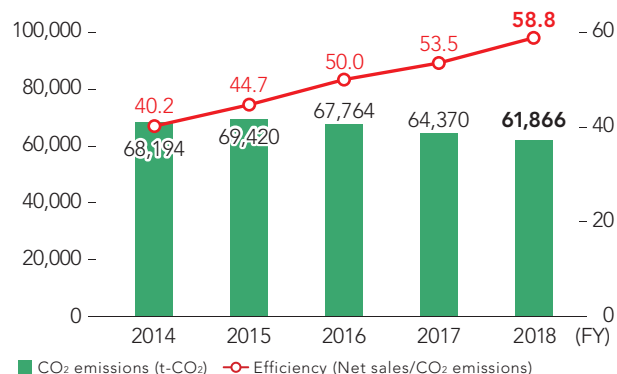
Responding to climate change

Shionogi recognizes global warming and other climate change issues as themes to be addressed by management and is progressing with measures to reduce CO₂ emissions. It is also taking action to identify climate change-related risks and opportunities. To do this, we have carried out assessments of their probability of occurrence and potential financial impact, adopting the definitions of the TCFD*¹ and making reference to the IPCC Fifth Assessment Report*² and the RCP 2.6 and 8.5 scenarios.

Shionogi is actively working on CO₂ emission reduction to contribute to global warming alleviation, and to that end has adopted the goal of reducing CO₂ emissions in fiscal 2020 by 33% from the fiscal 2005 benchmark. Since achieving a major CO₂ reduction in fiscal 2014 through fuel switch, we have continued to steadily decrease CO₂ emissions, for instance by introducing highly efficient facilities and reviewing operating methods. Our EHS Report discloses Group greenhouse gas emissions, including those of overseas operations, with the relevant greenhouse gas emissions (marked with a check) subject to third-party guarantee.

*1 TCFD: Task Force on Climate-related Financial Disclosures
 *2 IPCC Fifth Assessment Report: a report by the IPCC (Intergovernmental Panel on Climate Change) which gives an overall assessment of climate change from scientific and socioeconomic perspectives.

CO₂ emissions



| | Details | Financial impact | Probability | Remarks |
|---|---|-----------------------------------|-------------|---|
| Transition risk (strengthened regulation) | Additional investment costs for energy-saving measures | Medium (Capital investment) | Medium | Assuming strengthened regulation to align with science-based target (SBT) levels |
| Physical risk (extreme meteorological phenomena) | Interruption of operations through damage to company plants | High (Interruption of operations) | Low | Assuming damage to plants by irregular weather events on a level with torrential rains of July 2018 |
| Physical risk (extreme meteorological phenomena) | Interruption of operations through damage to supply chain | High (Interruption of operations) | Low | Assuming supply chain risk from increased irregular weather events in Asian region |
| Opportunity (enhanced external recognition) | Increased investment from investors | Medium (Investment opportunity) | Medium | Assuming enhanced evaluation of ESG based on information disclosure in Integrated Report/EHS Report |
| Opportunity (CO₂ emissions reduction) | Reduction of electricity costs through further energy-saving measures | Medium (Reduced operating costs) | Medium | Assuming electricity consumption levels after SBT standards are reached |
| Opportunity (participation in new markets) | Increased income from climate change-related new drug creation | Medium (Income) | Low | Assuming change in tropical infectious disease market (malaria) |

Protecting water resources

High-quality water is a resource essential to pharmaceutical manufacturing. Water shortage in the water catchment areas where our plants are located would have a major impact on business continuity. For each of the main business locations involved in Shionogi's manufacturing and research, we have therefore conducted an assessment of the water supply necessary for current and future business continuity and of water-related risks, including increased probability of flooding due to climate change-related extreme meteorological phenomena. These assessments were carried out using the international assessment tools WRI Aqueduct and WWF Water Risk Filter. As a result of an overall judgment based on these assessments, combined with past insights and experience, Shionogi has concluded that its current and future water-related risk is relatively low. Going forward, we will consider consultations with experts in the assessment of water-related risk.

By additionally integrating risk assessment based on WRI Aqueduct into the supplier selection process, we are working to identify and reduce potential supplier risk.

Shionogi is working to protect water resources by using them more effectively and managing wastewater quality. In addition to our efforts to conserve water, we set voluntary standards for wastewater quality that exceed mandated levels and carry out constant monitoring.

Initiatives on AMR

To reduce environmental burden at Shionogi antibiotics manufacturing sites, antibiotics contained in wastewater are subject to an inactivation process before being sent to an on-site wastewater treatment facility, where checks are made to ensure that any substances released into the natural environment are at a harmless level.

Saving resources and reducing waste Environmental strategy for plastics resources

The increasing world population and economic development have contributed to creating a society characterized by mass production, mass consumption, and mass disposal. This has given rise to environmental issues such as depletion of natural resources, destruction of the natural environment, and pressure on final waste disposal sites, with resulting calls to limit the consumption of natural resources and alleviate the environmental burden. Meanwhile, at the G20 summit held in Osaka in June 2019, participating nations agreed on a target of reducing marine plastic waste to zero by the year 2050. A strategy to deal with plastic resources is thus becoming an urgent priority.

Shionogi is itself a user and disposer of resources, for instance as pharmaceutical raw materials and in research materials and equipment. In accordance with the Shionogi Group EHS Policy, we are working to reduce the generation of waste and promote reuse and recycling, and at the same time working to reduce the environmental burden associated with the products we sell. In addition to changing the materials used in packaging and containers and saving material by downsizing, we are progressing with the switch to carbon-neutral biomass plastics and high-quality recycled plastics, whilst ensuring that product quality and stable supply are maintained.

| Policy | Action | Products affected |
|------------------|--|--|
| Reduce | Change of tray material (from plastic to paper) | All ampoule, vial, and tube products |
| | Change of thickness of eye drop container (thinner) | All eye drop preparations |
| | Change of thickness of PTP packaging material (thinner) | <i>Flomox</i> tablets |
| | Elimination of plastic buffer material from bottle packaging | <i>Irbetan</i> tablets, etc. |
| Reuse Recycle | Labeling of plastic container packaging with identification mark | All products |
| | Switch to mechanically recyclable PET film | <i>Intuniv</i> tablets |
| Renewable | Switch to biomass bottles (made with plant-derived polyethylene) | <i>Cymbalta</i> capsules, <i>Irbetan</i> tablets, <i>Pirespa</i> tablets |

Appropriately managing chemical substances

We use a wide range of chemical substances in pharmaceutical research, development, and manufacturing. Included among these are chemical substances with potential impacts on human health, ecosystems, and the global environment. For the sake of compliance, we believe that it is important not only to strictly observe PRTR legislation and the wide range of other regulations relating to chemical substances, but also to appropriately manage chemical substances and observe voluntary standards more stringent than legally mandated values in order to limit emissions into the air, wastewater, water, and soil.

Initiatives on AMR

Action in response to antimicrobial resistance (AMR) is a worldwide challenge. As an antibiotics manufacturer, Shionogi believes that action to suppress the emergence of resistant bacteria is vital and we are taking relevant action with the cooperation of suppliers. Shionogi has completed an audit of plants that manufacture antibiotics and all domestic suppliers. For details of the audit results, see our EHS Report.

Initiatives to protect biodiversity

To promote biodiversity-conscious environmental activity, we at Shionogi set Action Targets, undertake employee education, and take action in compliance with the Invasive Alien Species Act and the "Cartagena Act" (Act Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms).

Supporting local community education through the Aburahi Botanical Gardens

Shionogi operates the Aburahi Botanical Gardens, which serves as a place for preserving rare plants, including endangered species, and for education on biodiversity

Students at Aburahi Elementary School enjoy dyeing workshops using plants grown in an herb garden built on the school grounds. They also learn about medicinal plants by touching and observing plant roots, leaves, seeds, and fruits in the Botanical Gardens. These classes are organized in partnership with Koka City Kusuri Gakushukan (Pharmacological Learning Center) and other local corporations, with experts from the botanical gardens of Kobe and Kyoto Pharmaceutical Universities serving as guest lecturers. The program has won strong recognition as an initiative that supports the education of the children who are our future through collaboration between local government, academia, and industry.



Workshop for elementary school students



Strengthening governance

Establishing suitable corporate governance structures

All the Company's directors are committed to practicing transparent and fair management while supporting sustained growth and increasing corporate value over the medium and long term.

Board of Directors



From left: Hiroshi Ozaki, Takuko Sawada, Motozo Shiono, Isao Teshirogi, Ph.D., Teppei Mogi, Keiichi Ando

Basic views on corporate governance

Shionogi has created a corporate governance structure to make its Company Policy a reality worldwide. The Group defines corporate governance as a structure for transparent, fair, timely and decisive decision-making that pays due attention to the needs and perspectives of shareholders, customers, employees, local communities and other stakeholders. Based on this, the Group formulated the Basic Views and Guidelines on Corporate Governance in October 2015 to realize the best possible governance.

In accordance with the Group's Basic Views and Guidelines on Corporate Governance, Shionogi practices fair and transparent management supported by strict compliance, constructive communication with stakeholders, and continuous implementation of measures addressing change in the operating environment.

 Basic Views and Guidelines on Corporate Governance
<http://www.shionogi.co.jp/en/company/cg/basic.html>

Corporate governance structure

Shionogi has adopted a Company with a Board of Auditors governance structure to support efficient management oversight. Under this system, the Group is working to strengthen the audit capabilities of its auditors and the monitoring functions of the Internal Control Department to ensure business execution is based on appropriate management decisions. In order to separate business management and business execution, the directors are responsible for making management decisions in

line with the Group's medium- and long-term plans, while the executive officers are responsible for implementing business strategy, resulting in business execution based on rapid and flexible decision-making. Half the Company's directors are outside appointments, and we plan to enhance their supervisory functions further to reinforce management oversight.

Board of Directors

In principle, the Board of Directors meets every month to make decisions on important matters that affect Shionogi's business and to oversee business execution. Aiming to strengthen the board's oversight of business execution, we appointed two outside directors in fiscal 2009 and added another outside director in fiscal 2012 to promote highly transparent and equitable management by drawing on perspectives from outside the Company. In fiscal 2015, we appointed our first female director to the board and increased the number of directors to six in order to strengthen management further and promote diversity. All three outside directors are independent appointments and are tasked with ensuring accountability and a high level of transparency in management.

The Board of Directors is advised by the Nomination Advisory Committee and the Compensation Advisory Committee, which are chaired by outside directors. To ensure that management decisions are equitable and well-informed, 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.

Board of Auditors



From left: Ikuo Kato, Tsuguoki Fujinuma, Shinichi Yokoyama, Takaoki Fujiwara, Akira Okamoto

Audit framework

To ensure that the directors and each organization in the Company conduct their duties in a legally compliant and appropriate manner, the Company has established systems to enable members of the Board of Auditors 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 Board of Auditors has five members, comprising two standing members and three outside members. All three outside members of the Board of Auditors are independent appointments. The members of the Board of Auditors attend meetings of key management bodies, such as the Board of Directors and the Corporate Executive Meeting, providing their opinions as necessary. Also, in accordance with corporate auditing standards, members of the Board of Auditors conduct business and accounting audits to verify whether directors and corporate officers responsible for business execution are carrying out their duties in a legally compliant and appropriate manner.

Business execution framework

Shionogi 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, auditors 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.

Role of Advisory Committees

Nomination Advisory Committee

The Nomination Advisory Committee supports the Board of Directors in an advisory role. Comprised of a majority of outside directors and chaired by an outside director, the Nomination Advisory Committee meets at least once a year to discuss director, corporate auditor and corporate officer candidates proposed by the Company, and assesses each proposal individually based on comprehensive evaluation of each candidate's experience, knowledge, capabilities, and so forth, in order to assess the suitability of candidates in a fair and equitable manner. Its conclusions are then reported to the Board of Directors.

(Meetings held in fiscal 2018: One)

Compensation Advisory Committee

The Compensation Advisory Committee supports the Board of Directors in an advisory role. Comprised of a majority of outside directors and chaired by an outside director, the Compensation Advisory Committee meets at least once a year to discuss the suitability of individuals for certain roles and their respective levels of remuneration, including base remuneration, performance-linked compensation, and stock compensation. Its conclusions are then reported to the Board of Directors.

(Meetings held in fiscal 2018: Two)

Analysis and self-evaluation of the effectiveness of the Board of Directors —summary of results

Shionogi is committed to improving the Board of Directors' effectiveness, and to that end the Board has been conducting a self-evaluation annually since fiscal 2016.

The Board of Directors analyzed and evaluated its effectiveness in fiscal 2018 by conducting questionnaires and interviews of individual directors and corporate auditors, with a focus on "6. Directors and the Board, (1) Framework, (3) Roles and Responsibilities, and (6) Operation" in the Basic Views and Guidelines on Corporate Governance set by the Company. The following is a summary of the results:

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, issues for the future include the election of directors of foreign nationality and the election of female outside directors from the standpoint of further diversity. The Board of Directors will consider ways to further strengthen the governance framework while taking the Company's business development into account.

Roles and Responsibilities

■ Addressing issues identified in the previous fiscal year

The need to further enhance reporting on management development was identified as an issue in the previous fiscal year, as was the need for supervising the status of management development. Reports were made and opinions exchanged at meetings between outside directors and the president.

To further enhance reporting on compliance and the operation of internal controls, reports on the status of compliance activities are presented twice annually, as of 2018.

■ Issues for the future

Matters identified as issues for the future include enhancement of discussions regarding the medium-term business plan, enhancement of explanations and debate concerning management development (in terms of the selection process and development progression), and further enhancement of compliance frameworks and the content of compliance reporting. The Board of Directors will continue to consider ways to flesh out its roles and responsibilities.

Operation

■ Addressing issues identified in the previous fiscal year

An observation tour of the Shionogi Pharmaceutical Research Center (SPRC) was held to further stimulate discussion at Board of Directors meetings, the need for which was cited as an issue in the previous fiscal year. In addition, with respect to advance briefings on important and highly specialized subjects, the Board of Directors conducted timely advance briefings and considered changing its advance briefing methods.

■ Issues for the future

Matters identified as issues for the future included potential for observation tours to facilities other than the SPRC and improving methods for providing basic information that facilitates better understanding of pharmaceutical companies. The Board of Directors will continue to consider ways to improve its operation.

Based on the above, we conclude that the Board of Directors is operating appropriately and effectively. We will use the results of this self-evaluation as a basis for continuous improvements to make the Board of Directors even more effective.

Remuneration amounts for directors and corporate auditors

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It encompasses base monthly remuneration, performance-linked bonuses determined by results for the fiscal year and other factors, and restricted stock compensation (medium-term performance-linked and long-term) introduced in fiscal 2018. Outside directors only receive base remuneration.

Base monthly remuneration is determined according to the position and responsibilities of directors with due consideration for the operating environment and global trends. Bonuses are short-term incentives based on a calculation matrix linked to performance, including the achievement of profit targets in each fiscal year. Stock compensation is awarded based on a similar matrix of directors' positions and roles. In particular, medium-term performance-linked compensation is aimed at encouraging directors to pursue continuous enhancement of corporate value by further increasing the linkage between director compensation and medium- and long-term business performance, while at the same time further promoting value sharing with shareholders.

Performance targets include net sales and operating income, driven mostly by new products and core businesses, as

well as return on equity (ROE) and the growth rate of total shareholder return (TSR) relative to competitor companies. These indicators were determined after a comprehensive evaluation of factors such as quantitative targets in the medium-term business plan and operational issues, and are premised on the Company achieving the vision laid out in its medium-term business plan, which is to "grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare."

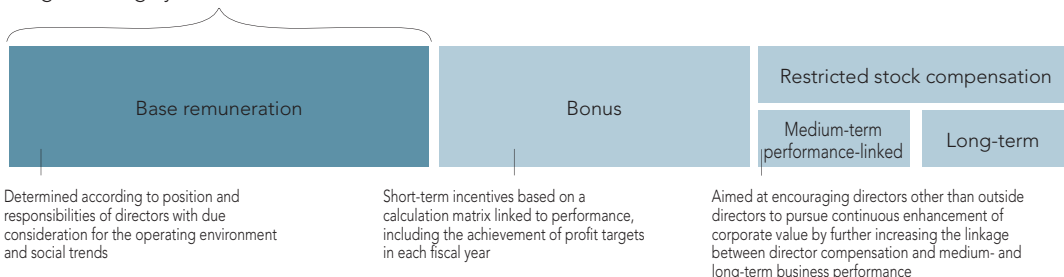
Base remuneration accounted for approximately 75% of total remuneration in fiscal 2013, but less than 50% in the last fiscal year. We aim to further reduce the proportion of base remuneration to about 40%.

Total corporate auditors' remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It is made up entirely of base monthly remuneration.

Shionogi has established a Compensation Advisory Committee to support the Board of Directors in an advisory role. Chaired by an outside director and comprised of a majority of outside directors, this Committee deliberates thoroughly on the subject of directors' remuneration.

Structure of directors' remuneration

Target of roughly 40% of total remuneration

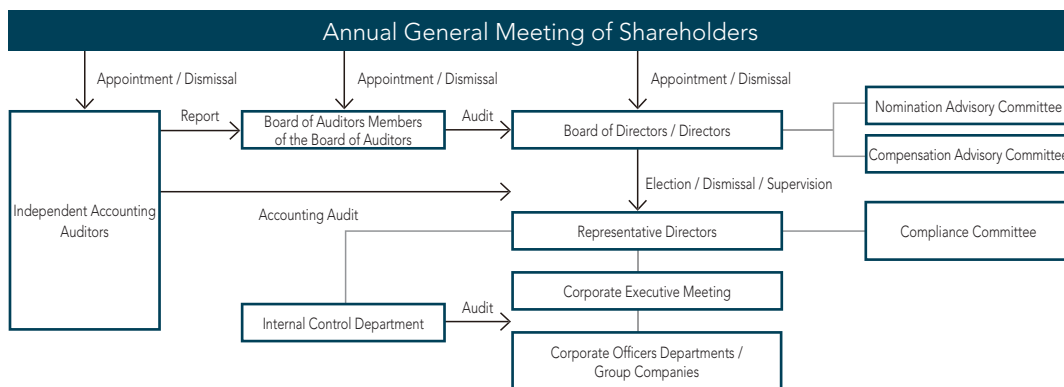


| Category | Persons remunerated | Amount of remuneration paid | | | | | Total (Millions of yen) |
|--|---------------------|-------------------------------------|---------------------------|-----------------------------------|---|-----------|-------------------------|
| | | Base remuneration (Millions of yen) | Bonuses (Millions of yen) | Stock options*2 (Millions of yen) | Restricted stock compensation (Millions of yen) | | |
| | | | | | Medium-term performance-linked | Long-term | |
| Directors (outside directors among directors) | 6(3) | 248(43) | 153(-) | 12(-) | 19(-) | 40(-) | 473(43) |
| Corporate Auditors*1 (outside auditors among auditors*1) | 6(4) | 102(43) | -(-) | -(-) | -(-) | -(-) | 102(43) |
| Total | 12 | 350 | 153 | 12 | 19 | 40 | 575 |

*1 The amount of remuneration paid and persons remunerated include one corporate auditor who retired (deceased) on June 14, 2018.

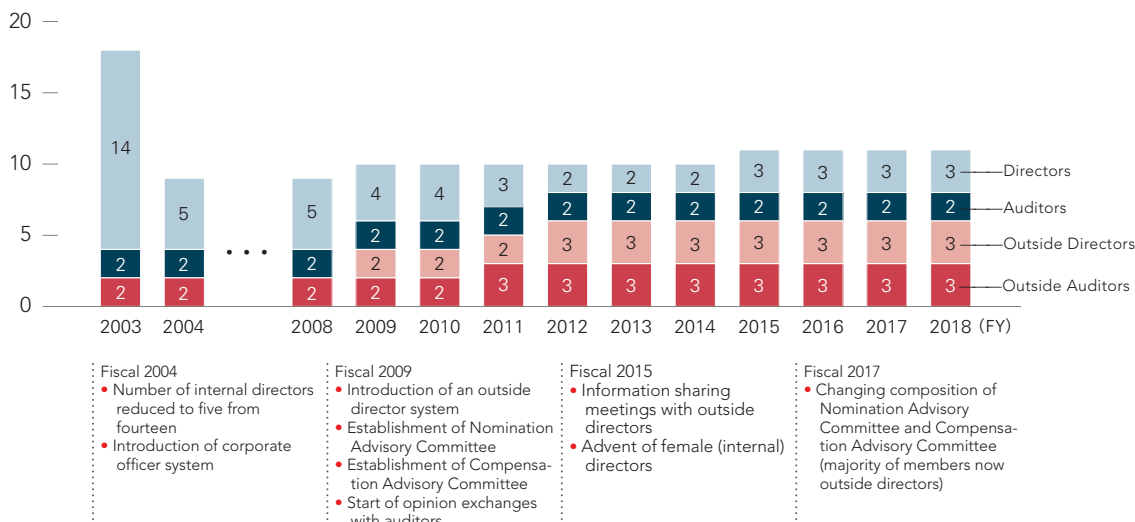
*2 "Stock options" above is the relevant expense recognized for Fiscal 2018, although no new grants of stock options were made in Fiscal 2018.

Corporate Governance Structure



Corporate Governance Transition

(Persons)



Interviews with independent outside directors and corporate auditors



Teppei Mogi
Independent Outside Director

Q 1 | Ten years have now passed since your appointment as an independent outside director. Could you comment on how Shionogi has changed in that time?

During those ten years, Shionogi has developed and launched a steady stream of (mostly proprietary) new drugs, all the while spending less on R&D than major global pharmaceutical companies. As a consequence, Shionogi has evolved into a highly profitable company, in my view. At the time of my appointment, Shionogi faced an enormous challenge in determining how to overcome the so-called “Crestor Cliff” (referring to the expiration of patents for the cholesterol-lowering drug *Crestor* in 2016–2017). In the end, the company was able to surmount this crisis through global expansion of its HIV franchise. I believe this was no coincidence, but rather the consequence of a careful plan comprising far-sighted concentration of resources on new drug candidates, and selection of the globalization strategy deemed best suited to Shionogi. Just as expansion of the HIV franchise has buoyed Shionogi earnings, I expect to see a similar contribution from the development and global rollout of *Xofluza*, an flu drug.

On the other hand, while Shionogi has worked tirelessly over those ten years to build a global presence, progress has not always been smooth. It is critical, in my view, that Shionogi continues to launch proprietary drugs both domestically and in overseas (including emerging) markets, with a view to helping more people achieve better health while at the same time generating profits for the company. I believe Shionogi must draw on its experiences thus far to pursue further globalization.

Q 2 | How would you evaluate Shionogi’s corporate governance?

In that ten-year period, companies have become more cognizant of the importance of corporate governance. Shionogi is a front-runner in this respect, which I understand has earned it plaudits from the various stakeholders. The Shionogi Group has appointed a total of six outside officers (both directors and corporate auditors), many with extensive experience at other companies, and these individuals engage in a frank exchange of opinions at Board of Directors meetings. Because of the highly specialized nature of the pharmaceutical industry, it is difficult for these outside officers to contribute directly to the scientific aspect of Shionogi’s business. At Board of Directors meetings, though, the outside officers receive regular updates from those directly responsible for operations, and they furthermore partic-

ipate in debate over important management decisions. Therefore, I believe that Shionogi effectively handles the separation of management and business execution. As a lawyer, I am particularly interested in the company’s compliance system. I have observed that top management is constantly impressing upon employees the importance of compliance, and it seems the message is getting through; in my years as an outside officer, I have never once witnessed a major problem from a compliance perspective. There is always room for improvement, though. Going forward I would like to see the company build a global compliance system that is even more effective and more united, extending to overseas Group companies.

Q 3 | Please describe your overall impression of the Board of Directors’ management and discussions.

As noted in my response to the second question, those responsible for business execution make timely and appropriate reports on operational progress and challenges. This ensures candid debate over important management decisions among the Board of Directors, including outside corporate auditors. At Board meetings, I am always astounded at the level of intuition demonstrated by individuals whose experience in top management comes from industries other than pharmaceuticals. Fortunately, earnings have grown steadily over the past ten years and the Board of Directors has never been called on to make choices that could alter the fate of the company. Even if such a situation arose, I am confident that the Board of Directors would be able to reach the appropriate decision after suitable debate.

Q 4 | What are your expectations for Shionogi over the next ten years?

The business climate surrounding drug companies is by no means favorable, given the global trend toward curtailing healthcare expenditure. For Shionogi to leverage its drug discovery and development capabilities and generate high profits against this backdrop, I think it remains important for the company to single out and selectively invest in leading-edge drug seeds deemed to have long-term potential, with a focus on fields in which Shionogi can excel. In this respect, I have high hopes for the company’s numerous peptide discovery programs in the area of medium-sized molecules.

From the standpoint of social contribution, too, I have high expectations for actualization of Shionogi’s mission to “protect people from the threat of infectious diseases.” In a world in which healthcare is becoming ever more sophisticated, there remain people without access to even the most basic forms of medicine, including prevention of infectious diseases. By contributing to better health for such people, I believe Shionogi can further enhance its global reputation while at the same time increasing corporate value over the longer term. Over the next ten years I think it will be important for the Company to determine how best to pursue further globalization through the worldwide supply of pharmaceuticals bearing the Shionogi name.

Q | What role do you envision for yourself in addressing challenges faced by Shionogi?



Keiichi Ando
Independent Outside Director

Stronger corporate governance and adherence to Japan's Stewardship Code have become increasingly important for companies looking to achieve sustained growth, expand corporate value, and discharge their social responsibilities to the full extent. As a leading-edge drug discovery company aspiring to ensure optimum health and realize a safe and secure society, I think Shionogi bears a particularly heavy responsibility. The Company's Board of Directors already is committed to fair and transparent decision-making informed by lively exchanges of ideas and searching questions, and it is actively engaging in improvements to corporate governance. If Shionogi is to achieve ongoing growth and evolution as a drug discovery-based pharmaceutical company, I think it is crucial also that the Company continue to steadily and resolutely implement management strategies and business plans that take a medium- to long-term stance on R&D investment, human resources, and so forth. As an outside director, I aim to draw on my extensive knowledge and wide-ranging experience as an executive in the field of finance and accounting to make an active contribution to fair and transparent management, to the satisfaction of all stakeholders.

Q | Could you describe your aspirations as a newly appointed outside director?



Hiroshi Ozaki
Independent Outside Director

I was appointed to the post of outside director on June 18, 2019. In addition to serving as an executive for an integrated energy company based in Kansai, I also have chaired the Osaka Chamber of Commerce and Industry since December 2015, where my contributions have included industry promotion aimed at furthering the growth and development of Osaka and Kansai, support for SMEs, and town planning.

In my view, an outside director's most important mission is to express an independent opinion on whether or not company management is discharging its responsibilities to stakeholders—whether they be customers, communities, employees, or shareholders and investors—in a fair and equitable manner. At the same time, I aim to support the Company in its various initiatives to address future challenges and enhance corporate value.

To ensure that Shionogi retains its reputation as an excellent pharmaceutical company and exemplary member of society, I aim to continue drawing on the experience and expertise I have gleaned to date, to provide appropriate advice with respect to crucial management decisions, and contribute to growing the company and raising management standards.



Tsuguoki Fujinuma
Independent Outside Corporate Auditor

I have been involved with many companies over the years, in the role of accounting auditor as a Certified Public Accountant, and more recently in the role of outside director for several listed companies. As a newly appointed independent outside corporate auditor, my goal this year is to deepen my understanding of Shionogi's basic policy and operations, while at the same time leveraging my professional expertise in finance and accounting to ascertain whether any matters are in particular need of review, whether or not migration to International Financial Reporting Standard (IFRS) is proceeding apace, whether or not information is being appropriately disclosed to shareholders, and whether or not Shionogi initiatives related to Sustainable Development Goals (SDGs) are adequately covered in publications including our annual Integrated Report. From an operational perspective, too, I am keen to assess whether or not the R&D pipeline is being replenished sufficiently, whether or not there is timely recognition of impairment losses on intangible assets, and whether or not the changing times dictate improvement in such areas as risk identification and management, as well as governance and internal controls. To that end, I plan to maintain an open dialog with those involved.

As an outside officer, I think that in meetings of the Board of Directors and Board of Auditors, my role is to say things that internal officers cannot say, and comment on any issues that appear to have gone unnoticed.

Members of Boards (As of June 30, 2019)

Director

Motozo Shiono

Chairman of the Board and Representative Director

Attended all 13 Board of Directors' meetings



▼ Reasons for appointment

Mr. Motozo Shiono became Representative Director and President in 1999. He promoted the First Medium-Term Business Plan and Second Medium-Term Business Plan, and laid a foundation for generating profits. Since becoming Representative Director and Chairman in 2008, he has focused on further enhancing the operation of Board of Directors meetings and contributed substantially to energizing the Board of Directors as Chairman of the Board, such as by fostering an environment that enables outside directors to actively express their opinions and requests, and by enhancing the quality and quantity of information provided. He also has appropriately supervised management's business execution. Shionogi therefore continues to reappoint Mr. Shiono as a Director.

▼ Career summary

January 1972 Joined the Company
 June 1984 Director of the Company
 April 1987 General Manager, Accounting Department
 June 1987 Managing Director of the Company
 June 1990 Senior Managing Director of the Company
 March 1996 General Manager, Agro., Vet. & Industrial Chem. Division
 August 1999 Representative Director and President of the Company and General Manager, Corporate Planning and Division
 April 2008 Chairman of the Board of the Company (incumbent)

Isao Teshirogi, Ph.D.

President and CEO

Attended all 13 Board of Directors' meetings



▼ Reasons for appointment

Dr. Isao Teshirogi became Representative Director and President and CEO in 2008. He has pushed forward with global research and development and expansion of overseas business in Europe and Asia to achieve the goals of the Third Medium-Term Business Plan, and secured a medium- to-long-term profit foundation through globally competitive drug discovery capabilities and evolution of the Company's royalty business model. Given the steady achievement of the quantitative targets in the Medium-Term Business Plan SGS2020, which was formulated in fiscal 2014, he carried out an update of SGS2020 in October 2016. As part of that update, he set new quantitative targets from the perspectives of growth, efficiency and shareholder returns. These targets also were achieved ahead of schedule, particularly profit targets. Based on these results, Shionogi continues to reappoint Dr. Teshirogi as a director, in the belief that he can make the Company "grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare."

▼ Career summary

April 1982 Joined the Company
 January 1999 General Manager, Secretary Office and General Manager, Corporate Planning Department
 June 2002 Director of the Company
 October 2002 General Manager, Corporate Planning Department
 April 2004 Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division
 April 2006 Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division
 April 2007 Senior Executive Officer
 April 2008 Representative Director and President and CEO of the Company (incumbent)

Takuko Sawada

Director, Executive Vice President

Attended all 13 Board of Directors' meetings



▼ Reasons for appointment

Since her appointment as a Director of the Company in 2015, Ms. Takuko Sawada has been responsible for business execution of the Corporate Strategy Division as Senior Vice President of the Corporate Strategy Division and as a Senior Executive Officer. She has also moved the Medium-Term Business Plan Shionogi Growth Strategy 2020 (SGS2020) forward, and played a central role in formulating the update of SGS2020 in October 2016. As of fiscal 2018, she supervises the Pharmaceutical Research Division, Global Development Division, Corporate Quality Management Division, Digital Intelligence Department and other operations in her capacity as Vice President of the Company. Shionogi continues to reappoint Ms. Sawada as Director in order to further strengthen management and promote diversity.

▼ Career summary

April 1977 Joined the Company
 April 2002 Executive General Manager, Pharmaceutical Development Division
 April 2007 Officer and Executive General Manager, Pharmaceutical Development Division
 April 2010 Executive Officer and Executive General Manager, Pharmaceutical Development Division
 April 2011 Senior Executive Officer and Executive General Manager, Global Development Office
 April 2013 Senior Executive Officer and Senior Vice President, Global Development and, Pharmaceutical Development Division
 April 2014 Senior Executive Officer and Senior Vice President, Global Pharmaceutical Development Division
 April 2015 Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 June 2015 Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 October 2015 Senior Executive Officer and Senior Vice President, Corporate Strategy Division, and General Manager, Corporate Planning Department
 April 2016 Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 April 2017 Senior Executive Officer and Senior Vice President, Corporate Strategy Division
 April 2018 Director of the Company and Executive Vice President (incumbent)

Outside Directors

Teppei Mogi

Independent Outside Director

Attended all 13 Board of Directors' meetings



▼ Reasons for appointment

Mr. Teppei Mogi has not been involved in company management in any way other than serving as outside director or corporate auditor, but he recognizes the corporate responsibility the Company should fulfill and makes fair management decisions, giving priority to legal compliance and social norms from a global perspective from his position as an attorney in international corporate law. Shionogi therefore continues to reappoint Mr. Mogi as an Outside Director. At Board of Directors meetings, he provides legal points and suggestions on protection of intellectual property, raises concerns about business tie-ups, and offers advice on corporate governance, risk management and compliance systems, including those of overseas subsidiaries. As Chairman of the Compensation Advisory Committee, he also makes fair decisions based on an independent and objective viewpoint.

▼ Career summary

| | | |
|---------|------|---|
| April | 1989 | Registration of Attorney at Law |
| April | 1989 | Joined Oh-Ebashi Law Offices |
| July | 1992 | Service at Brussels Office of Cleary, Gottlieb, Steen & Hamilton LLP |
| January | 1993 | Service at Rotterdam Office of De Brauw Blackstone Westbroek |
| April | 1994 | Partner of Oh-Ebashi Law Offices |
| August | 2002 | Partner of Oh-Ebashi LPC & Partners (incumbent) |
| April | 2004 | Practitioner teacher, Graduate School of Law and Faculty in practical business at The Kwasei Gakuin University Law School (Full-time teacher) |
| April | 2005 | Part-time instructor, Graduate School of Law, Kobe University (incumbent) |
| June | 2009 | Director of the Company (incumbent) |
| April | 2010 | Part-time instructor, Graduate School of Law and Faculty in practical business at The Kwasei Gakuin University Law School |
| August | 2014 | Outside Corporate Auditor of NIITAKA Co., Ltd. |
| June | 2015 | Outside Corporate Auditor of KURABO INDUSTRIES LTD. |
| August | 2015 | Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd. (incumbent) |
| June | 2016 | Outside Director (Audit & Supervisory Committee member) of KURABO INDUSTRIES LTD. (incumbent) |

Major concurrent posts

Partner of Oh-Ebashi LPC & Partners
 Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd.
 Outside Director (Audit & Supervisory Committee member) of KURABO INDUSTRIES LTD.

Keiichi Ando

Independent Outside Director

Attended all 13 Board of Directors' meetings



▼ Reasons for appointment

Mr. Keiichi Ando has practical experience as a corporate executive at a financial institution and broad insight into finance. He also oversaw highly complex dealings between the national government and the governments of Osaka Prefecture and Osaka City with regard to the airport management business in Kansai, which was at a crossroads, and his experience and insight built the foundation of the concessionaire company Kansai Airports, now a driving force behind the Kansai economy. Mr. Ando continues to be reappointed as an Outside Director as he recognizes the corporate responsibility Shionogi should fulfill and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. At Board of Directors meetings, Mr. Ando presents many questions and opinions from the perspective of human resources and the use of assets that are important management resources, and he provides appropriate advice about budget planning and management and capital policies, including investments.

▼ Career summary

| | | |
|-------|------|---|
| April | 1976 | Joined Sumitomo Bank Limited |
| April | 2003 | Executive Officer, Sumitomo Mitsui Banking Corporation |
| April | 2006 | Managing Executive Officer, Sumitomo Mitsui Banking Corporation |
| April | 2009 | Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation |
| April | 2010 | Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation |
| April | 2012 | Representative Director and President, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD |
| July | 2012 | Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD. |
| June | 2016 | Director of the Company (incumbent) |
| June | 2016 | Representative Director and President, GINSEN CO., LTD. (incumbent) |
| June | 2017 | Outside Director of Tsubakimoto Chain Co. (incumbent) |

Major concurrent posts

Representative Director and President, GINSEN CO., LTD.
 Outside Director, Tsubakimoto Chain Co.

Hiroshi Ozaki (New appointment)

Independent Outside Director



▼ Reasons for appointment

Mr. 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 worked on industrial promotion and town development aimed at promoting the economic growth of Osaka and Kansai. In the medium-term plan of the Osaka Chamber of Commerce and Industry, he has been focusing on promoting the life science industry since fiscal 2017. Shionogi appointed Mr. Ozaki as an Outside Director as we expect him to draw on this wealth of experience and knowledge to make management judgments with an emphasis on objectivity and neutrality.

▼ Career summary

| | | |
|-------|------|---|
| May | 1972 | Joined Osaka Gas Co., Ltd. |
| June | 2000 | Director, Osaka Gas Co., Ltd. |
| June | 2002 | Director and Tokyo Representative, Osaka Gas Co., Ltd., on loan to the Japan Gas Association |
| June | 2005 | Managing Director and General Manager of LNG Terminal and Power Generation Business Unit, Osaka Gas Co., Ltd. |
| June | 2007 | Managing Director and General Manager of Commercial & Industrial Energy Business Unit, Osaka Gas Co., Ltd. |
| April | 2008 | Representative Director and President, Osaka Gas Co., Ltd. |
| June | 2008 | Director, Osaka Gas Chemicals Co., Ltd. (incumbent) |
| June | 2009 | Representative Director and President, Operating Executive Officer, Osaka Gas Co., Ltd. |
| June | 2009 | Director of OGIS-RI Co., Ltd. (incumbent) |
| June | 2011 | Outside Director of Asahi Broadcasting Corporation (incumbent) |
| April | 2015 | Representative Director and Chairman, Osaka Gas Co., Ltd. (incumbent) |
| June | 2019 | Director of the Company (incumbent) |

Major concurrent posts

Representative Director and Chairman, Osaka Gas Co., Ltd.
 Outside Director, Asahi Broadcasting Corporation

Standing Members of the Board of Auditors

Akira Okamoto

Standing Members of the Board of Auditors

Attended all 13 Board of Directors' meetings
Attended all 8 Board of Auditors' meetings



▼ Reasons for appointment

Mr. Akira Okamoto has served as General Manager of administrative units including the Business Support Center and the Personnel Department, and is well-versed in corporate management. Recently, he has been involved in enhancing the Company's corporate governance and upgrading and operating the internal control system, as General Manager of the Internal Control Department. By leveraging this experience, he is able to provide appropriate advice on management decisions and execution of duties from a neutral point of view as a corporate auditor.

Shionogi therefore continues to reappoint Mr. Okamoto as a Corporate Auditor, as we believe he has the appropriate character and insight to perform an auditor's duties.

▼ Career summary

April 1978 Joined the Company
April 2006 General Manager, Business Support Center
April 2007 General Manager, General Affairs & Personnel Department
April 2008 General Manager, Human Resources Department
April 2011 General Manager, Internal Control Department
June 2015 Standing Member of the Board of Auditors of the Company (incumbent)

Ikuo Kato

Standing Members of the Board of Auditors

Attended all 13 Board of Directors' meetings
Attended all 8 Board of Auditors' meetings



▼ Reasons for appointment

Mr. Ikuo Kato has served as General Manager of the Development Research Laboratories of the Company and as Representative Director and President and Chairman of a subsidiary. He is not only well-versed in research and development, but also has insight into corporate management. As Representative Director and President and Chairman of a subsidiary, he offers comments as necessary on Shionogi's management, and in our judgment, he has the appropriate character and insight to perform the duties of a Corporate Auditor. Shionogi therefore continues to reappoint Mr. Kato as a Corporate Auditor.

▼ Career summary

October 1988 Joined the Company
April 2007 General Manager, Development Research Laboratories
April 2010 General Manager, Drug Development Research Laboratories
April 2011 General Manager, Drug Development Research Laboratories and Representative Director and President, Shionogi TechnoAdvance Research & Co., Ltd.
April 2013 General Manager, Drug Development Research Laboratories and Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd.
April 2014 Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd.
June 2016 Standing Member of the Board of Auditors of the Company (incumbent)

Outside Corporate Auditors

Shinichi Yokoyama

Independent Outside Corporate Auditors

Attended all 13 Board of Directors' meetings
Attended all 8 Board of Auditors' meetings



▼ Reasons for appointment

Mr. Shinichi Yokoyama has extensive experience and broad insight as a corporate executive, and makes appropriate recommendations on directors' management decisions and performance of duties from an independent standpoint as a Corporate Auditor. He was appointed as an Outside Corporate Auditor. At meetings of the Board of Directors and Board of Auditors, he makes appropriate recommendations on management decisions and performance of duties mainly related to finance and accounting, from a professional standpoint based on his extensive experience and broad insight as a corporate executive at a financial institution. His insight into pharmaceuticals and the pharmaceutical industry has deepened, and he makes observations indicating the direction the Company should take for the future in a wide range of areas, including advice on the product portfolio and product strategy and opinions on improving the risk management system.

▼ Career summary

April 1966 Joined Sumitomo Life Insurance Company
July 2001 President, Sumitomo Life Insurance Company
June 2003 Outside Corporate Auditor, NEC Corporation
July 2007 Chairman and Representative Director, Sumitomo Life Insurance Company
June 2008 Outside Member of the Board of Auditors of the Company (incumbent)
June 2010 Outside Corporate Auditor, Sumitomo Chemical Co., Ltd.
April 2014 Director, Corporate Advisor, Sumitomo Life Insurance Company
June 2014 Outside Corporate Auditor, Rengo Co., Ltd.
July 2014 Honorary Corporate Advisor, Sumitomo Life Insurance Company
July 2018 Honorary Advisor to the Board, Sumitomo Life Insurance Company (incumbent)

Takaoki Fujiwara

Independent Outside Corporate Auditors

Attended all 10 Board of Directors' meetings
Attended all 6 Board of Auditors' meetings



▼ Reasons for appointment

Based on his extensive experience and broad insight as a representative director of Hankyu Hanshin Holdings, Inc. and as executive of a group company of Hankyu Hanshin Holdings, Inc., we believe that Mr. Takaoki Fujiwara is well qualified to conduct audits on directors' performance of duties from a broad perspective. Shionogi therefore continues to reappoint Mr. Fujiwara as an Outside Corporate Auditor. At meetings of the Board of Directors and Board of Auditors, he provides appropriate advice mainly on compliance, human resources and labor management, and makes appropriate recommendations related to directors' performance of duties from a broad perspective based on his extensive experience and broad insight.

▼ Career summary

| | | |
|----------|------|--|
| April | 1975 | Joined Hanshin Electric Railway Co., Ltd. |
| June | 2005 | Director, Hanshin Electric Railway Co., Ltd. |
| June | 2007 | Managing Director, Hanshin Electric Railway Co., Ltd. |
| April | 2011 | Representative Director and President, Hanshin Electric Railway Co., Ltd. |
| June | 2011 | Director, Hankyu Hanshin Holdings, Inc. |
| April | 2015 | Chairman of the Board of Directors and Representative Director, Hanshin Hotel Systems |
| April | 2017 | Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd. (incumbent) |
| June | 2017 | Representative Director, Hankyu Hanshin Holdings, Inc. (incumbent) |
| June | 2017 | Outside Director, Sanyo Electric Railway Co., Ltd. (incumbent) |
| December | 2017 | Director, Hanshin Hotel Systems (incumbent) |
| June | 2018 | Outside Member of the Board of Auditors of the Company (incumbent) |

Major concurrent posts

Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd.
Representative Director, Hankyu Hanshin Holdings, Inc.
Outside Director, Sanyo Electric Railway Co., Ltd.
Director, Hanshin Hotel Systems

Tsuguoki Fujinuma (New appointment)

Independent Outside Corporate Auditors



▼ Reasons for appointment

Mr. Tsuguoki Fujinuma has professional expertise in finance and accounting. He has held the important post of Chairman and Advisor of the Japanese Institute of Certified Public Accountants, as well as a number of public offices, and has extensive experience and broad insight as an outside director and outside corporate auditor. He has not been involved in company management in any capacity other than as an outside director or outside corporate auditor, but based on his experience as a certified public accountant, we believe that he is eminently qualified to carry out audits of the Company from the viewpoint of finance and accounting. Shionogi appointed Mr. Fujinuma because we expect that he will reflect this experience in audits of the Company, with respect to the appropriateness of directors' management decisions and execution of duties, from an independent point of view as an Outside Corporate Auditor.

▼ Career summary

| | | |
|----------|------|--|
| April | 1969 | Joined Horie Morita Accounting Firm |
| June | 1970 | Joined Arthur & Young Accounting Firm |
| May | 1986 | Partner and Representative Partner of Asahi Shinwa Accounting Firm (now KPMG AZSA LLC) |
| July | 1993 | Managing Partner of Ota Showa & Co. (now Ernst & Young ShinNihon LLC) (Resignation in June 2007) |
| May | 2000 | President of the International Federation of Accountants |
| July | 2004 | Chairman and President of the Japanese Institute of Certified Public Accountants |
| February | 2005 | Trustee and Vice Chairman of the IFRS Foundation Trustee |
| July | 2007 | Advisor of the Japanese Institute of Certified Public Accountants (incumbent) |
| August | 2007 | Outside Director of Tokyo Stock Exchange Group, Inc. |
| October | 2007 | Governor of Tokyo Stock Exchange Regulation |
| April | 2008 | Specially appointed Professor of Chuo Graduate School of Strategic Management |
| June | 2008 | Outside Corporate Auditor of Sumitomo Corporation |
| June | 2008 | External Outside Corporate Auditor of Takeda Pharmaceutical Company Limited |
| June | 2008 | Outside Director of Nomura Holdings, Inc. Outside Director of Nomura Securities Co., Ltd. |
| July | 2008 | Outside Director of Sumitomo Life Insurance Company |
| April | 2010 | Visiting Professor at Kansai University |
| May | 2010 | Outside Corporate Auditor of Seven & i Holdings Co., Ltd. (incumbent) |
| April | 2015 | Fellow and Advisory Board Member at Chuo University Business School (incumbent) |
| July | 2017 | Auditor, Chiba Gakuen (incumbent) |
| June | 2019 | Outside Member of the Board of Auditors of the Company (incumbent) |

Major concurrent posts

Auditor, Chiba Gakuen

Corporate Officers

Senior Executive Officers

Ryuichi Kume, Ph.D.

Yoshiaki Kamoya

Kohji Hanasaki, Ph.D.

John Keller, Ph.D.

Kazuhiro Hatanaka

Toshinobu Iwasaki, Ph.D.

Corporate Officers

Miyuki Hiura

Takeshi Shiota, Ph.D.

Noriyuki Kishida

Ryuichi Kiyama, Ph.D.

Akira Kato, Ph.D.

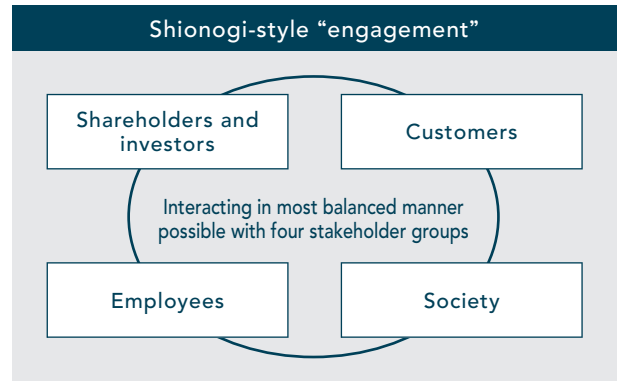
Yasuyoshi Isou, Ph.D.

Stakeholder engagement

In accordance with the Company Policy, we believe it is our social mission to continually discover, develop, and supply useful and safe medicines to promote proper use of medicines, and to help improve the health, medical treatment, and QOL of people around the world. We make every effort in our daily business activities to contribute to all stakeholders.

In the course of these business activities, we believe it is important to always ask ourselves “For whom does a company exist?” and to interact in the most balanced manner possible with our four stakeholder groups: (1) shareholders and investors, (2) customers, (3) society, and (4) employees.

Based on this belief, we have formulated Shionogi’s Action Guidelines and the Shionogi Charter of Conduct, which are our codes of conduct, as well as the Shionogi Group Compliance Policy as a standard for compliance. All officers and employees are committed to putting these into practice.



Shionogi Group Compliance Policy
http://www.shionogi.co.jp/en/company/compliance/compliance_02.html

Engagement with shareholders and investors

Shionogi’s Disclosure Policy states that as a company trusted widely by society, the Company recognizes that management transparency is one of its most important responsibilities. Based on this recognition, the Company discloses information to all stakeholders in a fair, timely, appropriate and continuous manner.

In our communication with shareholders and investors, the Company subscribes to a spirit of fair disclosure. In addition to disclosing information fairly and at the appropriate time, management and the department in charge of investor relations cooperate in proactive initiatives to promote sustained growth and increase corporate value over the medium and long term.

In addition, we have created a system to encourage closer cooperation among departments, facilitating dialog regarding issues including management strategy, shares, investor relations, finance, and ESG. We also have appointed an officer to oversee this system.

Shionogi Disclosure Policy
<http://www.shionogi.co.jp/en/company/policy/disclosure.html>

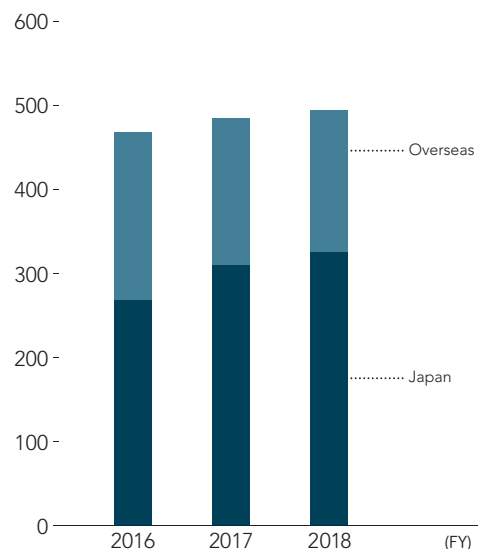
Key IR activities in fiscal 2018

- Results briefings for analysts and institutional investors **Four in total**
- Briefings for analysts and institutional investors **13 in total** (R&D briefing, briefing concerning Sage Therapeutics, and 11 small meetings with analysts and institutional investors)
- Communication with domestic investors..... **Total of 326 companies**
- Communication with overseas investors **Total of 168 companies**
- Participation in conferences hosted by securities companies **Five times in total**

Key instances of IR recognition in fiscal 2018

- All-Japan Executive Team (Pharmaceuticals) Most Honored Companies **First**
- Best CEOs **First**
- Best IR Professionals **Second**
- Best IR Programs **First**
- Best ESG/SRI Metrics **Second**
- Best Corporate Governance **First**
- Selected among “Companies with Greatest Improvement in IR” in Japan Investor Relations Association’s 25th Anniversary Commemorative Award
- Received “Award for Excellence in Corporate Disclosure” from the Securities Analysts Association of Japan (ranked first in the pharmaceuticals sector)
- Selected by Government Pension Investment Fund among companies with “Most-Improved Integrated Reports”

Numbers of communication with investors



Engagement with customers

Provision of information for inquiries

For inquiries related to its products, Shionogi has toll-free telephone numbers and websites for medical professionals as well as consumers and patients. This enables us to quickly provide accurate information regarding the quality, efficacy, and safety of our products.

In fiscal 2018, we received roughly 73,000 inquiries, including approximately 21,000 inquiries concerning *Xofluza*, for which Shionogi received manufacturing and marketing approval on February 23, 2018, after selection as a candidate for Sakigake designation system*1. We believe we assist in patient treatment by responding accurately and quickly to pleas for the urgent provision of information. The Drug Information Center is the

contact point for customers. It collects valuable information through inquiries, and shares this with relevant departments to work on improving the quality of products by rectifying problems and strengthening risk management.

Looking ahead, Shionogi will continue to provide information promptly and accurately, in order to contribute to the health of as many patients as possible while further promoting optimal use of information.

*1 Sakigake designation system: A part of Japan's Revitalization Strategy, this system designates pharmaceutical products that are being developed ahead of other countries and have shown exceptional clinical efficacy in the early clinical trial stage. It is aimed at facilitating their early commercialization through various kinds of support.

Engagement with employees

Morale survey measuring employee satisfaction

From 2009, Shionogi periodically conducts a morale survey for the purpose of keeping tabs on employee satisfaction and reflecting the results in personnel policies. In the most recent survey, the employee satisfaction score of 3.93 not only surpassed the benchmark score of 3.68 for leading companies in Japan, but also demonstrated improvement over the previous score of 3.91.

SING of the Year awards

As a means of globally recognizing and awarding activities that embody the Company Policy, we have presented the "SING of the Year" awards every year since 2012. Through this initiative we seek to set in place and promote a "culture of recognition," in order to boost employee motivation and further strengthen our organization.

Exchange of opinions with directors

We hold opinion exchange meetings that aid in resolving employees' concerns by providing an opportunity to communicate directly with directors regarding management policy and issues. These meetings also allow rank-and-file employees to express their opinions, which may then contribute to policy enhancement.



Labor festivals

At Shionogi there is a favorable relationship between the labor union and management. Labor festivals held annually across Japan are attended by many employees including directors, with employees' families also welcome. These events help to foster a sense of unity by promoting communication between labor and management.

Engagement with society

Socie, our social contribution support association

Shionogi established Socie as a social contribution support association in 1997. The Company, its employees and the employee labor union cooperate in supporting Socie members' voluntary social contribution activities. Management and employees work together in carrying out social contribution activities, using funds provided by Shionogi and the labor union at the time Socie was established, and through monthly contributions from employees and the Company. Socie provides assistance to areas affected by earthquakes, storms, volcanic eruptions, and other disasters, as well as to surrounding regions in Japan and overseas. It also makes annual donations to groups that contribute to society, such as the Japanese Red Cross Society and the Japan Guide Dog Association.

Commemorating 2,700th Broadcast of Shionogi Music Fair

Since August 1964, Shionogi has sponsored the music program Shionogi Music Fair, which airs on Saturdays from 6:00 PM to 6:30 PM on a television station associated with Fuji Television Network. To commemorate the 2,700th broadcast in 2018, the show was taped in front of a live audience. Going forward, the Company will continue to sponsor high-quality musical programs that help promote the musical culture of Japan as one way to contribute to society.

Strengthening risk management

Shionogi continues work on building an internal management system in accordance with the Shionogi Group Risk Management Policy established in 2015. With the October 2018 establishment of Shionogi Pharma Co., Ltd. to take charge of manufacturing operations, we redoubled efforts to thoroughly raise awareness about the aforementioned policy among existing group companies as well, in order to facilitate business continuity.

We are also working toward an organizational climate and culture that brings to light risks with potential to threaten business continuity, and ensures the timely reporting to management of all manner of information by Group companies and organizations.

Chaired by the General Manager of the Corporate Strategy Division, which oversees groupwide risk management activities, the Corporate Strategy Meeting is a key discussion body for all manner of risks affecting operations.

In this manner, every Shionogi employee endeavors to protect and make effective use of the Group's valuable business assets, through groupwide risk management activities and a constant and high level of risk awareness.

 Shionogi Group Risk Management Policy
<http://www.shionogi.co.jp/en/company/policy/riskm.html>

Crisis management system

Under our Crisis Management Standard, which serves as the basic policy for crisis management, Shionogi aims to build a comprehensive crisis management system that includes guidelines for various countermeasures and accompanying manuals, and enables rapid response in the event of an emergency. Shionogi places the highest priority on employee safety confirmation in the event of a huge natural disaster, and mandates regular

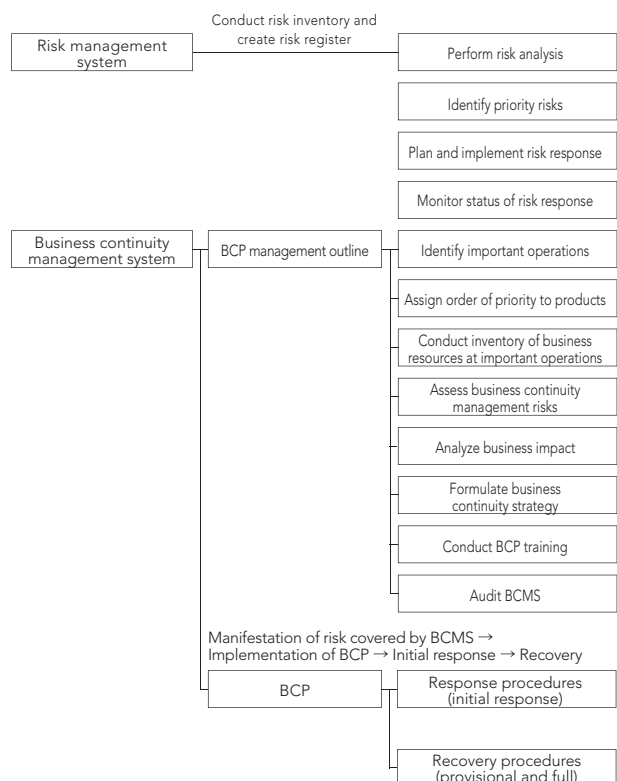
training using the safety confirmation system, as well as stockpiling in case of emergency and reviews of disaster task forces, both centrally and at each business site. In fiscal 2018 there were a number of natural disasters wreaking extensive damage, prompting a further review of disaster task forces (in terms of both organization and manuals), and additional stockpiling.

Business continuity planning (BCP)

Shionogi formulates business continuity plans (BCPs) for each link in the value chain, so that we can continue to fulfill our corporate social responsibility and supply our products and services to medical institutions in a stable manner even in the event of an emergency.

With respect to the supply of pharmaceutical products, in fiscal 2018 we established Shionogi Pharma Co., Ltd. to take charge of manufacturing operations. At that time we conducted a BCP review, resulting in a rebuild of both our risk management system and business continuity management system. In addition to the above, we regularly conduct training at both the management and front-line levels to ensure the ongoing viability of operations.

Overview of risk management system and business continuity management system



Business and other risks

Below, we list and outline the main types of risk that could have a significant impact on Shionogi's operations. The below list does not include all risks to which the Shionogi Group is exposed; other potential risks include political and economic

factors affecting business activities, as well as IT security and information management. Forward-looking statements in the text reflect the Group's judgment as of March 31, 2019.

| Risk category | Risk description |
|---|--|
| Systemic and Regulatory Risk | In the pharmaceutical industry, revisions to Japan's National Health Insurance (NHI) system are being considered, including revisions to the NHI drug price system. These trends could affect the results of Shionogi. In addition, tougher Japanese and overseas regulations in areas such as the development and manufacturing of pharmaceuticals could present us with additional expenses or make it difficult for its products to comply with regulations. This could impact our performance. |
| Risk of Adverse Drug Reactions | Pharmaceuticals entail the risk of unanticipated adverse drug reactions that could lead to the termination of sales, product recalls, and other outcomes that could affect the results of Shionogi. |
| Pharmaceutical R&D Risk | Pharmaceutical R&D requires substantial commitment of resources and time. In addition, new drugs are subject to numerous uncertainties prior to the start of actual sales. |
| Intellectual Property Risk | Shionogi uses patents as intellectual property to protect the pharmaceuticals it discovers and generate income from them. However, the various types of intellectual property may be unable to provide adequate protection, or may infringe on the intellectual property of third parties. Furthermore, the expiry of intellectual property rights (patents) of pharmaceuticals developed by Shionogi or the launch of generics after such expiry could affect the results of Shionogi. |
| Risk of Dependence on Certain Products | <i>Xofluza</i> and <i>Cymbalta</i> product sales and royalty income from <i>Tivicay</i> , <i>Triumeq</i> and <i>Juluca</i> roughly account for a combined 48% of net sales (fiscal year ended March 31, 2019). If an unexpected factor were to cause a drop in or the discontinuation of the sales of one of these products, this could impact our performance. |
| Risk of Alliances with Other Companies | Shionogi engages in diverse forms of alliances with other companies with respect to joint research, development and marketing, and other activities. These alliances include collaboration with research and development projects, in and out licensing of technologies and also marketing. If such collaboration were to either change or cease, it could impact our performance. |
| Risk of Natural Disasters or Pandemics | The sudden occurrence of a natural disaster, pandemic, or other unforeseen incident could lead to the closure of plants, laboratories or other business sites, which could affect the results of Shionogi. |
| Capital Market and Foreign Exchange Risk | Fluctuations in stock and foreign exchange markets that exceed the projected range could affect the results and financial position of Shionogi. |
| Litigation Risk | Through its business activities, Shionogi is exposed to the risk of litigation related to medication side effects, product liability, workplace disputes, fair trading and other issues. Litigation in those and other areas could affect the results of Shionogi. |



Ensuring compliance

At Shionogi, compliance remains our No. 1 priority—in short, the basis for company survival. Compliance in Shionogi means compliance not only with laws, rules and regulations, but also with social standards, and it also includes ethical behavior. This approach underpins every aspect of our business. We have published the Shionogi Group Compliance Policy, under which all directors and employees are required to comply with laws and regulations as well as practicing ethical behavior. We also have published both Japanese and English versions of the Shionogi Compliance Handbook, which sets behavioral criteria to be observed in the course of daily operations. In this manner, we are striving to deepen understanding and recognition of the importance of compliance across the Group as a whole.

Our intention is for all employees to consistently hold themselves to the highest ethical standards in order to support sustained growth for Shionogi.

Strict compliance

Compliance promotion structure

Shionogi promotes compliance in all departments and units through a structure centered on the Compliance Committee, which is chaired by the President and Representative Director and includes among its participants members of the Corporate Executive Meeting.

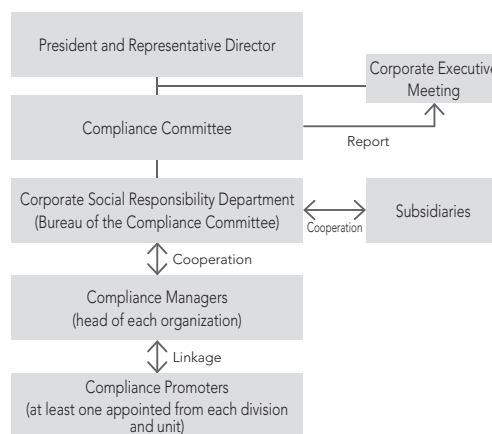
The Compliance Unit sits within the CSR Department, and provides support for compliance initiatives proposed by the Compliance Committee as well as undertaking a variety of activities including compliance training and surveys. In cooperation

with the Compliance Unit, compliance managers (head of each organization) work together with compliance promoters (at least one appointed from each department) on devising compliance initiatives specific to each department or unit. Employees who have served as compliance promoters for at least three years are recognized as "compliance masters" by Shionogi, as a means of further strengthening compliance and raising awareness across the company. In June 2019, a total of 172 employees were recognized as compliance masters.

Concept Chart



Compliance Promotion Structure (As of April 2019)



Shionogi Compliance Handbook

Shionogi Group Compliance Policy
http://www.shionogi.co.jp/en/company/compliance/compliance_02.html

Ethical considerations in animal experiments
<http://www.shionogi.co.jp/en/company/policy/animal.html>

Shionogi Group Anti-Corruption/Anti-bribery Policy
http://www.shionogi.co.jp/en/company/compliance/compliance_03.html

Clinical Trial Data Transparency Policy
<http://www.shionogi.co.jp/en/company/policy/clinical-trial.html>

Guidelines for The Prevention of Corruption/Bribery for Shionogi Business Partners
http://www.shionogi.co.jp/en/company/compliance/compliance_04.html

Compliance promotion initiatives

The Compliance Committee meets four times a year to report on and debate compliance-related matters, also preparing reports for the Corporate Executive Meeting and the twice-yearly Board of Directors meetings. Compliance managers work together with compliance promoters on the preparation of compliance risk management (CRM) action plans specific to each department or unit, following a Plan–Do–Check–Act model. Through these activities, Shionogi aims to achieve company wide observation of compliance principles.

In order to identify and address compliance issues, we also conduct regular compliance awareness surveys among directors and employees in the Group. These surveys provide insight into the understanding and penetration of compliance, which can then

be reflected in the aforementioned CRM planning, for a solution that encompasses the entire corporate culture.

Shionogi moreover offers regular compliance training for compliance managers and promoters, where Compliance Committee chairman expounds on the importance of compliance while seeking to promote greater awareness and understanding. We also regularly provide rank-specific and role-specific training for division heads and executives as well as personal information management officers, in addition to offering periodic training for all employees on such subjects as information security, pharmaceutical safety, harassment, and bribery.

Establishment of internal reporting system

Shionogi has established an internal reporting system comprising an internal reporting desk and an external reporting desk. We are making every effort to have this system known and used not just by employees but also by third parties, to promote the early discovery as well as prevention and amelioration of compliance violations.

To provide an avenue for consultation on compliance issues, Shionogi furthermore provides all directors and employees with emergency and helpline contact details including those for the reporting desks.

Ensuring high ethical standards and transparency in business activities

Initiatives to improve transparency

Pharmaceutical companies around the world are facing increased scrutiny of their data reliability in clinical trials and transparency for the relation between corporate activities and medical institutions. In addition to complying with laws and ordinances, Shionogi aims to maintain the trust of society by observing the industry's self-imposed norms. As an additional measure, we have formulated original guidelines based on even higher ethical standards. Shionogi has formulated "Transparency Guidelines for the Relationship between Corporate Activities and Medical Institutions," "Transparency Guidelines for the Relationship between Corporate Activities and Patient Associations," and "The Shionogi Code of Practice," in order to maintain high

ethical standards and transparency. This includes the appropriate disclosure of funding provided to medical professionals and medical institutions. In the view that fair dealings and fair competition are one of essential elements of compliance, in 2014 the Company also enacted the "Shionogi Group Anti-corruption/ Anti-bribery Policy," which is a clear policy statement prohibiting corruption including the payment of bribes. The Company furthermore has formulated "Guidelines for the Prevention of Corruption/Bribery for Shionogi Business Partners," which outlines the compliance requirements to be observed by Shionogi business partners in the hope of further strengthening systems for preventing acts of corruption and/or bribery.

R&D ethics

In the drug discovery research, Shionogi has a policy entitled "Ethical Considerations in Animal Experiments," which sets out to ensure that proper consideration is given to animal welfare by scientifically verifying that animal-use protocols are in accordance with the internationally recognized "principles of the 3Rs (replacement with alternative methods, reduction in the use of laboratory animals, and refinement of methods for reducing pain)." To further enhance the quality of animal experimenters, Shionogi also conducts regular education and training sessions

for the employees involved, on appropriate methods for animal experimentation as well as for the breeding and upkeep of experimental animals.

When it comes to clinical development, Shionogi endeavors to ensure the safety of participants in clinical trials while also maintaining transparency through appropriate disclosure in accordance with our Clinical Trial Data Transparency Policy.

 Please refer to page 55 for further details on how Shionogi strives to ensure the safety of participants in clinical trials.