

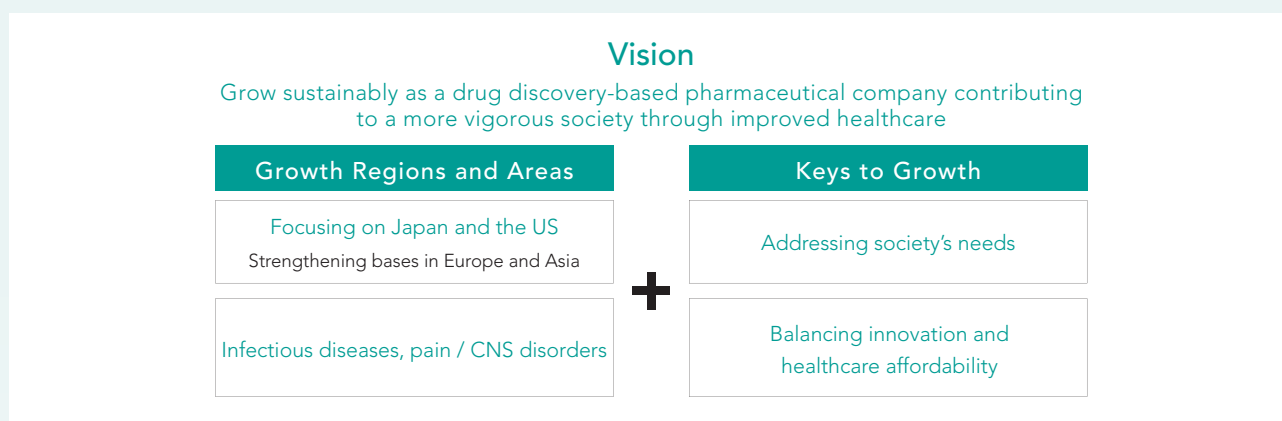
Medium-Term Business Plan SGS2020 (2014-2020)

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

In March 2014, we launched Shionogi Growth Strategy 2020 (SGS2020), which set out our medium-term vision for Shionogi. We updated the plan in October 2016 to raise our goals even further. Under the plan's vision – Grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare – the Group is making a concerted effort to achieve its targets.

In this section, we summarize the goals of the plan and the key themes for a drug discovery-based pharmaceutical company, given the increasing complexity of drug development and continued growth in the generic drug market.

Basic Strategy in Updated SGS2020



Our vision for Shionogi based on two themes

1 A continued commitment to drug discovery

Pharmaceutical companies are focused on drug discovery. That goes without saying, but at Shionogi, our commitment to drug discovery is particularly strong.

Shionogi ranks 45th worldwide by sales in the global pharmaceutical market (fiscal 2016). Many pharmaceutical companies of similar size have diversified their businesses into generic drugs. In contrast, Shionogi's original pipeline ratio is roughly 70%, underscoring our proprietary strengths in drug discovery. Those capabilities are creating a steady stream of new global drugs, such as hyperlipidemia treatment *Crestor* and anti-HIV agent *Tivicay*.

We are also working to discover new products in-house because it aligns with our corporate policy: "Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." Given those factors, we have declared our commitment to growing as a drug discovery-based pharmaceutical company. That vision has made our path clearer. We have completely exited the generic drug market, where we had a small presence when SGS2020 was launched, and international investors have welcomed our move to clarify Shionogi's corporate character.

2 A desire to "grow sustainably contributing to a more vigorous society through improved healthcare"

In the original SGS2020 plan, announced in early 2014, our vision was to "Grow as a drug discovery-based pharmaceutical company." In the latest version, which was updated in 2016, we have expanded that vision to include the phrase "contributing to a more vigorous society through improved healthcare."

Recently, amid growing public controversy about rising health costs, pharmaceutical companies have faced severe criticism about the high price of some medicines. The public is starting to push back against the argument that high prices are

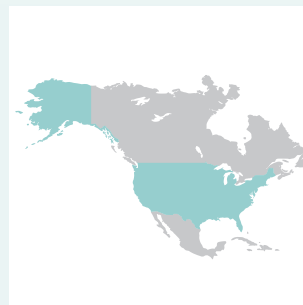
warranted by the revolutionary nature of new drugs. As a drug company, we have to seriously address those concerns. Looking beyond our basic value to society as a drug manufacturer, we have to ask ourselves what kind of value we can create for society through drug discovery. That means looking at ways to solve broader social issues. That approach will also help to increase Shionogi's corporate value – another reason why we added the phrase "contributing to a more vigorous society through improved healthcare."

Targeting resources on promising growth markets and therapeutic areas

1 Focusing on Japan and the US

Shionogi has grown its business by focusing on the Japanese market. Under the updated SGS2020 plan, we are accelerating the Group's overseas business expansion. Our priority region is the US, the world's largest pharmaceutical market. The first objective is to put in place systems that will allow us to develop and sell products as we do in Japan. We have already made some good progress. Shionogi teams in Japan and the US jointly developed proprietary drug *Symproic*, a treatment for opioid-induced constipation (OIC), and we are developing a new antibacterial drug as part of our response to the threat of antimicrobial resistance (AMR).

Meanwhile, in Japan's super-aging society, there is a growing need for longer healthy life expectancy. Shionogi is focusing on the therapeutic area of pain / CNS disorders. We are helping to make life better for patients and their families by targeting symptoms that cause a significant reduction in quality of life (QOL), such as pain and reduced cognitive function caused by certain medical conditions.



2 Infectious diseases, pain / CNS disorders

We are focusing on infectious diseases and pain / CNS disorders as therapeutic areas where we can maximize our strengths in small-molecule drug discovery. Our strong position in infectious disease treatments is well-recognized, to the extent that the Shionogi name is synonymous with antibiotics in Japan, while small-molecule drugs are effective in the treatment of pain and CNS disorders. Those factors are behind our decision to select infectious diseases and pain / CNS disorders as priority areas. Infectious diseases are responsible for a high proportion of deaths worldwide each year and many elderly people in Japan succumb to pneumonia. We are already seeing a number of promising new treatments for infectious diseases from drug makers worldwide, while Shionogi has launched anti-HIV agents and flu drug *Xofluza* in recent years. Changes in the external environment mean pain / CNS disorders are a globally important treatment area. An increase in average life expectancy has led to a rise in the number of people living with medical conditions, resulting in greater need for medicines that alleviate pain and suffering associated with chronic disease. In this therapeutic area, we are developing drugs to treat cancer pain – a field where Shionogi already has a strong track record – as well as treatments for depression, Alzheimer's disease and chronic coughing.

