

## **Basic Views and Guidelines on Corporate Governance**

Shionogi & Co., Ltd.

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.

### **1. Philosophy**

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.

(Principle 2.1, Principle 2.1, Principle 3.1i)

The Group shall regularly review and confirm inculcation of the Company Policy, Action Guidelines, Charter of Conduct, and corporate culture.

(Supplementary Principle 2.2.1)

## **2. Corporate Governance**

### **(1) 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.

(Principle 3.1 ii)

### **(2) Framework**

The Company has opted to be a company with a *Kansayaku* Board, 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 *Kansayaku* Board and the external auditors form the Audit Framework for overseeing management and auditing business execution. The Boards and the Frameworks form the structure that fulfills their respective roles and responsibilities from an independent perspective.

(Principle 3.1 ii)

## **3. Securing the Rights and Equal Treatment of Shareholders**

### **(1) Guidelines**

The Company substantively ensures shareholder rights at the General Meeting of Shareholders, including voting rights, and maintains an environment in which all shareholders are able to properly exercise their rights as shareholders.

(Principle 1.1, Principle 1.2)

Specific initiatives and guidelines are as follows:

- ① The Company selects an appropriate day for the General Meeting of Shareholders on which many other companies are not holding their meetings.  
(Supplementary Principle 1.2.3)
- ② The Company sends out early notification of the General Meeting of Shareholders, and posts it on its website prior to sending it out.

(Supplementary Principle 1.2.2)

- ③ The Company shall endeavor to provide complete information, including reference documentation for the General Meeting of Shareholders, so that shareholders can make informed decisions in exercising their voting rights at the General Meeting of Shareholders.

(Supplementary Principle 1.2.1)

- ④ The Company shall maintain an environment that facilitates the exercise of voting rights, which shall include the use of the electronic voting platform and translation of the Notice of Convocation into English.

(Supplementary Principle 1.2.4)

- ⑤ The Company shall analyze the causes and consider corrective measures when a resolution that is put to vote is opposed by significant number of votes.

(Supplementary Principle 1.1.1)

## (2) The Rights of Shareholders

The Group shall respect voting rights, and shall give due consideration to substantively ensuring the rights of all shareholders, including the exercise of voting rights and the rights of minority and foreign shareholders.

(Supplementary Principle 1.1.3, Supplementary Principle 1.2.5)

## (3) The Agenda for General Shareholder Meetings

The Company shall decide which resolutions to propose to the General Meeting of Shareholders and which to delegate to the Board of Directors with due and valid consideration for the corporate governance system and for ensuring the flexibility and expertise of management decisions.

(Supplementary Principle 1.1.2)

## (4) Anti-Takeover Measures

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.

(Principle 1.5, Supplementary Principle 1.5.1)

## 4. Business Views and Strategies

### (1) Medium-Term Business Plan

The Group shall establish medium-term management plans and targets in anticipation of its desired vision for the future and shall implement initiatives to achieve its targets, after accurately determining capital costs.

In addition, the Company shall annually confirm the status of its progress with its medium-term management plans and disclose the results of such confirmation.

(Principle 3.1 i, Supplementary Principle 4.1.2, Principle 5.2)

## (2) Capital Policy

The Group shall comprehensively consider the status of its businesses, the operating environment, the extent of its capital requirement and other issues to balance the following considerations in a manner that supports increased corporate value over the medium- to long-term, after accurately determining capital costs.

- ① Investing in R&D and facilities for growth
- ② Strategic business investment
- ③ Shareholder returns

The Group shall ensure appropriate procedures with regard to capital policies that reduce shareholder returns and sufficiently explain them to shareholders.

(Principle 1.3, Principle 1.6, Principle 5.2)

## (3) 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.

### **Verification to Determine Appropriateness of Shareholdings**

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 company about matters such as the details of proposals as necessary.

(Principle 1.4, Supplementary Principle 1.4.1, Supplementary Principle 1.4.2)

(4) Corporate Pension Plan

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.

(Principle 2.6)

(5) 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 1.7)

(6) Compliance

The Group shall comply with the Shionogi Group Compliance Policy in good faith. Compliance in the Group does not mean only compliance with laws, rules and/or regulations but also with social standards as well as ethical behavior.

In addition, the Board of Directors regards compliance as one of the top priority issues of management, and shall regularly receive reports on and supervise compliance activities.

(Principle 4.3, Supplementary Principle 4.3.4)

(7) Risk Management

To address hypothetical risks, the Group has established risk management rules and other measures in accordance with the Shionogi Group Risk Management Policy, and focuses on efforts for the prevention of various risks. The Group also works to maintain and improve systems for business continuity to meet its social responsibility even when a crisis occurs.

In addition, the Group has constructed and operates a system for ensuring appropriate operations in accordance with the Basic Policy for Construction and Operation of Internal Control System.

(Principle 4.3, Supplementary Principle 4.3.2)

(8) Sustainability

While working to address social issues by creating innovative drugs as a pharmaceutical company, the Group also conducts activities to fulfill its corporate responsibilities with respect to economic, social and environmental issues. These

activities are aligned with global frameworks such as the UN's Sustainable Development Goals (SDGs), and are also important for building a sustainable society.

(1) Environment, Health and Safety

The Group has formulated the Shionogi Group EHS Policy as well as the Shionogi Group EHS Action Targets based on that policy, and implements activities to protect the environment, prevent pollution and ensure health and safety in our business activities, including the supply chain.

(2) Social Contribution

The Group implements concrete initiatives in collaboration with diverse stakeholders based on its policies of “protecting people from the threat of infectious diseases” and “creating a more vigorous society” in the Medium-Term Business Plan SGS2020.

Through these activities, the Group will aim to grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society, and to become a company whose contribution is recognized by society.

The Board of Directors regularly receives reports on these activities, and provides suggestions for promoting them.

(Principle 2.3, Supplementary Principle 2.3.1)

(9) Ensuring Diversity

The Group's Action Guidelines recognize that individuality and diversity lead to greater creativity, translating into higher-value products and services for patients, their families and healthcare professionals. We therefore seek to maximize the individuality of all people who are associated with the Shionogi Group. This is one of the standards we use to make value judgments on a daily basis.

All employees conducting their daily activities in accordance with these Action Guidelines will support the continuing development of the Group by leveraging the diverse perspectives and values of individuals.

(Principle 2.4)

## **5. Disclosure**

(1) Guidelines

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.

(Supplementary Principle 3.1.1, Principle 5.1)

(2) 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- to 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.

(Supplementary Principle 5.1.2 i, ii, iv)

We endeavor to identify actual shareholders using companies including stock custodian firms and external institutions.

(Supplementary Principle 5.1.3)

(3) 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.

(Supplementary Principle 5.1.2 v)

## **6. Directors and the Board**

(1) Framework

**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 is 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.

(Principle 3.1 iv, v, Supplementary Principle 4.3.2, Supplementary Principle 4.3.3, Principle 4.11, Supplementary Principle 4.11.1)

Excluding outside directors, the board currently does not have any non-executive directors. However, we shall be flexible in making use of non-executive directors according to the Group's circumstances and changes in the environment.

(Principle 4.6)

### **Optional Advisory Committees**

We have established the Nomination Advisory Committee and the Compensation Advisory Committee. However, we may establish optional advisory committees as required in working to enhance the use of governance functions.

(Principle 4.10, Supplementary Principle 4.10.1)

## (2) Independent Directors

### **Guideline**

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.

In appointing independent directors, we shall select candidates based on standards for independency set by the Financial Instrument Exchanges and the Requirements and Independence Standards the Company has set for independent directors to fulfill their roles and responsibilities.

(Principle 4.7, Principle 4.8)



### (3) Roles and Responsibilities

The Company directors (the Board of Directors) shall fulfill the crucial role and obligation to supervise decisions regarding important matters that affect management and business execution.

Requisite matters for decisions by the Board of Directors are defined by the resolutions in the rules governing the board.

(Principle 4.1)

#### **Scope of Delegation**

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.

(Supplementary Principle 4.1.1)

### (4) Remuneration

#### **Guideline**

The Company shall maintain a remuneration system that further increases the linkage between director compensation and the Company's medium- and long-term business performance to further provide an incentive to its directors to promote continuous enhancement of the Company's corporate value, and that enables the Company to further promote shared value with shareholders. The system shall also involve appropriate performance-based remuneration, enable the Group to secure outstanding personnel, and enable fulfillment of accountability to shareholders and other stakeholders.

In designing the remuneration system, the Company shall aim to keep the proportion of base remuneration at no more than 50% of total remuneration.

#### **Procedure**

The Compensation Advisory Committee, which is comprised of a majority of independent outside directors and chaired by an independent outside director, shall

deliberate specific remuneration amounts fairly, transparently and rigorously, and its conclusions shall inform decisions about remuneration by the Board of Directors.

(Principle 3.1 iii, Principle 4.2, Supplementary Principle 4.2.1)

(5) Analyzing and Evaluating the Effectiveness of the Board

Operations, deliberations and other aspects of the Board of Directors shall be periodically analyzed and evaluated, and an overview of the results shall be disclosed.

(Supplementary Principle 4.11.3)

(6) Operation

The Board of Directors shall operate in a manner that energizes its deliberation through free and constructive discussion and exchange of opinions, including when outside directors bring up issues for discussion.

(Principle 4.12)

(7) Support Structure

Directors and *kansayaku* shall be provided information required for the fulfillment of their roles and obligations in a timely manner, and the information requested by directors and *kansayaku* shall be provided to them. In addition, a system that provides support in terms of personnel, costs and the like for directors and personnel shall be in place.

(Principle 4.13, Supplementary Principle 4.13.1, Supplementary Principle 4.13.2)

(8) Cooperating with Outside Directors and Outside *Kansayaku*

The Company shall provide support for collaboration between outside directors and outside *kansayaku* to exchange information, achieve shared understanding, and the like.

(Supplementary Principle 4.4.1, Supplementary Principle 4.8.1, Supplementary Principle 4.8.2)

(9) Director and *Kansayaku* Training

**Guideline**

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.

(Principle 4.14, Supplementary Principle 4.14.1, Supplementary Principle 4.14.2)

## **7. Audit Framework**

### *(1) Kansayaku*

#### **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.

The Company selects candidates for outside *kansayaku* in accordance with its own Requirements and Independence Standards.

#### **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.

(Principle 3.1 iv, Principle 4.11)

### *(2) Roles and Responsibilities of Kansayaku*

The *Kansayaku* Board shall fulfill its audit duties because they are an important responsibility for improving management soundness and transparency.

(Principle 4.4)

### *(3) External Auditors*

The Group shall ensure proper accounting audits with the following approaches.

- ① The *Kansayaku* Board has established *kansayaku* audit standards to appropriately evaluate the execution of duties by external auditors, as well as the Audit Framework and independence. When conducting evaluations, the *Kansayaku* Board shall confirm industry knowledge and the specialization required to conduct global business.
- ② The Group enables external auditors to provide high-quality audits by engaging a sufficient number of external auditors and providing opportunities

including the ability to visit offices overseas and throughout Japan.

- ③ For accounting audits, the Group shall provide opportunities for external auditors to hold discussions with representative directors, managers responsible for accounting and finance, and other senior managers.
- ④ The Group provides opportunities for external auditors to meet regularly and exchange opinions with directors, *kansayaku* and the Internal Control Department, which conducts internal audits.
- ⑤ The Group maintains a system for immediately informing the *Kansayaku* Board and discussing subsequent action if external auditors uncover or point out information that is fraudulent or otherwise contravenes the internal control system.

(Principle 3.2, Supplementary Principle 3.2.1, Supplementary Principle 3.2.2)

#### (4) Internal Control

The Group structures a system for requisite measures to ensure proper and legally appropriate execution by each organization in the Group under which the Internal Control Department, which is responsible for internal audits, shall audit as necessary the execution of duties, report to President & CEO and exchange opinions with *kansayaku*.

(Supplementary Principle 4.13.3)

## 8. Business Execution Framework

### (1) Appointment

#### **Guideline**

The Company shall appoint executive officers who fulfil the qualifications defined for someone of that rank in the Company's personnel management system and who have capabilities including specialized and technological knowledge and skills, executive experience, the ability to manage people and organizations, and organizational management capabilities aligned with Group-wide policies and goals. Senior managers who meet the above requirements shall receive training via the President's Management Seminar and the Management Seminar, and their progress shall be properly reported to the Board of Directors.

#### **Procedure**

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

(Principle 3.1 iv, Supplementary Principle 4.1.3, Principle 4.3, Supplementary

(2) Remuneration

**Guideline**

Executive officer remuneration shall be in line with industry remuneration levels within an appropriate remuneration system and level aligned with the Group's personnel system, and shall reflect the rank, responsibilities, duties and performances of the executives.

**Procedure**

The Compensation 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 remuneration by the Board of Directors.

(Principle 3.1 iii, Principle 4.2, Supplementary Principle 4.2.1)

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

Established on October 29, 2015

Revised on December 7, 2018

Separate Sheet

## The Requirements and Independence Standards

Shionogi & Co., Ltd.

### 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).