Translation for reference only

Corporate Governance Report

Last Update: December 21, 2018
Shionogi & Co., Ltd.
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The corporate governance of Shionogi & Co., Ltd. (the "Company") is described below.

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

1. Basic Views

The Shionogi Group (the "Group") has created a corporate governance system to make its Company Policy – the Group's management philosophy – a reality worldwide. In conformity with the spirit of the Corporate Governance Code that went into effect in Japan, the Group defines corporate governance as a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees and local communities, and based on this, the Board of Directors established the Group's Basic Views and Guidelines on Corporate Governance to realize the best possible corporate governance.
Shionogi & Co., Ltd. (the "Company") fulfills its fiduciary responsibility to shareholders and its obligations to stakeholders in accordance with the Basic Views and Guidelines on Corporate Governance, and the Group shall work to achieve sustainable corporate growth and increased corporate value over the medium- to long-term.

Basic Views and Guidelines

In accordance with the Company Policy – the Group's management philosophy – we believe it is our social mission to continually discover, develop and supply useful and safe medicines as well as to promote their appropriate use to help improve the health, medical treatment and quality of life of people around the world.
Based on our firm belief that strict compliance and efforts to fulfill this social mission translate into greater corporate value, we aim to generate sustained growth and achieve increases in corporate value through constructive communication with stakeholders, supported by transparent and fair management that continuously implements measures to adapt to changes in the operating environment.

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

【Supplementary Principle 4.8.1】 Effective Use of Independent Directors

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

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

【Principle 1.4 Cross-Shareholdings】

Guideline

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

In fiscal 2017, the Company sold its cross-shareholdings in two companies by mutual agreement.

Verification of Appropriateness of Holding Shares

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

Standards for Exercising Voting Rights

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

【Principle 1.7 Related Party Transactions】

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

【Principle 2.6】

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

The Pension Plan Asset Management Committee receives a pension fund investment report on a quarterly basis from the pension fund administrator.

【Principle 3.1 Full Disclosure】

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

Company Policy

The Group's Company Policy, established in 1957, defines the aim of the Group's corporate activities as "striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." This eternal and unwavering corporate philosophy embodies our vision for Shionogi and our value to society. We established our Action Guidelines as a code of conduct and a standard for the daily activities of Group employees in order to make our Company Policy a reality worldwide. Our comprehensive contribution to society shall range from those connected to medical care, including patients and their families, doctors and pharmacists, to shareholders and investors through activities based on our Company Policy and Action Guidelines.

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

Medium-Term Business Plan

In April 2014, the Shionogi Group launched a new Medium-Term Business Plan, Shionogi Growth Strategy 2020 (SGS2020), as a growth strategy through 2020. SGS2020 sets our vision to grow as a drug discovery-based pharmaceutical company, and we have been carrying out the plan.

We expect to reach our FY2018 targets of ¥125 billion of ordinary income and 15% ROE ahead of schedule. In addition, the external operating environment of our businesses is expected to become even more challenging. We therefore updated our FY2020 vision and targets in October 2016.

ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;

The Basic Views and Guidelines on Corporate Governance are covered in I. 1. Basic Views.

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

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

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

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

Guideline

In order allow us to enhance business oversight by directors, improve management transparency, and promote highly equitable management, the Company will nominate the candidates for directors in accordance with the following views and guidelines from the standpoint of diversity, in addition to the Company's financial results, compliance status and other factors.

Composition of the Board of Directors

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

In the event of wrongdoing or a serious legal violation in execution of duties by a director that causes a significant loss to the Group, or if an event occurs that disrupts the Group's business operations, and

after sufficient investigation and decision by the Board of Directors to dismiss the representative director of the Company and executive officer responsible, the Company will proceed with the dismissal procedures of said director at the General Meeting of Shareholders.

Procedure

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

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

Guideline

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

Procedure

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

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

The reasons for selecting and nominating each of the candidates for directors and *kansayaku* are as follows.

≪Director≫

Name Position	Reasons for nominating the candidate for Director
Motozo Shiono Representative Director and Chairman of the Board	Mr. Motozo Shiono became Representative Director and President in 1999. He promoted the First Medium-Term Management Plan and Second Medium-Term Management Plan, and laid the 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 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 has also appropriately supervised management's business execution. Therefore, we recommend that you vote for his reelection as a Director.
Isao Teshirogi Representative Director and President and CEO	Mr. Isao Teshirogi became Representative Director and President and CEO in 2008. He has pushed forward with global research and development and expansion of overseas business in Europe and Asia to achieve the goals of the Third Medium-Term Management

	Plan, and secured the Company's medium-to-long-term profit foundation through globally competitive drug discovery capabilities and evolution of the Company's royalty business model. Since fiscal 2014, he has planned and guided the progress of the new Medium-Term Management Plan, Shionogi Growth Strategy 2020 (SGS2020). 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, and is strengthening and promoting measures to achieve them. Based on the results to date, we believe that he can make the Company "grow as a drug-discovery based pharmaceutical company," and therefore we recommend that you vote for his reelection as a Director.
Takuko Sawada Director and Vice President	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 Medium-Term Management Plan Shionogi Growth Strategy 2020 (SGS2020) forward, and played a central role in formulating the update of SGS2020 in October 2016. Starting in fiscal 2018, she will further strengthen management and promote diversity in her capacity as Vice President of the Company, independent from business execution. We therefore recommend that you vote for her reelection as a Director.
Akio Nomura Outside Director	Based on his many years of experience in corporate management, his insight and other qualities, Mr. Akio Nomura recognizes the corporate responsibility that the Company should fulfill and makes management decisions from a higher perspective with an emphasis on objectivity and independence, without bias in favor of corporate executive or specific interested parties. We therefore recommend that you vote for his reelection as a Director. At Board of Directors meetings, Mr. Nomura made many clear points and statements of support, including concerns about the direction of research and development and overseas business, and advice on changing the management structure based on human resource development. As Chairman of the Nomination Advisory Committee, he also led the committee members.
Teppei Mogi Outside Director	Mr. Teppei Mogi has not been involved in company management in any way other than serving as outside director or corporate

	auditor in the past, but 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. We therefore recommend that you vote for his reelection as Outside Director. At Board of Directors meetings, Mr. Mogi provided legal points and suggestions on protection of intellectual property, raised concerns about business tie-ups, and offered advice on corporate governance and compliance systems, including those of overseas subsidiaries. As Chairman of the Compensation Advisory Committee, he also made fair decisions based on an independent and objective viewpoint.
Keiichi Ando Outside Director	Mr. Keiichi Ando has practical experience as a corporate executive at a financial institution and broad insight on finance. He also coordinated the extremely difficult adjustments between the national government and the governments of Osaka Prefecture and Osaka City for the airport management business of Kansai, which was then at a crossroads, and his experience and insight built the foundation of Kansai Airports, which plays a leading role in the current Kansai economy. Thus, he recognizes the corporate responsibility we should fulfill and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. We therefore recommend that you vote for his reelection as an outside director. At Board of Directors meetings, Mr. Ando presents many questions and opinions from the perspective of human resources and the use of assets that are important management resources, and provides appropriate advice about budget planning and management and capital policies, including investments.

≪*Kansayaku*≫

Name Position	Reasons for nominating the candidate for *Kansayaku*
Akira Okamoto *Kansayaku*	Mr. Akira Okamoto has served as General Manager of administrative units including the Business Support Center and the Human Resources Department, and is well-versed in corporate management. Recently, he has been involved in enhancement of the Company's corporate governance and upgrading and operation of the internal control system as General Manager of the Internal

	Control Department. We judged that he has the appropriate character and insight to perform the duties of a *Kansayaku*, and he was appointed as a *Kansayaku* at the Annual General Meeting of Shareholders in 2015.
Ikuo Kato *Kansayaku*	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 the subsidiary. He is not only well-versed in research and development, but has insight on corporate management. As Representative Director and President and Chairman of the subsidiary, he offers comments as necessary to the Shionogi Group's management, and in our judgment, he has the appropriate character and insight to perform the duties of a *Kansayaku*, and he was appointed as a *Kansayaku* at the Annual General Meeting of Shareholders in 2016.
Shinichi Yokoyama Outside *Kansayaku*	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 *Kansayaku*, and he was appointed as an Outside *Kansayaku* (third term) at the Annual General Meeting of Shareholders in 2016. At meetings of the Board of Directors and Board of Corporate Auditors, Mr. Yokoyama has made appropriate recommendations and management decisions 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 on pharmaceuticals and the pharmaceutical industry has deepened, and he has made 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 improvement of the risk management system.
Kenji Fukuda Outside *Kansayaku*	Mr. Kenji Fukuda has not been involved in corporate management in ways other than serving as an outside director or corporate auditor in the past. However, as a lawyer, he has legal expertise with detailed knowledge of corporate law, and has the necessary insight to supervise corporate management. In our judgment, he reflects that knowledge and insight in the Company's audits, and therefore he was appointed as an Outside *Kansayaku* (second term) at the Annual General Meeting of Shareholders in 2015. At meetings of the Board of Directors and Board of Corporate Auditors, Mr. Fukuda brought up many points that were useful in

	management decisions, not only by discussing legal issues but by presenting past examples. He has also provided valuable advice regarding changes in auditing standards and the role of the Board of Corporate Auditors with the revisions to the Companies Act and application of the Corporate Governance Code.
Takaoki Fujiwara Outside *Kansayaku*	Although in a different industry from that of the Company, Mr. Takaoki Fujiwara has extensive practical experience and a wide range of knowledge as a director of Hankyu Hanshin Holdings, Inc. and a manager of a group company of Hankyu Hanshin Holdings, Inc. In the Company's current situation in which new Group companies have been established in the last several years, we believe that Mr. Fujiwara is well qualified to conduct audits of the Company from the perspective of group management. We expect him to reflect that experience in conducting audits on the management decisions of directors and the appropriateness of business execution from an independent perspective as an outside Corporate Auditor. We therefore recommend that you vote for his election as an outside Corporate Auditor.

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

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

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

From fiscal 2016, the Board of Directors shall re-examine the resolutions and matters to be decided by the Board to expand the scope of delegation to the management team, and intends to strengthen the supervisory functions of the Board by clearly specifying matters to be reported related to the execution of duties.

【Principle 4.8 Effective Use of Independent Directors】

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

【Principle 4.9 Independence Standards and Qualification for Independent Directors】
The Independence Standards for independent directors and *kansayaku* are covered in II. 1. Independent Directors/*Kansayaku*.

【Supplementary Principle 4.11.1　Preconditions for the Board and *Kansayaku* Board Effectiveness】
The Board's overall balance among knowledge, experience and capabilities, basic views concerning diversity and size, and policies and procedures for appointing directors are covered in I. 1. Principle 3.1 Full Disclosure iv.

【Supplementary Principle 4.11.2 Preconditions for the Board and *Kansayaku* Board Effectiveness】
Directors and *Kansayaku* with concurrent responsibilities are covered in II. 1. Directors and *Kansayaku*.
In addition, the number of position that directors and *kansayaku* assume shall be limited reasonably possible to fulfill their roles and responsibilities.

【Supplementary Principles 4.11.3　Preconditions for Board and Kansayaku Board Effectiveness】
The Board of Directors analyzed and evaluated its effectiveness in FY2017 by conducting questionnaires and interviews of individual directors and kansayaku, 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:
1．Framework
We assess that the Board of Directors has currently secured the necessary framework from the standpoint of various attributes, including expertise and experience, and diversity. However, issues for the future include election of directors of foreign nationality and 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.

2．Roles and Responsibilities
The status of management development, an issue in the previous fiscal year, was reported at meetings between outside directors and the president to exchange opinions. Issues for the future that were mentioned are enhancement of discussions on the medium-term management plan and enhancement of explanations and discussions of the selection process and development progression with respect to management development.
Reports regarding further enhancement of reports on compliance and the operation of internal controls are to be made regularly every year, and a report on the status of compliance activities was presented at the Board of Directors meeting in September 2017.
The Board of Directors will take further improvement measures, including increasing the number of reports on compliance to two per year.
The Board of Directors will continue to consider ways to improve its roles and responsibilities.

3. Operation

To further stimulate discussion at Board of Directors meetings, the Board of Directors enhanced advance briefings and secured time for deliberation on important and highly specialized matters, which was an issue in the previous fiscal year.

Opinions submitted as issues for the future included flexible scheduling of Board of Directors meetings, efficient and effective advance briefing methods, and holding of observation tours of research laboratories and factories to further deepen directors' understanding of the pharmaceutical industry.

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

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

【Supplementary Principle 4.14.2　Director and *Kansayaku* Training】

The Company shall endeavor to enable directors and *kansayaku* to make candid opinions and proposals by providing, at all times, management information including that on business, finances, organization and other aspects as well as knowledge necessary for directors and *kansayaku* to fulfil their roles and obligations. Moreover, we shall provide and arrange training opportunities as required and assume the associated costs.

In fiscal 2016, the Company worked for cooperation and information exchange among the outside directors/*kansayaku* as well as between the outside directors/*kansayaku* and the management team by holding a roundtable discussion between the representative director and president and the outside directors/*kansayaku*, where the parties exchanged information, and an outside director/*kansayaku* information exchange and study meeting held by the full-time *kansayaku* for information exchange and study with the management team.

【Principle 5.1 Policy for Constructive Dialogue with Shareholders】

Guideline

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

Dialogue

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

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

Control of Insider Information

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

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (as a trustee)	34,880,000	11.09
Japan Trustee Services Bank, Ltd. (as a trustee)	20,367,500	6.47
Sumitomo Life Insurance Company	18,604,000	5.91
STATE STREET BANK AND TRUST COMPANY 505001	11,854,622	3.76
SMBC Trust Bank Ltd. (as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485,000	3.01
Nippon Life Insurance Company	8,409,142	2.67
Japan Trustee Services Bank, Ltd. (as a trustee5)	5,294,600	1.68
STATE STREET BANK WEST CLIENT - TREATY 505234	4,868,900	1.54
BNYM TREATY DTT 15	4,689,692	1.49
Japan Trustee Services Bank, Ltd. (as a trustee7)	4,638,000	1.47

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

Supplementary Explanation

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3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Pharmaceutical
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

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

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

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

1. Organizational Composition and Operation

Organization Form	Company with *Kansayaku* Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	7
Term of Office Stipulated in Articles of Incorporation	1 Year
Chairperson of the Board	Chairman of the Board (unless double as the President)
Number of Directors	6
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*									
		a	b	c	d	e	f	g	h	i	j	k
Akio Nomura	From another company											
Teppei Mogi	Lawyer											
Keiichi Ando	From another company								○			

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

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

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Akio Nomura	○	≪Other major posts≫ Outside Director of The Royal Hotel, Ltd.	At Board of Directors meetings, Mr. Nomura made many clear points and statements of support, including concerns about the direction of research and development and overseas business, and advice on changing the management structure based on human resource development. Based on his many years of experience in corporate management, his insight and other qualities, Mr. Akio Nomura recognizes the corporate responsibility the Company should fulfill and makes management decisions from a higher perspective with an emphasis on objectivity and independence, without bias in favor of corporate executives or specific interested parties. We therefore appointed him as an independent director by resolution of the Board.
Teppei Mogi	○	The Company does not have a contractual relationship with Oh-Ebashi LPC & Partners, of which Mr. Mogi is an employee and a partner. However, we decided that we are best served by advice on specific cases concerning international corporate law that draws on Oh-Ebashi LPC & Partners' specialized knowledge, for which we compensate the firm's attorneys. Such compensation represents less than 1 percent of the annual net sales of either Shionogi or Oh-Ebashi LPC & Partners, so we believe that it does not create a conflict of interest with our shareholders	At Board of Directors meetings, Mr. Mogi provided legal points and suggestions on protection of intellectual property, raised concerns about business tie-ups, and offered advice on corporate governance and compliance systems, including those of overseas subsidiaries. As Chairman of the Compensation Advisory Committee, he also made fair decisions based on an independent and objective viewpoint. Mr. Teppei Mogi has not been involved in company management in any way other than serving as outside director in the past, but recognizes the corporate responsibility the Company

		and does not interfere with Mr. Mogi's independence. ≪Other major 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.	should fulfill and makes fair management decisions, giving priority to legal compliance and social norms with a global perspective from his position as an attorney in international corporate law. We therefore appointed him as an independent director by resolution of the Board.
Keiichi Ando	○	The Company conducts banking transactions with Sumitomo Mitsui Banking Corporation, from which Mr. Ando retired as director in April 2012. However, six years have passed since Mr. Ando retired as director of Sumitomo Mitsui Banking Corporation, so we believe that this does not create a conflict of interest with our shareholders and does not interfere with his independence. In addition, the Company makes payments of insurance premiums to GINSEN co., ltd., where Mr. Ando serves as representative director and president, related to its non-life insurance agency business. However, such compensation represents less than 1 percent of the annual net sales of either Shionogi or GINSEN co., ltd., so we believe that it does not create a conflict of interest with our shareholders and does not interfere with Mr. Ando's independence. ≪Other major posts≫ Representative Director and President, GINSEN co., ltd. Outside Director TSUBAKIMOTO CHAIN CO.	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 provides appropriate advice about budget planning and management and capital policies, including investments. In addition, we appointed Mr. Ando as an outside director because he has practical experience as a corporate executive at a financial institution and broad insight on finance. He also coordinated the extremely difficult adjustments between the national government and the governments of Osaka Prefecture and Osaka City for the airport management business of Kansai, which was then at a crossroads, and his experience and insight built the foundation of Kansai Airports, which plays a leading role in the current Kansai economy. He recognizes the corporate responsibility the Company should fulfill and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. We therefore appointed him as an independent

			director by resolution of the Board.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination Advisory Committee	Compensation Advisory Committee
All Committee Members	5	5
Full-time Members	0	0
Inside Directors	2	1
Outside Directors	3	3
Outside Experts	0	0
Other	0	1
Chairperson	Outside Director	Outside Director

Supplementary Explanation

The "Other" member of the Compensation Advisory Committee is a corporate *kansayaku*.

[*Kansayaku*]

Establishment of *Kansayaku* Board	Established
Maximum Number of *Kansayaku* Stipulated in Articles of Incorporation	7
Number of *Kansayaku*	5

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

Kansayaku responsibilities include creating audit plans, reporting in tandem with external auditors on the status of audits they conduct with external auditors, and exchanging opinions regarding the specifics of these responsibilities.
Kansayaku receive monthly periodic reports from the Internal Control Department regarding the details of internal audits, with additional responsibilities including the exchange of opinions. Moreover, *kansayaku* structure systems including audits in cooperation with the Internal Control Department to quickly deal with issues including problems within the internal control system.

Appointment of Outside *Kansayaku*	Appointed
Number of Outside *Kansayaku*	3
Number of Independent *Kansayaku*	3

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

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Shinichi Yokoyama	From another company										△			
Kenji Fukuda	Lawyer													
Takaoki Fujiwara	From another company													

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

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

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. *Kansayaku* of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a *kansayaku*
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the *kansayaku* himself/herself only)
k. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the *kansayaku* himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the *kansayaku* himself/herself only)
m. Others

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

Name	Designation as Independent *Kansayaku*	Supplementary Explanation of the Relationship	Reasons for Appointment
Shinichi Yokoyama	○	As of March 31, 2018, the Company has borrowings of ¥5.0 billion from Sumitomo Life Insurance Company, from which Mr. Yokoyama retired as director in July 2014. However, because these borrowings account for approximately 0.69% of the Company's consolidated total assets (as of March 31, 2018), we believe that the impact on the Company's management is immaterial, and further, because nearly three years have passed since Mr. Yokoyama retired as a	At meetings of the Board of Directors and Board of Corporate Auditors, Mr. Yokoyama has made appropriate recommendations and management decisions 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 on pharmaceuticals and the pharmaceutical industry has deepened, and he has made observations indicating the

		director of Sumitomo Life Insurance Company, we believe that this does not create a conflict of interest with our shareholders and does not interfere with his independence. ≪Other major posts≫ —	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 improvement of the risk management system. He has abundant experience and broad insight as a corporate manager, and has therefore been appointed as an independent *kansayaku* by resolution of the Board so that he can appropriately make proposals regarding the management decision-making and execution of duties of the Board from a viewpoint that emphasizes his independence as a *kansayaku*, aware of the corporate responsibility the Company should fulfill and without bias in favor of corporate executives or specific interested parties.
Kenji Fukuda	○	≪Other major posts≫ Partner of DOJIMA Law Office Outside *Kansayaku* of The Senshu Ikeda Bank, Ltd.	At meetings of the Board of Directors and Board of Corporate Auditors, Mr. Fukuda brought up many points that were useful in management decisions, not only by discussing legal issues but by presenting past examples. He has also provided valuable advice regarding changes in auditing standards and the role of the Board of Corporate Auditors with the revisions to the Companies Act and application of the Corporate Governance Code. In addition, he has not been involved in company management in any way other than serving as an outside director in the past, but as a lawyer, he has legal expertise with detailed knowledge of corporate law, and already has the necessary insight to supervise corporate management. He has been appointed as an independent *kansayaku* by resolution of the Board so that he can appropriately make proposals regarding the management decision-making and execution of duties of the Board from a viewpoint that emphasizes his independence as a *kansayaku* and the observance of social norms, laws, regulations and other rules from his position as a lawyer, aware of the corporate responsibility the Company should fulfill and without bias in favor of corporate executive or specific interested parties.

Takaoki Fujiwara	○	≪Other major posts≫ Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd. Representative Director, Hankyu Hanshin Holdings, Inc. Director, Sanyo Electric Railway Co., Ltd. Director, Hanshin Hotel Systems	Although in a different industry from that of the Company, Mr. Takaoki Fujiwara has extensive practical experience and a wide range of knowledge as a director of Hankyu Hanshin Holdings, Inc. and a manager of a group company of Hankyu Hanshin Holdings, Inc. In the Company's current situation in which new Group companies have been established in the last several years, we believe that Mr. Fujiwara is well qualified to conduct audits of the Company from the perspective of group management. He has therefore been appointed as an independent *kansayaku* by resolution of the Board so that he can appropriately make proposals regarding the management decision-making and execution of duties of the Board from a viewpoint that emphasizes his independence as a *kansayaku* and the observance of social norms, laws, regulations and other rules, aware of the corporate responsibility the Company should fulfill and without bias in favor of corporate executive or specific interested parties.

[Independent Directors/*Kansayaku*]

Number of Independent Directors/*Kansayaku*	6

Matters relating to Independent Directors/*Kansayaku*

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

Requirements

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

Independence Standards

(1) Outside directors and *kansayaku* shall not be a director, *kansayaku*, executive officer or employee of a company that is among the Group's major shareholders (shareholders with

more than 10 percent of outstanding shares of the Group or one of the Group's top ten shareholders) or is among the companies of which the Group is the major shareholder (company that the Group owns more than 10 percent of outstanding Shares or the Group is one of the top ten shareholders of a company).

(2) Outside directors and *kansayaku* shall not be a director, *kansayaku*, executive officer or employee of a company that is among the Group's major suppliers (company for which transactions with the Group account for more than 1 percent of its or the Group's revenue).

(3) Excluding director or *kansayaku* remuneration from the Group, outside directors and *kansayaku* shall not receive annual remuneration in excess of ¥10 million nor receive remuneration that exceeds 1 percent of the annual revenue of a company, institution or other organization.

(4) Outside directors and *kansayaku* shall not have a position with a corporation or foundation to which the Group contributes more than ¥10 million annually.

(5) The tenure of the Group's outside director shall not exceed 10 years.

(6) The tenure of the Group's outside *kansayaku* shall not exceed 12 years (3 terms).

[Incentives]

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

Supplementary Explanation

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

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

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors

Supplementary Explanation

Fiscal 2017 remuneration for directors and *kansayaku* consisted of ¥379 million for six directors, of whom three outside directors received ¥43 million, and ¥102 million for six *kansayaku*, of whom outside *kansayaku* received ¥43 million.
The two directors who received total consolidated compensation of ¥100 million or more in fiscal 2017 are as follows.

Name	Position	Category	Amount of remuneration paid (Millions of yen)			
			Total	Base remuneration	Bonus	Stock options
Motozo Shiono	Chairman of the Board	Shionogi & Co., Ltd.	110	72	20	17
Isao Teshirogi	President and CEO	Shionogi & Co., Ltd.	161	84	56	20

Note: Director remuneration for fiscal 2017 included ¥96 million in bonuses for directors, for which the three outside directors are ineligible.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Guidelines
Remuneration standards shall involve a system of remuneration that supports execution of duties by directors that continuously expands corporate value over the medium- to long- term. It shall involve appropriate performance-based remuneration, enable the Group to secure outstanding personnel, and enable fulfillment of the obligation for explanation to shareholders and other stakeholders.
Calculation Methods
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 of the operating environment and global trends. Bonuses are short-term incentives determined according to performance, including achievement of profit targets, and other factors in each fiscal year based on a calculation matrix. In addition, restricted stock is awarded based on a grant table according to the director's position and role. Conditions for removal of transfer restrictions are as follows.
(1) Long-term stock-based compensation

Restrictions will be removed for all of the allotted shares upon the expiration of the restriction period, on the condition that the eligible director has served continuously as either a director of the Company or as an executive officer not concurrently serving as a director during the restriction period.

(2) Medium-term performance-linked compensation
Restrictions will be removed upon the expiration of the restriction period for a number of shares determined by multiplying the number of shares the eligible director held when the restriction period ended at a removal rate between 0 and 100%, which is determined according to the degree of achievement of performance targets for the period covered by the medium-term performance-linked compensation, on the condition that the eligible director has served continuously as either a director of the Company or as an executive officer not concurrently serving as a director during the transfer restriction period. Performance targets consist of net sales and operating income driven by new products and core businesses, return on equity, the growth rate of total shareholder return (TSR) at comparable companies, and other indicators. These indicators are determined after a comprehensive evaluation of factors such as quantitative targets in the medium-term management plan and issues related to the Company's business, and are based on the assumption that the Company achieves its vision, which is to "grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare." The restriction removal rate is decided by the Board of Directors based on deliberations of the Compensation Advisory Committee, after comprehensively assessing the degree of achievement of each indicator at the end of the evaluation period.

Total *kansayaku* remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It encompasses base monthly remuneration.

Procedures

The Compensation Advisory Committee, chaired by an outside director, shall deliberate fairly, transparently and rigorously, and its conclusions shall inform decisions about remuneration by the Board of Directors.

Future Policy

Recently, based on revisions to the tax system, stock-based compensation programs using different mechanisms such as trust-based stock compensation and restricted stock have been introduced at some other companies. Shionogi has also considered its approach to stock-based compensation, including the current stock option plan.

We have decided to shift to a stock-based compensation plan suited to Shionogi in order to provide incentives to continuously enhance corporate value by further increasing the linkage between director compensation o and the Company's medium- and long-term business performance, and to further promote shared value with shareholders. The share of basic compensation in total compensation, which was approximately 75 percent in fiscal 2013, was reduced to about 55 percent in the last fiscal year. By changing to a stock-based compensation plan, we aim to further reduce the proportion of basic compensation to 50 percent or lower.

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

Corporate *kansayaku a*nd managers including the manager of the Secretary Office and the general manager of the Human Resources & Administration Department shall provide information to outside directors using means including direct discussion for matters related to proposals by the Board that are deemed to be crucial and to require advance reference materials and discussion.

In addition, information obtained through means including the proceedings of important meetings, collaboration between external auditors and the Internal Control Department, and the exchange of opinions with representative directors are shared with each *kansayaku*.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

The Company has opted to be a company with a Board of Corporate Auditors, and has a framework that separates business management and business execution, under which the Board of Directors is responsible for making management decisions in line with the Group's medium- to long-term plans, while the Business Execution Framework that is mainly comprised of executive officers is responsible for business execution through rapid and flexible decision-making. The Board of Corporate Auditors and the external auditors form the Audit Framework for overseeing management and auditing business execution. The Boards and the Frameworks form the structure that fulfills their respective roles and responsibilities from an independent perspective.

Board of Directors

Aiming to strengthen the Board's oversight of business execution, 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 a woman to the Board and increased the number of directors to six in order to strengthen management further and promote diversity. Through the appointment of three outside directors (half or greater than half of the directors), we are supporting a system that ensures fair and efficient management. 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 (three outside directors and two inside directors) and the Compensation Advisory Committee (three outside directors, one inside director and one corporate *kansayaku*), which are chaired by outside directors. To ensure management decisions are equitable, these committees carefully assess the aptitude of candidates for director positions, the impact directors have on business management, and the suitability of individuals for certain roles and their respective levels of remuneration.

Business Execution Framework

In addition, the Company has introduced an executive officer system to support dynamic and flexible business operations, enabling the Group to respond rapidly to significant changes in the operating environment. The Company has also established the Corporate Executive Meeting as a body to discuss business execution. It is composed of directors, *kansayaku* and the corporate officers responsible for business execution and meets every week in principle. The Corporate Executive Meeting is a forum for discussing issues related to business execution and important management matters. In principle, the Board meets every month to make decisions on important matters that affect the Company's business and to oversee business execution.

Business execution encompasses nine divisions – the Pharmaceutical Research Division that engages in research and development, the Global Development Division, the Manufacturing Division that conducts manufacturing and manages the supply chain, the CMC R&D Division that is engaged in development of manufacturing technology, the Human Health Care Division that communicates information about drugs, the Corporate Quality Management Division that is responsible for assuring the quality of products that the Company manufactures and sells and safety management, the Global Business Division that strategically promotes overseas business development, and the Corporate Strategy Division that manages the Corporate Executive Meeting that is in turn a forum for

discussions relevant to making decisions about business execution – which along with a system for business execution that consists of organizations that are responsible for management and administrative functions.

Audit Framework

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

3. Reasons for Adoption of Current Corporate Governance System

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

III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company has a basic policy of sending notifications no less than three weeks before the date of the general shareholder meeting. However, for the 153rd General Meeting of Shareholders held in June 2018, notifications were sent two weeks before the meeting.
Scheduling AGMs Avoiding the Peak Day	The Company selects a day for the General Meeting of Shareholders on which many other companies are not holding their meetings so that many shareholders may attend.
Allowing Electronic Exercise of Voting Rights	The Company has allowed electronic exercise of voting rights since the voting at the 144th General Meeting of Shareholders held in June 2009.
Participation in Electronic Voting Platform	The Company has participated in an electronic voting platform and enabled its use since the voting at the 144th General Meeting of Shareholders held in June 2009.
Providing Convocation Notice in English	The Company translates the Notice of Convocation into English and makes it available on its website.

Other	The Company announces the General Meeting of Shareholders on its website prior to sending the Notice of Convocation, and works to make voting smoother.

2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	The Company codified its disclosure policy on January 1, 2012, and announced its commitment to fair disclosure by providing information on its website.
Regular Investor Briefings for Individual Investors	—
Regular Investor Briefings for Analysts and Institutional Investors	The Company gives presentations of financial results every six months after announcing year-end and first-half results, and gives an R&D presentation once a year. Nearly 100 analysts and institutional investors participate in these meetings, at which representative directors primarily give presentations with support as needed from director and senior executive officers and senior executive officer responsible for accounting and finance. Director and senior executive officer, senior executive officer responsible for accounting and finance and the general manager of the Corporate Communications Department hold teleconferences with analysts and institutional investors to present first and third quarter financial results.
Regular Investor Briefings for Overseas Investors	The Company makes English recordings of presentations in Japan available on its website in a timely manner. In addition, we give multiple presentations during the year in North America, Europe and Asia that focus on financial results. The Company gives presentations for institutional investors, and participates in conferences held by securities companies in Japan to provide information.
Posting of IR Materials on Website	The Company provides information for investors that include information about financial results, news releases, annual and quarterly securities reports, the Shionogi Business Report, presentation materials and presentation recordings, Integrated reports, and the status of the development pipeline.
Establishment of Department and/or Manager in Charge of IR	Corporate Communications Department

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In accordance with the Company Policy – the Group's management philosophy – we believe it is our social mission to continually discover, develop and supply useful and safe medicines that help improve the health, medical treatment and quality of life of people around the world, and we make every effort in our daily business

	activities to enable Shionogi people to contribute to all stakeholders. Based on this ethos, we have formulated the Action Guidelines and Charter of Conduct, which are codes of conduct for Shionogi people, and the Shionogi Group Compliance Policy as a standard for compliance. All officers and employees are committed to putting them into practice.
Implementation of Environmental Activities, CSR Activities etc.	In order to realize our target of achieving – "continuous growth hand in hand with society as a drug discovery-based pharmaceutical company" – in accordance with the Company Policy, the Group's management philosophy, we conduct activities for fulfilling our corporate responsibilities with respect to economic, social and environmental issues while we work to create innovative drugs and address social issues. We established the Corporate Social Responsibility Department in April 2018 to promote unified CSR efforts such as the following. **Environmental Protection Activities** As a pharmaceutical company and corporate citizen that contributes to the maintenance and improvement of the health and wellbeing of people as well as their comfortable lives, we recognize an obligation to protect the environment, prevent pollution and keep people safe through our various business activities. We established the Shionogi Group EHS Policy and formulated the Shionogi Group EHS Action Targets comprising the items below, and are implementing them in all of our corporate activities, including the supply chain. (1) Promote energy conservation and global warming control measures (2) Promote resource conservation and waste control measures (3) Optimize the management of chemicals (4) Build an EHS management system (5) Protect sound water circulation (6) Contribute to the protection of biodiversity (7) Work toward zero accidents resulting in lost work time (8) Develop EHS efforts throughout the supply chain (9) Promote healthy and productive management **Social Contribution Initiatives** We are conducting the following initiatives under our policies of "creating a more vigorous society" and "protecting people from the threat of infectious diseases" in Medium-Term Business Plan SGS2020. (1) Support for Children's Bright Futures: Together with organizations related to support for developmental disabilities (local governments, universities, etc.), we conduct activities to promote greater understanding of developmental disabilities, achieve earlier detection and intervention, and realize lifelong support. (2) Changing Society to be More Convenient for Sight- and Hearing-Impaired People: We conduct activities to eliminate communication

	barriers between people with disabilities and healthcare professionals when receiving medication instructions. (3) Promoting Appropriate Use: We promote improved understanding of the proper use and management of opioids, and conduct initiatives for infectious disease prevention and antimicrobial resistance (AMR). (4) Protecting Health and Wellbeing of Small Children, Pregnant Women and Nursing Mothers: Using a portion of the sales proceeds from the Popon® S series of multivitamin tablets, we contribute to activities for recommendations aimed at reducing maternal, neonatal and infant mortality rates in Kenya. We also provide support such as research grants through a foundation and donations to disaster areas by the Social Contribution Support Association we established jointly with employees and labor unions.
Development of Policies on Information Provision to Stakeholders	Regarding information disclosure, as in V Other 2. Other Matters Concerning to Corporate Governance System, we have established a system and policy (Disclosure Policy) for disclosing appropriate information at the appropriate time.
Other	In fiscal 2015, we appointed a woman to the board in increasing the number of directors to promote diversity, and we appointed one non-Japanese and one woman as executive officers responsible for business execution.

IV. Matters Related to the Internal Control System

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

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

「The Basic Policy for Construction and Operation of Internal Control System」

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

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

(1) A system to assure appropriate execution of the Directors' duties in accordance with the related regulations and the Articles of Incorporation.

The Board of Directors will make decisions on material matters of management based on appropriate business judgments in accordance with the Board of Directors Regulations, and each director will supervise the execution of the other directors' duties and prevent the other directors' violation of the related laws, regulations and the Articles of Incorporation.

The Board of Directors will strive to achieve sustainable growth for the Shionogi Group and work to increase corporate value over the medium and long term by practicing the Basic Views and Guidelines on Corporate Governance, which were established to realize the best possible corporate governance.

In the event that a director finds the instance of another directors' violation of the related laws, regulations and the Articles of Incorporation, such director will immediately report to the corporate auditors and the Board of Directors and correct such violation.

In order to establish proper corporate governance systems, the Company introduced outside directors to make decisions with a broader view of the matter taking into consideration the objective views of third parties including shareholders.

The outside directors recognize the corporate responsibility which the Company should achieve from their perspective as independent directors, and contribute to the improvement of management transparency.

To ensure the reliability of financial reporting, the Company maintains and implements internal controls over financial reporting, and appropriately evaluates and reports on their effectiveness.

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

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

Based on Shionogi's "Behavior Charter", the Company consistently and resolutely resists the influence of antisocial forces and precludes any connection with them

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

The Company has established a security system for the information related to execution of the directors' duties, including documents and signatures electronically recorded.

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

(3) A system and other rules for management of risk of loss.
The Company will establish, improve and maintain a comprehensive risk management system, including a business continuity plan, in accordance with the Shionogi Group Risk Management Policy. Each division will understand the internal risk factors, and take an appropriate action for avoidance or decrease of such risks by means of countermeasures according to the degree of such risk.
Especially, countermeasures for material risks which may have an influence on the Company's management will be discussed and determined at the corporate executive meeting and the responsible department will take appropriate action in cooperation with the related divisions based on such determination.
Moreover, with regard to emergency risks such as disasters, accidents and company scandals, etc., the Company enacted the "Crisis Management Policy" and defined the "Compendium for Disaster Measures," the "Compendium for Pandemic Measures" and the "Compendium for Corporate Scandals Measures" based on the policy, and the Company will promote crisis management while aiming to reflect respect for human life, be considerate of and contribute to regional communities and suppress derogation of corporate value.
In accordance with the Shionogi Group EHS* Policy, the Shionogi Group strives to conduct business activities in a manner that gives consideration to protection of the global environment, prevention of pollution, and support of the health and safety of its employees and the local communities in which Shionogi Group companies operate.

*EHS: Environment, Health and Safety

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

(4) A system to assure efficient execution of the directors' duties.
The Company has clearly allocated the role of execution and supervision of operations, and for the purpose of the flexible operation, the corporate executive officer system was introduced.
The regularly (weekly)-held corporate executive meeting will fully discuss the material matters regarding the business operation, and the Board of Directors will make a decision based on the result of such deliberation.
The decision at the Board of Directors meeting and the results of deliberation at the corporate executive meeting will be communicated to the general manager of the related department allocated the role of execution of business operations, and such general manager will follow the necessary procedures for business operations in accordance with the regulations concerning allocation of responsibility and duties.

(5) A system to assure appropriate execution of the employees' duties in accordance with the related laws, regulations and the Articles of Incorporation.
The Company will further promote the measures for the compliance with the related laws, regulations and ethical behavior in its business operations mainly through the compliance committee in accordance with "Shionogi Group Compliance Policy".

A secretariat of the Compliance Committee has been established in the Corporate Social Responsibility (CSR) Department. It will implement compliance training and harassment training, as well as assist each department in managing compliance and harassment risk.
In addition, to verify the effectiveness of its internal control system, the Company will enhance internal audits by the Internal Control Department to strengthen its monitoring capabilities, and will make full use of its internal reporting system and consultation hotlines to work for the prevention and early detection of misconduct and prevention of its recurrence.

(6) A system to assure appropriate operation of business by the corporate group comprised of the company and subsidiaries.
The Company and the group companies will improve the value of the corporate group, and keep the group companies informed about "Shionogi's Policy" and "Shionogi's Action Guidelines" in order to fulfill the corporate group's social responsibility.
Directors will receive reports on business operations from group companies, and will properly manage and guide group companies based on the "Rules for Management of Shionogi Group Companies" in order to realize Shionogi's Company Policy, Action Guidelines and Business Plan.

Group companies will promote appropriate and efficient business operations by conducting business management in accordance with the policies and guidelines mentioned above.
Operating divisions, including the Pharmaceutical Research Division and Manufacturing Division, and administrative divisions, including the Human Resources & Administration Department and the Finance & Accounting Department, will manage and provide support for appropriate business operations of group companies, with the Human Resources & Administration Department in charge of overall administration.
The Internal Control Department will conduct surveys as required to ensure the appropriateness and effectiveness of the business operations of group companies. In addition, the Finance & Accounting Department and the Internal Control Department conduct audits of group companies.

(7) Matters regarding employees assigned to assist the corporate *kansayaku*s' duties by the request from the corporate *kansayaku*, and matters regarding independence of such employees from the directors.
The Company will assign employees to assist the corporate *kansayaku*s' duties according to the request from the corporate auditors based upon their needs.
The Company will ensure the system that the employees assigned will be independent from the directors.
The Company will make it generally known among the directors and employees that employees assigned to assist the corporate *kansayaku*s' duties follow the instructions of the corporate *kansayaku*.

(8) A system for reporting to the corporate *kansayaku* by directors and employees, and other systems regarding the reporting to the corporate *kansayaku*.
The corporate *kansayaku* will attend the material meeting such as the Board of Directors and the corporate executive meeting etc. and establish the system to obtain the information relating to the business operations and management, and efficacy of the internal control in a timely manner.
The corporate *kansayaku* may directly instruct directors and corporate officers etc. to report on the business operations.
The directors or responsible employees for execution will inform the corporate *kansayaku*, either in writing or orally, of a fact that could cause substantial damage to the Company or group companies, a

potential and actual situation that markedly impairs the Company's reputation, and illicit or wrongful acts by the officers or employees such as breaches of the law.
The Company will guarantee that officers or employees of the Company or group companies who make reports to the corporate *kansayaku* do not receive unfavorable treatment as a result of making such reports.
When a corporate auditor makes a claim to the Company for prepayment of expenses or other reason related to the execution of these duties, the Company will promptly process such expenses or debt, except where it is considered unnecessary.

(9) Other systems to assure effective audits by a corporate *kansayaku*.
The corporate *kansayaku* will improve upon the audit to make it more effective by cooperating with the accounting auditors and the Internal Control Department in conducting the audit as well as in advising and recommending, and by regularly holding opinion exchange meetings with the representative directors.
In addition, to ensure the effectiveness of audits throughout the group, the corporate *kansayaku* have established the "Group Company Audit Liaison Committee" and hold meetings regularly to exchange opinions on the issue risks of Group companies.

2. Basic Views on Eliminating Anti-Social Forces

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

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

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

2. Other Matters Concerning to Corporate Governance System

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

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

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

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

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