Translation for reference only

Ticker Code: 4507

To All Shareholders

June 4, 2013

Notice of Convocation of the 148th Annual General Meeting of Shareholders

The 148th Annual General Meeting of Shareholders will be convened at the time and location listed below. On behalf of the directors of the Company, we cordially invite you to attend this shareholders' meeting. If you are unable to attend, you can exercise your voting rights with the proxy form on the back of this notice. If you wish to vote by using the proxy form, you are kindly requested to take the time to review the reference information provided below and exercise it by 5:00 p.m., Tuesday June 25, 2013.[1]

Yours faithfully,

Isao Teshirogi
President and CEO
Shionogi & Co., Ltd.
1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan

Annual General Meeting of Shareholders

1. Date and time: **10:00 a.m., Wednesday, June 26, 2013**

2. Location: **HERBIS HALL**
5-25, Umeda 2-chome, Kita-ku, Osaka 530-0001, Japan

3. Agenda:

Items to report:

1. The Business Report, the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the 148th Fiscal Term (year ended March 31, 2013)
2. The Audit Report of the Consolidated Financial Statements for the 148th Fiscal Term (year ended March 31, 2013) by the Accounting Auditor and the Board of Corporate Auditors

Items for resolution:

Proposal No. 1: Appropriation of Surplus
Proposal No. 2: Election of Five (5) Directors
Proposal No. 3: Election of One (1) Corporate Auditor

4. Exercise of voting rights:

1. Exercise of voting rights by mail
If you wish to vote by mail, you are kindly requested to indicate your consent or refusal on the proxy form and return it by 5:00 p.m., Tuesday, June 25, 2013.
2. Exercise of voting rights by Internet
If you wish to vote by Internet, you are kindly requested to take the time to review the reference information "Procedures on Exercise of Voting Rights through the Internet etc." provided on page 58. Please indicate your consent or refusal on the proxy form and submit it by 5:00 p.m., Tuesday June 25, 2013

* The reception desk opens at 9:00 A.M.
* If you intend to exercise your voting rights in person, you are kindly requested to hand in your proxy form at the reception desk when you arrive at the Annual General Meeting of Shareholders
* Please note that if any revisions are made to the contents of the business report, the consolidated financial statements, the non-consolidated financial statements and the referential documents concerning the exercise of voting rights that are attached to this Notice of Convocation, the revised contents will be posted on our Internet website (http://www.shionogi.co.jp/).

[1] Japan Standard Time

(**Appended documents**)

Business Report

Fiscal 2012 (Year ended March 31, 2013)

1. Overview of Operations

(1) Business Operations and Results

As a global R&D-based company, the Shionogi Group has a clear commitment to continuously discovering innovative, highly effective new drugs and is strategically developing new drugs in the United States, Europe and Asia.

The domestic prescription pharmaceuticals market is not expected to grow significantly because of issues including the National Health Insurance (NHI) drug price reductions, which averaged 6 percent in April 2012, and the effect of policies to control drug expenditures including those to promote the use of generics. On the other hand, against a background of unstable economic conditions in global markets, major pharmaceutical companies from Europe and the United States are concentrating on rapidly expanding markets in emerging countries while continuing to concentrate on the large Japanese market. Therefore, the operating environment in the domestic prescription pharmaceutical market is increasingly competitive.

In this operating environment, sales of prescription drugs in Japan for the fiscal year ended March 31, 2013 increased slightly year on year despite the effect of the NHI drug price revisions on the Shionogi Group. In addition, the previously volatile results of U.S. operations stabilized and the Shionogi Group benefited from Groupwide cost reductions. As a result of these and other factors, the Shionogi Group achieved record operating income and ordinary income respectively.

In October 2012, Shionogi and ViiV Healthcare Ltd. (ViiV) of the United Kingdom revised their agreement covering the anti-HIV drug dolutegravir the two companies had been developing jointly and concluded an agreement on a new framework. As a result, the Shionogi Group transferred its rights to dolutegravir to ViiV in return for a 10 percent equity stake in ViiV. The Shionogi Group will participate in ViiV management as a ViiV shareholder, and retained rights to royalties at a fixed percentage of sales. Consequently, the Shionogi Group has created a framework that allows it to further concentrate resources on the development and sale of global in-house products. Of note, in December 2012 ViiV submitted a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA), the European Medicines Agency (EMA) and Canada for dolutegravir. In February 2013, the FDA gave dolutegravir priority review status, and is expected to approve it in summer 2013.

Furthermore, in April 2012 the Shionogi Group submitted an NDA to the FDA for ospemifene (product name: Osphena™) for post-menopausal vaginal atrophy, and received approval in February 2013. Shionogi Inc. expects to begin marketing this major new drug in the United States in June 2013. Following the U.S. NDA submission, in March 2013 Shionogi also submitted an NDA to the EMA for this drug. The Shionogi Group is preparing for the substantial growth it expects from ospemifene as a global product.

Patents for the anti-hyperlipidemia treatment Crestor will expire in many countries in 2016 and 2017. The entire Shionogi Group is therefore working in concert so that earnings from these global products replace the Crestor royalty revenue from AstraZeneca plc. of the United Kingdom.

(Billions of yen; %)

	FY2012	Y on Y Change	Y on Y Change (%)
Net Sales	282.9	15.6	5.8
Operating Income	58.8	11.8	25.2
Ordinary Income	58.9	12.8	27.8
Net Income	66.7	39.6	146.2

1) Sales

Net sales increased 5.8 percent year on year to ¥282.9 billion.

(Billions of yen; %)

	FY2011	FY2012	Y on Y Change	Y on Y Change (%)
Net Sales	267.3	282.9	15.6	5.8
Domestic sales of prescription drugs	164.4	165.7	1.3	0.8
Export/Overseas subsidiaries	17.0	30.6	13.6	80.3
Shionogi Inc.	5.8	17.0	11.2	190.2
C&O	1.9	5.8	3.9	201.2
Royalty income	68.7	69.8	1.1	1.7
Crestor	64.7	63.0	(1.7)	(2.7)

1. Domestic Sales of Prescription Drugs

Domestic sales of prescription drugs increased. Sales of eight strategic products centered on anti-hyperlipidemia treatment Crestor, hypertension treatment Irbetan, and antidepressant drug Cymbalta increased 15.0 percent year on year to ¥84.2 billion, which compensated for lower sales of existing products due to NHI drug price revisions and other factors.

2. Exports and Overseas Subsidiaries Sales

Export and overseas subsidiary sales increased substantially. Sales increased substantially year on year at Shionogi Inc., which achieved stable operations throughout the fiscal year. In addition, China-based pharmaceutical company C&O Pharmaceutical Technology (Holdings) Limited (C&O) also contributed to full-year sales.

3. Royalty Income

Crestor royalty income decreased because AstraZeneca’s global sales of Crestor decreased in 2012. Total royalty income increased year on year to ¥69.8 billion due to a one-time licensing fee for an Alzheimer’s disease treatment.

2) Operating Income and Ordinary Income

Operating income increased 25.2 percent year on year to ¥58.8 billion. Ordinary income increased 27.8 percent year on year to ¥58.9 billion.

Operating income increased due to factors including higher net sales, improved gross margin, ongoing cost reductions, and improved earnings at Shionogi Inc.

Ordinary income increased because of foreign exchange gains from the weakening of the yen.

3) Net Income

Net income increased 146.2 percent to ¥66.7 billion.

As a result of the ViiV agreement covering HIV drugs, the Shionogi Group recognized extraordinary income of ¥40,433 million as gain on exchange of investment securities, which is the difference between the carrying value of the Shionogi Group’s equity position in Shionogi-ViiV Healthcare L.P. and the market value (fair value) of a 10 percent equity position in ViiV.

In addition, upon execution the agreement Shionogi considered reallocation of the management resources of U.S. operations and tested for impairment of the goodwill and sales rights associated with products that Shionogi Inc. handles. As a result, Shionogi recognized an impairment loss on fixed assets of ¥40,835 million.

Shionogi & Co., Ltd. recognized impairment at Shionogi Inc. as an extraordinary loss (loss on valuation of stock of affiliates) totaling ¥110,103 million on the non-consolidated financial statements. However, this loss was eliminated upon consolidation and did not affect consolidated income. Income taxes on a non-consolidated basis decreased substantially because of the above loss, which resulted in a substantial increase in consolidated net income.

(2) Capital Investment

Shionogi Group capital investment for the fiscal year ended March 31, 2013 totaled ¥11.4 billion. The Group invested aggressively with a focus on enhancing production facilities, including construction of a beta lactam injectable drug facility and a new production facility for high-potency active pharmaceutical ingredients.

(3) Fund-raising

The Shionogi Group conducted no fund-raising of note during the fiscal year ended March 31, 2013.

■Research and Development Activities and In-Licensing

The Shionogi Group aims to achieve world-class research productivity and to quickly supply pharmaceuticals to global markets in conducting research and development activities. The Group quickly identifies unmet medical needs (medical needs that are not addressed for reasons including lack of effective treatment), enhances its strength in small molecule drug discovery, and deploys various leading-edge technologies to develop large molecule drugs to continuously supply innovative pharmaceuticals to patients worldwide.

1) Research Activities

In July 2011, the Shionogi Group completed the Shionogi Pharmaceutical Research Center (SPRC) with the aim of consolidating and strengthening research functions. SPRC is energetically conducting activities with the aim of further strengthening organizational cooperation, increasing candidates for development, and improving the success rate in moving from non-clinical to clinical trials. In October 2012, the Shionogi Group licensed a treatment for Alzheimer’s disease with a novel mechanism of action to a Johnson & Johnson group company with excellent experience and expertise in the field of Alzheimer’s disease. Moreover, the Shionogi Group energetically collaborates with universities and research institutions in Japan and around the world to sustain the discovery of innovative new drugs.

2) Development Activities

At present, the Shionogi Group is developing a strong pipeline that includes late-stage development of a drug for alleviating opioid-induced adverse effects (S-297995) and an allergic rhinitis treatment (S-555739). In February 2012, the Shionogi Group established a wholly owned subsidiary, Shionogi Limited, in London, United Kingdom as a development base in Europe. The Shionogi Group will move forward with faster, more effective tri-regional development in the United States, Europe and Asia to enable the rapid supply of drugs to global markets.

The progress of the main clinical development activities at the end of the fiscal 2012 (ended March 31, 2013) are as follows:

1. Approval

【Product Name 】	Category (Administration)	Indication	Country: Period
【Finibax®】	Carbapenem antibiotic (Injection)	Pediatric infection (Infant)	Japan: May, 2012
Ospemifene 【Osphena™】	Selective estrogen receptor modulator (Oral)	Post-menopausal vaginal atrophy	USA: February, 2013
Metreleptin	Recombinant human leptin (genetic recombination) (Injection)	Lipodystrophy	Japan: March, 2013
【Irbetan® tablet 200mg】	Angiotensin receptor blocker (Oral)	Hypertension	Japan: March, 2013

2. NDA Submission

【Product Name 】 (General name)	Category (Administration)	Indication	Country: Period
S-474474	Angiotensin receptor antagonist/diuretic combination (Oral combination)	Hypertension	Japan: July, 2012
S/GSK 1349572* (Dolutegravir)	Integrase inhibitor (Oral)	HIV infection	Global: December, 2012 (Transfer of rights to ViiV Healthcare LLC)
Ospemifene	Selective estrogen receptor modulator (Oral)	Post-menopausal vaginal atrophy	Europe: March, 2013

*Submission by ViiV

3. Clinical Testing Initiated and in Progress

Code No. (General Name)	Category (Administration)	Indication	Country/Region: Stage
S-555739	Prostaglandin D2 receptor antagonist (Oral)	Allergic disease	Japan: Phase III USA: Phase IIa Europe: POM
S-297995 (Naldemedine)	Peripheral opioid receptor antagonist (Oral)	Alleviation of opioid-induced adverse effect	Global: phase III in preparation
S-524101	Sublingual tablet of house dust mite allergen extracts for immunotherapy	Allergic rhinitis caused by house dust mite allergen	Japan: Phase II/III
S-877503 (Guanfacine hydrochloride)	Non-central nervous system stimulant (Oral)	Attention deficit hyperactivity disorder (ADHD)	Japan: Phase II/III (co-development with Shire)

Code No. (General Name)	Category (Administration)	Indication	Country/Region: Stage
S-2367 (Velneperit)	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity	Japan: Phase IIb
S-556971	Cholesterol absorption inhibitor (Oral)	Dyslipidemia	Japan: Phase IIb
S-877489 (Lisdexamfetamine)	Central nervous system Stimulant (Oral)	Attention deficit hyperactivity disorder (ADHD)	Japan: Phase II (co-development with Shire)
S-888711 (Lusutrombopag)	Small molecule TPO mimetic (Oral)	Thrombocytopenia	Europe: Phase II Japan: Phase IIb
S-707106	Insulin sensitizer (Oral)	Type 2 Diabetes	USA: Phase IIa
S-288310	Cancer peptide vaccine (Injection)	Bladder cancer	Asia: Phase I/II
S-488410	Cancer peptide vaccine (Injection)	Esophageal cancer	Japan: Phase I/II
S-488210	Cancer peptide vaccine (Injection)	Head and neck cancer	Europe: Phase I/II
S-646240	Peptide vaccine (Injection)	Age-related macular degeneration	Japan: Phase IIa
S-222611	HER2/EGFR dual inhibitor (Oral)	Malignant tumor	Europe: Phase Ib
S-649266	Cephem antibiotics (Injection)	Various bacterial infections	Japan: Phase I USA: Phase I (co-development with GSK)
S-117957	Analgesic agent for neuropathic pain (Oral)	Neuropathic pain	USA: Phase I (co-development with Purdue)
S-120083	Analgesic agent for inflammatory pain (Oral)	Inflammatory pain	Japan: Phase I (co-development with Purdue)
S-234462	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity	USA: Phase I

3) Products and in-Licensing

In October 2012, the Shionogi Group and Kotobuki Pharmaceutical Co., Ltd. (Nagano Prefecture) concluded a license agreement covering the worldwide rights to develop, manufacture and commercialize a cholesterol absorption inhibitor (Kotobuki code name: KT6-971) owned by Kotobuki. This product is expected to lower serum cholesterol levels by selectively inhibiting a cholesterol transporter in the small intestine. The Shionogi Group is committing to providing new options for treating metabolic syndrome, which is one of its targeted therapeutic areas.

(4) Challenges Ahead

The Shionogi Group intends to put its basic policy of "constantly strive to provide medicine of the best possible kind essential for protection of people's health" into practice globally. The Group therefore formulated and is now implementing its Third Medium-Term Business Plan for the five years ending March 31, 2015, which sets clear short- and medium-term directions and targets.

Global competition is intensifying further in the pharmaceutical industry. However, the Shionogi Group is implementing a strategy that leverages its strengths through continuous and proactive initiatives to achieve steady, sustained growth.

1) Improving operations in the domestic prescription drug business

In the domestic prescription drug business, the Shionogi Group is concentrating resources on its eight new strategic products that are not strongly affected by NHI drug price revisions and steadily increasing net sales. In December 2012, the Shionogi Group launched AIMIX® Combination Tablets LD/HD, a combination product of irbesartan, which is a long-acting angiotensin II receptor antagonist, and besilate, which is a calcium antagonist amlodipine. The Group is now energetically promoting sales of this product, which is likely to increase sales of Irbetan and related products. The Group will continue to focus resources on its eight strategic products while further strengthening initiatives to increase productivity, emphasize new products, and strengthen operations in the hospital market to increase sales.

2) Stable management and expansion of overseas operations

The results of U.S. operations were volatile, but the Shionogi Group withdrew from the primary care market, built a new management framework, consolidated offices and implemented other countermeasures. As a result, the Shionogi Group was able to achieve stable U.S. results for the fiscal year ended March 31, 2013. Ospemifene for post-menopausal vaginal atrophy will drive growth in the United States. It is the Group's first major new drug in the United States, and the Group plans to launch it in June 2013. The Group will concentrate resources on quickly maximizing its sales to expand U.S. operations.

In China, the Shionogi Group added C&O to enter the Chinese market, which is expected to grow in the future. The Group will use its many years of experience in promoting the proper use of drugs for infectious diseases in Japan in fully deploying its broadly based marketing capabilities through activities such as providing appropriate information to build operations in China by continuously expanding share in the antibiotics market.

Shionogi Ltd., the Group's R&D base in Europe, has set the goal of further strengthening the Shionogi Group's globalization by raising the speed and quality of drug development, primarily in Europe. Working to steadily launch global products, the Group has filed an NDA for ospemifene, has a drug for alleviating opioid-induced adverse effects (S-297995) in late-stage development, and is preparing for the development of drugs including an allergic rhinitis treatment (S-555739).

The Group will continue to invest aggressively in R&D while strengthening its portfolio management organization and working to raise the efficiency and profitability of R&D. In addition, the Group will work to optimize and reduce the cost of overall global procurement, manufacturing and inventory management by establishing a new organization with the objective of reviewing and upgrading the Group's global manufacturing infrastructure and supply chain management from a global point of view.

3) Investment in new growth drivers

Continuous global development of breakthrough new drugs is required for the Shionogi Group to grow and develop in the future during the next Medium-Term Business Plan and beyond to 2020. The targets of the Third Medium-Term Business Plan are globally developing five or more late-stage products (Phase IIb and beyond), filing for overseas regulatory approval for four products created in Japan, and receiving approval for at least one of them. The Shionogi Group will continue to invest aggressively in steady progress for global development of products to launch them even one day sooner.

4) Replacing Crestor Royalty Income

Generic versions of Crestor's largest competing drug have been launched in various countries, which will have a significant impact on global sales. In addition, the expiration of the Crestor patent is a major issue for the Shionogi Group because it is forecast to reduce royalty income.

At the same time, under the new agreement with ViiV the Shionogi Group will receive dividends from ViiV and royalties from sales of the anti-HIV drug dolutegravir and related products. Dolutegravir has strong anti-HIV activity and the virus does not become resistant to it easily. It also features excellent safety and rapid effect with once-daily dosing. This product is therefore attracting global attention as a new treatment option for the HIV infection. In 2012, ViiV submitted NDAs to regulatory authorities in the United States, Europe and Canada. The FDA gave dolutegravir priority review status, and the Shionogi Group expects it to quickly become a new pillar of earnings. Moreover, the Shionogi Group is aiming for growth that is greater than the impact of the Crestor patent expiration through the launch of ospemifene and subsequent rapid launches of other in-house drugs.

The initiatives above to achieve the goals of the Third Medium-Term Business Plan will allow the Shionogi Group to realize its basic policy globally and further enhance its presence as a pharmaceuticals company.

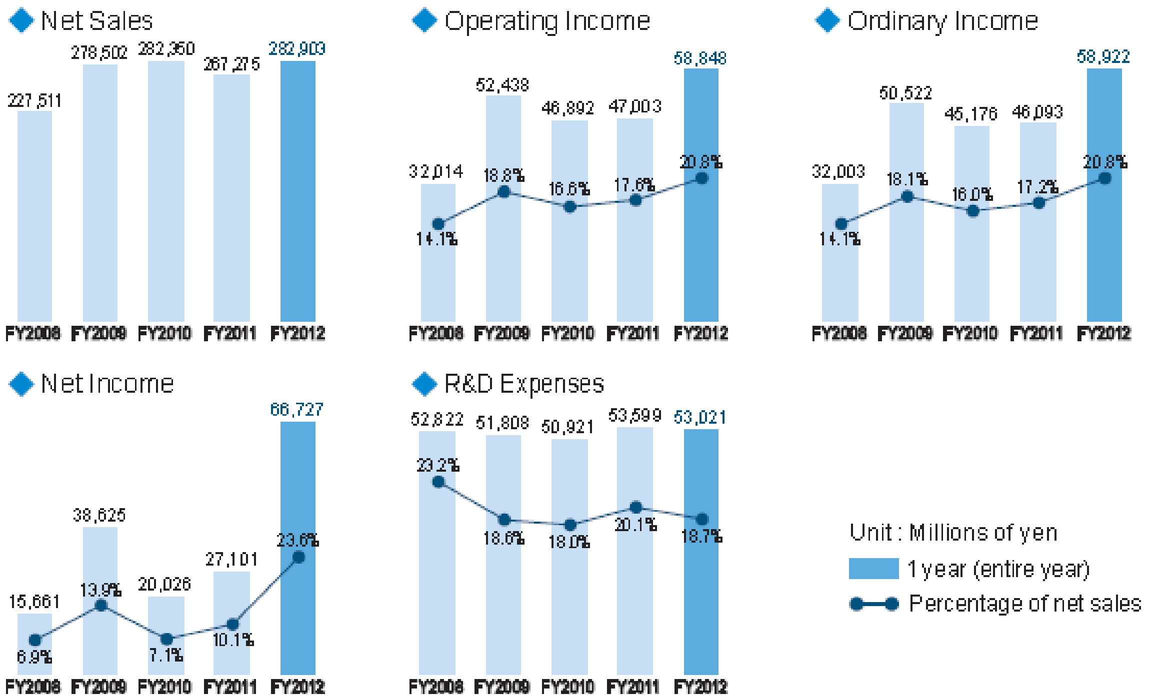
(5) Business Results and Financial Position

1. Business Results and Financial Position of the Corporate Group

(Millions of yen)

Classification	FY2008	FY2009	FY2010	FY2011	FY2012
Net sales	227,511	278,502	282,350	267,275	282,903
Operating income	32,014	52,438	46,892	47,003	58,848
Ordinary income	32,003	50,522	45,176	46,093	58,922
Net income (loss)	15,661	38,625	20,026	27,101	66,727
R&D expenses	52,822	51,808	50,921	53,599	53,021
Total assets	501,852	540,761	523,242	522,161	574,882
Net assets	310,093	341,976	328,096	347,198	423,633
Earnings per share	yen 46.75	yen 115.33	yen 59.80	yen 80.93	yen 199.25
Net assets per share	924.43	1,019.71	979.69	1,027.83	1,254.44
Dividend per share	yen 28.00	yen 36.00	yen 40.00	yen 40.00	yen 42.00
Dividend payout ratio	% 59.9	% 31.2	% 66.9	% 49.4	% 21.1

〔Reference〕 Consolidated Financial Indicator



2. Business Results and Financial Position of the Company

(Millions of yen)

Classification	FY2008	FY2009	FY2010	FY2011	FY2012
Net sales	206,753	228,585	249,989	256,187	255,946
Operating income	36,236	49,256	60,435	62,875	65,888
Ordinary income	37,924	49,941	60,337	63,536	68,205
Net income (loss)	23,863	40,757	41,657	43,678	(32,014)
Total assets	521,184	553,013	565,170	575,447	511,433
Net assets	335,235	367,341	389,344	423,827	386,509
Earnings (losses) per share	yen 71.23	yen 121.70	yen 124.39	yen 130.42	yen (95.59)
Net assets per share	yen 1,000.86	yen 1,096.85	yen 1,162.57	yen 1,265.37	yen 1,153.74

(6) Significant Subsidiaries

Company Name	Paid-in Capital	Percentage of Ownership	Main Areas of Business
Shionogi Inc.	U.S. dollars 7.00	100.0	Pharmaceutical manufacturing and sales
Shionogi Ltd.	Thousand Pounds 700	100.0	Pharmaceutical clinical development
Taiwan Shionogi & Co., Ltd.	Million NT dollars 92	100.0	Pharmaceutical manufacturing and sales
C&O Pharmaceutical Technology (Holdings) Limited	Thousand HK dollars 165,840	66.0	Pharmaceutical manufacturing and sales

(7) Main Operations of the Shionogi Group

The Shionogi Group mainly manufactures and sells pharmaceutical products.

(8) Main Offices, Plants, and Laboratories of the Shionogi Group

		Name	Location
Domestic	Head Office and Branches	Head Office	Osaka, Osaka Prefecture
		Tokyo Branch Office	Shibuya-ku, Tokyo
		Nagoya Branch Office	Nagoya, Aichi Prefecture
		Fukuoka Branch Office	Fukuoka, Fukuoka Prefecture
		Sapporo Branch Office	Sapporo, Hokkaido
	Sites	Administration Office of Kuise Site	Amagasaki, Hyogo Prefecture
	Plants	Settsu Plant	Settsu, Osaka Prefecture
		Kanegasaki Plant	Isawa-gun, Iwate Prefecture
	Research Laboratories	Shionogi Pharmaceutical Research Center	Toyonaka, Osaka Prefecture
Overseas (Note 2)		Shionogi Inc.	New Jersey, U.S.
		Shionogi Ltd.	London, U.K.
		Taiwan Shionogi & Co., Ltd.	Taipei, Taiwan, R.O.C.
		C&O Pharmaceutical Technology (Holdings) Limited	Shenzhen, China

Notes:
1. In addition to the above list, the Company has business offices in every major city in Japan.
2. Bases in overseas subsidiaries

(9) Employees

1. Number of Employees of the Corporate Group

Number of Employees	Change from March 31, 2012
6,082	(50)

Notes: The number of employees includes personnel that external companies assign to the Shionogi Group and excludes personnel that the Shionogi Group assigns to external companies and temporary personnel.

2. Number of Employees of the Company

Number of Employees	Y on Y Change	Average Age	Average Number of Years with the Company
4,238	+57	40.4	16.3

(10) Main Loans from Banks

(Millions of yen)

Loans from Banks	Loan Amount
Syndicated Loan	13,000
Sumitomo Mitsui Trust Bank Ltd.	10,000
Sumitomo Mitsui Banking Corporation	7,500
Mizuho Corporate Bank, Ltd.	6,500
Sumitomo Life Insurance Company	6,000
Nippon Life Insurance Company	5,000
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000

Notes: Sumitomo Mitsui Banking Corporation is the lead bank of the Syndicated Loan.

2. Stock Data

1) Number of shares authorized to be issued: 1,000,000,000

2) Number of shares issued: 351,136,165 (including 16,236,003 shares of treasury stock)

3) Number of shareholders: 37,751

4) Major shareholders (Top 10)

Name of Shareholder	Number of Shares Held (Thousands of shares)	% of Total
The Master Trust Bank of Japan, Ltd. (as a trustee)	23,593	7.04%
Sumitomo Life Insurance Company	18,604	5.55%
Japan Trustee Services Bank, Ltd. (as a trustee)	16,855	5.03%
JP MORGAN CHASE BANK 385147	12,066	3.60%
Nippon Life Insurance Company	10,511	3.13%
SSBT 0D05 OMNIBUS ACCOUNT – TREATY CLIENTS	9,743	2.90%
Japan Trustee Services Bank, Ltd. (as a trustee for (i) Sumitomo Mitsui Trust Bank Ltd. and (ii) retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485	2.83%
Sumitomo Mitsui Banking Corporation	6,564	1.96%
STATE STREET BANK AND TRUST COMPANY 505225	4,600	1.37%
MELLON BANK, N. A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	4,349	1.29%

Notes:
1. The Company owns 16,236,003 shares of treasury stock but the Company is not included in the major shareholders listed above (Top 10).
2. The percentage of total is calculated as the proportion of shares to 334,900,162 shares of total issued stock (excluding 16,236,003 shares of treasury stock).

3. Stock Acquisition Rights

1. Stock Acquisition Rights Issued as Remuneration to and held by Company Directors as of March 31, 2013

Title (Issue Date)	Date of issue resolution	Number of stock acquisition rights	Class and number of shares to be issued	Issue price per stock acquisition rights	Exercise price per stock acquisition rights	Stock acquisition rights exercise period	Status of director holdings (Rights holders)
FY2011 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2011)	June 24, 2011	252	25,200 shares of common stock	113,000 yen	100 yen	July 12, 2011 to July 11, 2041	180 (2)
FY2012 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 12, 2012)	June 27, 2012	316	31,600 shares of common stock	91,700 yen	100 yen	July 13, 2012 to July 12, 2042	316 (2)

Notes:
1. Each share subscription right is exercisable into 100 shares of common stock.
2. The issue price is the sum of the fair value of the stock acquisition rights on the allotment date and the amount to be paid upon exercise (¥1 per share) of the stock acquisition rights. The recipients of the allotted stock acquisition rights (stock acquisition rights holders) will have an amount equal to the issue price deducted from their remuneration as payment.
3. During the stock acquisition rights exercise period, Company directors who are stock acquisition rights holders who cease to be a Company director may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction. Other conditions for exercising the rights are stipulated in the Stock Acquisition Rights Agreement concluded between the Company and the stock acquisition rights holders.
4. Shionogi does not allot share subscription rights to outside directors and corporate auditors.

2. Stock Acquisition Rights Issued as Remuneration to Company Employees during Fiscal 2012

Title (Issue Date)	Date of issue resolution	Number of stock acquisition rights	Class and number of shares to be issued	Issue price per stock acquisition rights	Exercise price per stock acquisition rights	Stock acquisition rights exercise period	Status of issuance to employee (Issuer Number)
FY2012 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 12, 2012)	June 27, 2012	475	47,500 shares of common stock	91,700 yen	100 yen	July 13, 2012 to July 12, 2042	475 (11)

Notes:
1. Each share subscription right is exercisable into 100 shares of common stock.
2. The issue price is the sum of the fair value of the stock acquisition rights on the allotment date and the amount to be paid upon exercise (¥1 per share) of the stock acquisition rights. The recipients of the allotted stock acquisition rights (stock acquisition rights holders) will have an amount equal to the issue price deducted from their remuneration as payment.
3. During the stock acquisition rights exercise period, Company directors who are stock acquisition rights holders who cease to be a Company director may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction. Other conditions for exercising the rights are stipulated in the Stock Acquisition Rights Agreement concluded between the Company and the stock acquisition rights holders.
4. Shionogi allots share subscription rights to the corporate officers of the Company excluding those holding a post of director as well.

4. Board Members

(1) Directors and Corporate Auditors

Position	Name	Areas of responsibility and other major posts
Representative Director and Chairman of the Board	Motozo Shiono	Chief Director of The Cell Science Research Foundation
President and Representative Director	Isao Teshirogi	
Director	Akio Nomura	Outside Director of The Royal Hotel, Ltd.
Director	Teppei Mogi	Partner of Oh-Ebashi LPC & Partners
Director	Katsuhiko Machida	Outside Director of Sekisui House, Ltd.
Standing Corporate Auditor	Mitsuaki Ohtani	
Standing Corporate Auditor	Sachio Tokaji	
Corporate Auditor	Takeharu Nagata	Chairman of Keihanshin Building Co., Ltd. Outside Director of KOKUYO Co., Ltd.
Corporate Auditor	Shinichi Yokoyama	Representative Director and Chairman of Sumitomo Life Insurance Company Outside Auditor of Sumitomo Chemical Co., Ltd.
Corporate Auditor	Kenji Fukuda	Partner of DOJIMA Law Office

Notes:
1. Directors Akio Nomura and Teppei Mogi are Outside Directors stipulated in Section 15, Article 2 of the Companies Act.
2. Auditors Takeharu Nagata and Shinichi Yokoyama are Outside Corporate Auditors stipulated in Section 16, Article 2 of the Companies Act.
3. Directors Akio Nomura, Teppei Mogi and Katsuhiko Machida have each submitted notification as independent directors as stipulated by Tokyo Stock Exchange Group, Inc. and Osaka Securities Exchange.
4. Director who retired during the fiscal year is as follows:

Director Yasuhiro Mino (Retired on June 27, 2012)

(2) Amount of remuneration for Directors and Corporate Auditors

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It encompasses base monthly remuneration, performance-linked bonuses determined by results for the fiscal year and other factors, and stock options introduced in fiscal 2011. 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 and other factors in each fiscal year based on a calculation matrix. In addition, Shionogi has introduced stock options to incentivize directors in their activities to increase the value of Shionogi shareholders over the medium to long term. New share subscription rights are allotted as a fundamental component in calculating base monthly remuneration.

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

Shionogi has established the Compensation Advisory Committee led by outside directors to advise the Board of Directors. This committee duly considers director and corporate auditor remuneration.

(Millions of yen, except for persons)

Category	Persons remunerated	Amount of remuneration paid				Note
		Base remuneration	Bonus	Stock options	Total	
Directors (outside directors among directors)	6 (3)	186 (33)	26 (-)	28 (-)	241 (33)	Total amount of Directors' remuneration is limited to an amount not exceeding 450 million yen per year by a resolution passed at the Annual General Meeting of Shareholders held on June 28, 2007. Total amount of Corporate Auditors' remuneration is limited to an amount not exceeding 120 million yen per year by a resolution passed at the Annual General Meeting of Shareholders held on June 24, 2011
Corporate Auditors (outside auditors among auditors)	5 (3)	91 (35)	- (-)	- (-)	91 (35)	
Total	11	277	26	28	333	

Notes:

1. The above table includes one director who retired as of the close of the 147th Annual General Meeting of Shareholders held on June 27, 2012, and their respective remuneration amounts.
2. "Bonus" above is the relevant allowance for directors' bonuses for fiscal 2012.
3. "Stock options" above is the relevant expense recognized for fiscal 2012.

(3) Outside Board Members

1. Major Activities

Office	Name	Major Activities
Director	Akio Nomura	Mr. Nomura participated in the Board of Directors meetings (attended all 11 meetings) held during fiscal 2012 and he made statements on the execution of duties by the directors from the perspective of his long and successful career placing importance on the objectivity and impartiality of management.
Director	Teppei Mogi	Mr. Mogi participated in the Board of Directors meetings (attended all 11 meetings) held during fiscal 2012 and he made statements on the execution of duties by the directors from a perspective placing priority on the observance of social norms, laws and ordinances, etc.
Director	Katsuhiko Machida	Mr. Machida attended all 9 Board of Directors meetings held after his election as a director on June 27, 2012 and he made statements on the execution of duties by the directors from the perspective of his long and successful career, placing importance on the objectivity and impartiality of management.
Corporate Auditor	Takeharu Nagata	Mr. Nagata participated in the Board of Directors meetings (attended all 11 meetings) held during fiscal 2012 and he made statements on the execution of duties by the directors from the perspective of his long and successful career. He also participated in the Board of Corporate Auditors meetings (attended all 7 meetings) held during fiscal 2012 where significant matters of audit were discussed, and made recommendations as necessary.
Corporate Auditor	Shinichi Yokoyama	Mr. Yokoyama participated in the Board of Directors meetings (attended all 11 meetings) held during fiscal 2012 and he made statements on the execution of duties by the directors from the perspective of his long and successful career. He also participated in the Board of Corporate Auditors meetings (attended all 7 meetings) held during fiscal 2012 where significant matters of audit were discussed, and made recommendations as necessary.
Corporate Auditor	Kenji Fukuda	Mr. Fukuda participated in the Board of Directors meetings (attended all 11 meetings) held during fiscal 2012, and made statements on the execution of directors' duties from a broad perspective based on professional expertise in laws and ordinances, etc.. He also participated in the Board of Corporate Auditors meetings (attended all 7 meetings) held during fiscal 2012, where significant matters of audit were discussed, and made recommendations as necessary.

2. Relationship of the Company with Companies where Outside Board Members Hold Major Posts

The Company does not have any relationship that should be indicated with the Royal Hotel, Ltd., where Director Akio Nomura serves as an outside director.

The Company does not have an advisory contract with Oh-Ebashi LPC & Partners, where Director Teppei Mogi is a partner. However, the Company receives advice from Oh-Ebashi LPC & Partners regarding certain specific cases involving international legal affairs.

The Company does not have any relationship that should be indicated with Sekisui House, Ltd., where Katsuhiko Machida serves as an outside director.

The Company does not have any relationship that should be indicated with Keihanshin Building Co., Ltd. where Corporate Auditor Takeharu Nagata serves as the chairman, or with KOKUYO Co., Ltd., where he serves as an outside director.

Sumitomo Life Insurance Company, where Corporate Auditor Shinichi Yokoyama serves as the chairman of the board and representative director, holds 5.55 percent of the Company's stock (which is the proportion of shares to the 334,900,162 shares of total issued stock excluding the 16,236,003 shares of treasury stock of the Company), and the Company has a business relationship with Sumitomo Life Insurance Company including the borrowing of funds. However, the Company does not have any relationship that should be indicated with Sumitomo Chemical Co., Ltd., where he serves as an outside auditor.

The Company does not have any relationship that should be indicated with DOJIMA Law Office, where Corporate Auditor Kenji Fukuda is a partner.

3. Matters on Contract to Limit Liability

The Company has concluded contracts with all outside directors and outside corporate auditors to limit their liability stipulated in Section 1, Article 423 of the Companies Act to the amount stipulated in the relevant laws and ordinances under the condition that the requirements stipulated therein are fulfilled.

5. Independent Accounting Auditor

(1) Name of Independent Accounting Auditor

Ernst & Young Shin Nihon LLC

(2) Compensation Paid to Independent Accounting Auditor for the Fiscal Year Ended March 31, 2013

1. Compensation paid to the Independent Accounting Auditor for the fiscal year ended on March 31, 2012:
   52 million yen
2. Total of cash and other financial profits payable by the Company and its subsidiaries to the Independent Accounting Auditor:
   77 million yen

Note: The audit agreement entered into between the independent accounting auditors and the Company does not clearly distinguish the amount of the auditor's compensation being derived from the audit under the Companies Act and that being derived from the audit under the Financial Instruments and Exchange Law, and the two amounts cannot be substantially distinguished from each other. Therefore, the amount in 1 above includes both of these two kinds of amounts.

(3) Nature of Non-Audit Professional Services Provided by Independent Accounting Auditor

The Company has paid the independent accounting auditor compensation for services including support in evaluating of potential implementation of Financial Reporting Standards (IFRS), which is a service outside the scope of the duties stipulated in Paragraph 1, Article 2 of the Certified Public Accountants Law (non-audit services).

(4) Company Policy regarding Dismissal or Decision Not to Reappoint Independent Accounting Auditor

The Company will dismiss the Independent Accounting Auditor if the Company judges that the Independent Accounting Auditor falls within the scope of Paragraph 1, Article 340 of the Companies Act. In addition, the Company will decide on the reappointment or non-reappointment of the Independent Accounting Auditor considering the situation of the preparation for the items concerning the execution of the Independent Accounting Auditor's duties.

6. Systems and Policies of the Company

The systems to assure appropriate execution of the Directors' duties in accordance with the related regulations and the Articles of Incorporation; and other systems to assure appropriate business operations.

On April 22, 2013, at the meeting of the Board of Directors, the Company passed a resolution to amend the basic policy for construction of systems to assure appropriate business operations ("The Basic Policy for Construction of Internal Control System") as follows:

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.

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.

In order to secure reliability of financial reports, the Board of Directors will prepare and operate the system constituted by evaluation, report and audit on the internal control for financial reporting.

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 by directors and corporate auditors for the appropriate period in accordance with the related laws and regulations.

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

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.

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 General Administration & Subsidiaries Management Department, and it will implement training and assist each department in compliance risk management.

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 to work for the 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 the business operations by group companies, and will properly manage and encourage group companies based on "Shionogi's Policy", "Shionogi's Action Guidelines", and the management plan.

Each company of the corporate group will promote the appropriate and efficient operation of business in accordance with the manual to promote group management.

The Internal Control Department will inspect the contents of the business operations by group companies in a timely manner in order to confirm the appropriateness and effectiveness of their business operations.

(7) Matters regarding employees assigned to assist the corporate auditors' duties by the request from the corporate auditors, and matters regarding independence of such employees from the directors.

The Company will assign employees to assist the corporate auditors' 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.

(8) A system for reporting to the corporate auditors by directors and employees.

The corporate auditors will attend the material meeting such as the Board of Directors and the corporate executive meeting etc. and obtain the information relating to the business operations and management, and efficacy of the internal control in a timely manner.

The corporate auditors may directly instruct directors and corporate officers etc. to report on the business operations.

The directors or corporate officers will inform the corporate auditors, 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.

(9) Other systems to assure effective audits by corporate auditors.

The corporate auditors 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.

Reference: Fundamental Approach to and System of Corporate Governance

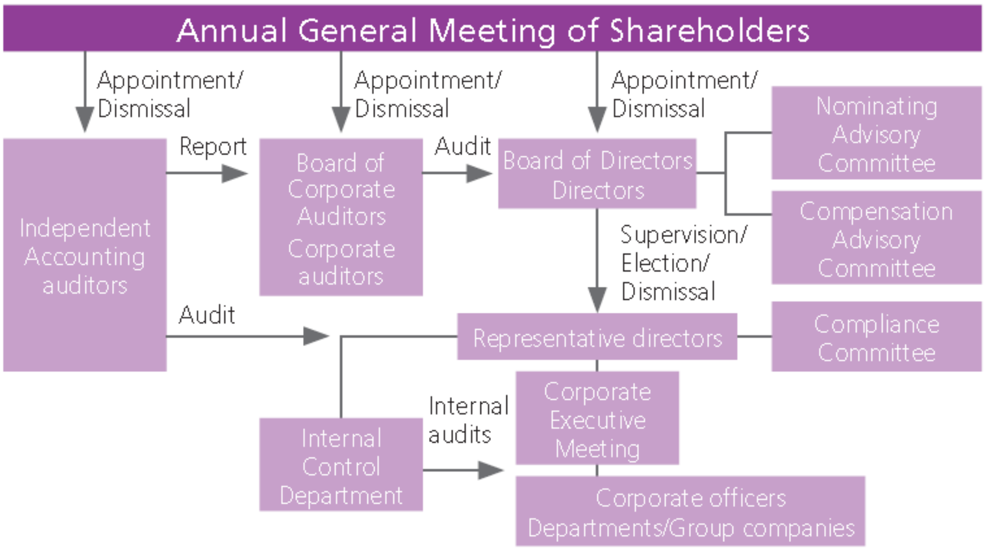
Shionogi's social mission is to continually discover, develop, and provide useful and safe medicines that help improve the health of people and medical treatment around the world as well as quality of life. Shionogi believes that accomplishing this mission will further increase its corporate value. Accordingly, Shionogi is committed to sound and transparent management practices within the corporate governance system it has structured.

Shionogi has adopted a "company with board of corporate auditors" corporate governance system. The Board of Directors is composed of five directors, three of whom are outside directors to further enhance management transparency and accountability to stakeholders. In addition, the Company has established a Nominating Advisory Committee and a Compensation Advisory Committee as advisory bodies to the Board of Directors. Both committees are chaired by outside directors, ensuring that directors are assessed impartially from multiple perspectives including aptitude, impact on management, work performance, and appropriateness of compensation.

The Board of Corporate Auditors consists of five corporate auditors, three of whom are outside corporate auditors to further enhance transparency and impartiality. The corporate auditors attend meetings of the Board of Directors, corporate executive meetings, and other important meetings to audit the execution of duties by directors.

Moreover, Shionogi has introduced a corporate officer system to allow management policy to be reflected in operations without delay, and has built a flexible operational execution structure able to rapidly respond to changes in the operating environment. Furthermore, the corporate executive meeting is a unit created to conduct deliberations regarding operational execution issues. It is composed of the directors, standing corporate auditors, and corporate officers responsible for business operation.

(Corporate Governance System)



7. Other Material Matters

Legal Actions

- In December 2007, the Company brought a patent infringement action jointly with AstraZeneca against seven generic drug companies (two other companies were added later) including Cobalt Pharmaceuticals, Inc. and Apotex, Inc., which had filed Abbreviated New Drug Applications (ANDAs) for a generic drug version of Crestor in the United States. The action sought in part to make the effective date of U.S. Food and Drug Administration (FDA) approval of the above generic drug ANDAs no earlier than the expiration date of the patent owned by the Company in the United States.
  The United States District Court for the District of Delaware ruled in favor of Shionogi Inc.'s claim in June 2010, which was then appealed to the Court of Appeals for the Federal Circuit. However, in December 2012 the Court of Appeals for the Federal Circuit ruled in favor of Shionogi Inc.'s claim and upheld the ruling of the district court. The ruling is pending.

  Further, in October 2010 in the United States District Court for the District of Delaware and again in November 2010 in the United States District Court for the District of Nevada, the Company brought a patent infringement action jointly with AstraZeneca against Watson Pharmaceuticals, Inc., which had filed an ANDA for a generic drug version of Crestor in the United States. The actions sought in part to make the effective date of U.S. Food and Drug Administration (FDA) approval of the above generic drug ANDA no earlier than the expiration date of the patent owned by the Company in the United States.
  This action was resolved with an amicable settlement in March 2013 under which Watson Pharmaceuticals, Inc. et al. agreed to pay royalties and the Company agreed to accept the launch of the generic drug version earlier than the expiration date of the patent owned by the Company.

- In December 2011, the Company brought a patent infringement action in the United States District Court for the District of New Jersey jointly with Peninsula Pharmaceuticals, Inc. and Janssen Pharmaceuticals, Inc. against Sandoz Inc., which had filed an ANDA for a generic version of Doribax (product name in Japan: Finibax). Now pending, the action seeks in part to make the effective date of FDA approval of the above generic drug ANDA no earlier than the expiration date of the patent owned by the Company in the United States.
  In addition, the Company filed a patent infringement action against Sandoz in the U.S. District Court for the District of New Jersey under the patent on crystal form owned by the Company in December 2012. Now pending, the action seeks to make the effective date of FDA approval of the above generic drug ANDA no earlier than the expiration date of the patent.

- In January 2009, Shionogi Inc. brought a patent infringement action in the United States District Court for the District of Delaware jointly with Andrx Corp. against Lupin Ltd. and Mylan Inc., which had filed ANDAs for generic versions of Fortamet in the United States. The action sought in part to make the effective date of FDA approval of the above generic drug ANDA no earlier than the expiration date of the patent owned by Andrx Corp in the United States.
  Lupin Ltd. and Mylan Inc. began selling generic versions of Fortamet even though the United States District Court for the District of Delaware ruled in favor of Shionogi Inc.'s claim in September 2011. Shionogi Inc. therefore filed a preliminary injunction in United States District Court for the District of Delaware to halt sales of these generic versions in October 2011. The injunction was granted in December 2011. In response, Lupin Ltd. and Mylan Inc. filed for a retrial in United States District Court for the District of Delaware and filed an appeal with the Court of Appeals for the Federal Circuit. The United States District Court for the District of Delaware reaffirmed its ruling in favor of Shionogi's claim in February 2012. However, following an order from the Court of Appeals for the Federal Circuit in April 2012, the preliminary injunction was overruled in July 2012 on the grounds that the district court's ruling was incorrect. The March 2013 settlement permits Mylan Inc. to begin selling its generic version on August 1, 2013. The action brought against Lupin Ltd. in January 2009 is currently in progress.

- In April 2011, Shionogi Inc. filed an action in the United States District Court for the Eastern District of Pennsylvania against United Research Laboratories, Inc., which sells an approved generic version of the Shionogi drug Sular in the United States under contract, claiming that profit sharing was in breach of the marketing contract.
  The first round of fact discovery was completed in April 2012. However, Shionogi Inc. and United Research Laboratories, Inc. concluded a settlement agreement that terminated the action in October 2012 while discovery was still in progress.

- On July 10, 2012, the Company brought an action against InterMune, Inc. ("IM") in the United States District Court for the Northern District of California seeking payment of royalties it alleged IM neglected to make pursuant to a clinical data exchange agreement with the Company. Discovery proceedings began, but the parties held discussions and reached a settlement on February 12, 2013 that terminated the action while discovery was still in progress. The settlement consisted mainly of the following two points:
  1. IM will pay royalties equal to 4.25 percent of the net sales of ESBRIET® in the European Union during the period starting January 2013 and ending February 2021; and
  2. No royalties will accrue in the United States or in any other jurisdiction (other than the European Union) unless IM submits certain of Shionogi's clinical information in connection with an application for regulatory approval in that jurisdiction.

Consolidated Balance Sheets

(As of March 31, 2013)

(Millions of yen)

Accounts	FY2012	(Reference) FY2011	Accounts	FY2012	(Reference) FY2011
Assets	**574,882**	**522,161**	**Liabilities**	**151,249**	**174,963**
Current Assets	**266,845**	**240,931**	**Current Liabilities**	**98,207**	**82,063**
Cash and deposits	21,575	18,427	Notes and accounts payable-trade	10,734	8,613
Notes and accounts receivable-trade	67,908	65,568	Short-term loans payable	7,500	-
Short-term investment securities	84,432	86,556	Current portion of long-term loans payable	31,500	14,000
Merchandise and finished goods	26,531	26,040	Current portion of bonds	-	10,000
Work in process	14,024	12,662	Income taxes payable	1,146	9,891
Raw materials and supplies	8,771	11,418	Provision	13,620	12,128
Deferred tax assets	21,035	9,044	Provision for bonuses	7,134	6,745
Other	22,577	11,231	Provision for sales returns	6,459	5,356
Allowance for doubtful accounts	(12)	(17)	Other provisions	26	25
			Other	33,706	27,430
Noncurrent assets	**308,036**	**281,230**	**Noncurrent liabilities**	**53,041**	**92,899**
Property, plant and equipment	**78,473**	**74,282**	Bonds payable	20,000	20,000
Buildings and structures, net	46,654	44,986	Long-term loans payable	10,027	49,000
Machinery, equipment and vehicles, net	8,079	7,271	Deferred tax liabilities	12,756	7,729
Land	9,769	9,856	Provision for retirement benefits	8,995	8,793
Construction in progress	7,524	5,777	Other	1,262	7,376
Other	6,446	6,390	**Net assets**	**423,633**	**347,198**
Intangible assets	**70,464**	**106,694**	**Shareholders' equity**	**428,772**	**375,436**
Goodwill	40,293	63,572	Capital stock	21,279	21,279
Sales rights	24,048	36,663	Capital surplus	20,227	20,227
Other	6,123	6,457	Retained earnings	407,007	353,676
Investments and other assets	**159,098**	**100,253**	Treasury stock	(19,741)	(19,746)
Investment securities	122,628	63,568	**Accumulated other comprehensive income**	**(8,662)**	**(31,220)**
Prepaid pension cost	25,272	22,809	Valuation difference on available-for-sale securities	16,055	7,729
Other	11,288	13,973	Deferred gains or losses on hedges	(450)	(141)
Allowance for doubtful accounts	(90)	(97)	Foreign currency translation adjustment	(24,267)	(38,809)
			Subscription rights to shares	**123**	**58**
			Minority interests	**3,399**	**2,923**
Total assets	**574,882**	**522,161**	**Total liabilities and net assets**	**574,882**	**522,161**

Consolidated Statements of Income

(Year ended March 31, 2013)

(Millions of yen)

Accounts	FY2012	(Reference) FY2011
Net sales	**282,093**	**267,275**
Cost of sales	**78,574**	**77,753**
Gross profit	**204,329**	**189,521**
Selling, general and administrative expenses	**145,480**	**142,518**
(R&D expenses)	53,021	53,599
Operating income	**58,848**	**47,003**
Non-operating income	**4,220**	**2,925**
Interest and dividends income	2,072	1,634
Other	2,147	1,290
Non-operating expenses	**4,147**	**3,834**
Interest expenses	1,123	1,330
Other	3.024	2,504
Ordinary income	**58,922**	**46,093**
Extraordinary income	**41,680**	**739**
Gain on sales of noncurrent assets	228	587
Gain on exchange of investment securities	40,433	-
Gain on sales of investment securities	1,018	152
Extraordinary loss	**42,296**	**5,338**
Loss on sales of noncurrent assets	329	-
Impairment loss	40,835	1,557
Loss on disaster	269	1,165
Settlement package	489	-
Loss on penalty	158	1,345
Loss on valuation of investment securities	124	426
Special retirement expenses	89	-
Business structure improvement expenses	-	843
Income before income taxes and minority interests	**58,306**	**41,494**
Income taxes-current	763	20,339
Income taxes-deferred	(9,295)	(5,947)
Income before minority interests	**66,838**	**27,103**
Minority interests in income	110	1
Net income	**66,727**	**27,101**

Consolidated Statements of Changes in Net Assets

(Year ended March 31, 2013)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2012	21,279	20,227	353,676	(19,746)	375,436
Changes of items during the period					
Dividends from surplus			(13,395)		(13,395)
Net income			66,727		66,727
Disposal of treasury stock				8	8
Purchase of treasury stock				(4)	(4)
Other			(0)		(0)
Net changes of items other than shareholders' equity					-
Total changes of items during the period	-	-	53,331	4	53,335
Balance as of March 31, 2013	21,279	20,227	407,007	(19,741)	428,772

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance as of April 1, 2012	7,729	(141)	(38,809)	(31,220)	58	2,923	347,198
Changes of items during the period							
Dividends from surplus				-			(13,395)
Net income				-			66,727
Disposal of treasury stock				-			8
Purchase of treasury stock				-			(4)
Other				-			(0)
Net changes of items other than shareholders' equity	8,326	(309)	14,541	22,558	64	475	23,098
Total changes of items during the period	8,326	(309)	14,541	22,558	64	475	76,434
Balance as of March 31, 2013	16,055	(450)	(24,267)	(8,662)	123	3,399	423,633

Notes on Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 32

Names of significant consolidated subsidiaries

Shionogi Inc., Shionogi Ltd., Taiwan Shionogi & Co., Ltd., C&O Pharmaceutical Technology (Holdings), Limited

2. Application of equity method

(1) Number of unconsolidated subsidiaries and affiliates accounted for by the equity method

No unconsolidated subsidiaries were accounted for by the equity method.

Number of affiliate companies accounted for by the equity method: 3

These companies' fiscal year-end dates differ from the consolidated fiscal year-end date, therefore the financial statements for their respective fiscal years have been used.

(Removed) One company was removed because it became an equity-method affiliate.

(Material changes in the scope of application of the equity method)

The Shionogi Group transferred its equity in former equity-method affiliate Shionogi-ViiV Healthcare, L.P. and removed it from the scope of application of the equity method during the fiscal year ended March 31, 2013.

(2) That portion of the net profit (loss) of the affiliates not accounted for by the equity method which was attributable to the Company in proportion to its shareholding ratio had no significant effect on the consolidated net income of the Company for the current period.

3. Closing date of consolidated subsidiaries

Twenty six consolidated subsidiaries are overseas consolidated subsidiaries.

Seventeen of these overseas consolidated subsidiaries close their accounts on December 31. In preparing the consolidated financial statements, the financial statements of these subsidiaries as of December 31 are used.

Moreover, one of these overseas consolidated subsidiaries close their accounts on June 30. In preparing the consolidated financial statements, the financial statements of these subsidiaries as of December 31 are used.

The necessary adjustments have been made to reflect any significant transactions occurring between this closing date and the date of the consolidated financial statements.

(Changes in the Closing Date of Consolidated Subsidiaries)

As of the fiscal year ended March 31, 2013, the fiscal year-end date of Taiwan Shionogi & Co., Ltd. has been changed from December 31 to March 31. As a result of this change, the financial statements of Taiwan Shionogi & Co., Ltd. for the fiscal year ended March 31, 2013 cover the 15 months from January 1, 2012 to March 31, 2013. Accordingly, its results for the 15-month period from January 1, 2012 to March 31, 2013 are included in the consolidated financial results for the fiscal year ended March 31, 2013. For the period from January 1, 2012 to March 31, 2012, after eliminating intercompany transactions, Taiwan Shionogi & Co., Ltd.'s net sales, operating income, ordinary income and income before income taxes were ¥398 million, ¥149 million, ¥154 million and ¥154 million, respectively.

In addition, C&O Pharmaceutical Technology (Holdings) Limited and its nine subsidiaries changed their fiscal year-end dates from June 30 to December 31, but this change in fiscal year-end date had no effect on consolidated financial results.

4. Significant accounting policies

(1) Basis and method of valuation of significant assets

1. Securities

・Held-to-maturity securities

Amortized cost method

・Other securities

Market value available

At fair value, based on market price or other appropriate quotation as of period end (Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)

Market value not available

At cost determined by the moving average method

(The securities based on the Financial Instruments and Exchange Law article 2.2 are evaluated at their net profit/loss (equity method)).

2. Derivatives

Market value method

3. Inventories

Inventories are mainly stated at the lower of cost, determined by the average method, or net selling value.

(2) Depreciation method of significant depreciable assets

1. Property, plant and equipment (excluding lease assets)

Items are depreciated by the straight-line method

2. Intangible assets (excluding lease assets)

Items are depreciated by the straight-line method

Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).

3. Lease assets

For lease transactions not involving transfer ownership, lease assets are depreciated over their useful lives using the straight-line method until the residual value reaches zero.

However, the Company continues to account for finance lease transactions not involving the transfer of ownership that were concluded prior to the beginning of the first year when “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13; Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16; the Japanese Institute of Certified Public Accountants, Accounting Committee, January 18, 1994; revised March 30, 2007) were applied (April 1, 2008) in a manner similar to the accounting treatment for ordinary operating lease transactions.

(3) Basis for providing significant allowances and provisions

1. Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.

2. Provision for bonuses

To prepare for payment of bonuses to employees, a provision for bonuses is provided based on the estimated amount of bonuses to be paid.

3. Provision for retirement benefits

To prepare for the payment of retirement benefits to employees, a provision for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end. Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees. Actuarial gain or loss is proportionally amortized each year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

4. Provision for sales returns

The Company provides for loss on product returns in an amount equivalent to the income on the sale of products that the Company estimates will be returned. Certain consolidated subsidiaries provide for loss on product returns in an amount equivalent to the income on the sale of products that they estimate will be returned.

(4) Foreign currency translation

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates in effect as of the balance sheet date. Gain or loss on translation is credited or charged to income; however, assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the spot exchange rates in effect as of the balance sheet dates. Income and expenses of consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rate during the period. Adjustments resulting from translating the foreign currency financial statements are reported as foreign currency translation adjustments in net assets in the consolidated balance sheets.

(5) Significant hedge accounting

1. Method of hedge accounting

In principle, deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward foreign exchange contracts that meet specified conditions. Hedges that meet conditions for the special treatment of interest-rate swaps are accounted for separately.

2. Hedging instruments and hedged items

・Hedging instruments: Forward foreign exchange contracts, currency options and interest-rate swaps

・Hedged items: Foreign currency-denominated claims and obligations, forecast transactions and debt

3. Hedging policy

The Company enters into forward foreign exchange contracts and uses currency options with the objective of hedging the risk of exchange rate fluctuations in connection with its foreign currency-denominated claims and obligations. Additionally, the Company also enters into interest-rate swaps with the objective of hedging the risk of interest rate fluctuations relating to its debt.

4. Methods for evaluating the effectiveness of hedging

The Company evaluates the effectiveness of its hedging practices by comparing the cash flow fluctuations for hedged items and hedging methods and using changes in both as a basis for its evaluation. However, evaluations concerning the effectiveness of forward foreign exchange contracts accounted for by the allocation method and interest rate swaps accounted for using special treatment are omitted.

(6) Goodwill and negative goodwill

Goodwill is amortized over 20 years using the straight-line method.

(7) Other significant accounting policies

Consumption tax

Amounts reflected in the consolidated financial statements are stated exclusive of consumption tax.

5. Changes in accounting policies

Change in Method of Depreciation for Property, Plant and Equipment

The Shionogi Group has changed its method of depreciation for property, plant and equipment to the straight-line method effective the year ended March 31, 2013 from the declining balance method mainly used in the past.

Under the Third Medium-Term Business Plan from the fiscal year ended March 31, 2011, the Shionogi Group is implementing a fundamental strategy of generating steady growth by transitioning its organization away from its former focus on products that grew rapidly soon after launch to a focus on eight strategic products that are expected to generate stable, long-term earnings. In addition, the Shionogi Group is developing globally by establishing bases in North America, Europe and Asia with the objective of globalizing new drug development.

Aiming to expand sales of the eight strategic products mentioned above, the Shionogi Group has nearly completed programs to consolidate and strengthen production facilities that included constructing a plant for solid preparations and strengthening tablet and granulation facilities. In addition, the Shionogi Group expects the sale of eight strategic products to exceed 50 percent of prescription drug sales in Japan for the first time during the fiscal year ended March 31, 2013, and to account for a higher percentage in the future. A consolidated subsidiary established in the United Kingdom, Shionogi Ltd., began operations in the fiscal year ended March 31, 2013, giving the Shionogi Group bases in North America, Europe and Asia. The Shionogi Group took this opportunity to review and change its method of depreciation for property, plant and equipment to the straight-line method for the reasons below because the Shionogi Group decided this would present its financial position more appropriately.

1. The Shionogi Group formerly focused on products that grew rapidly soon after launch, which enabled comparatively faster facility investment cost recovery. With the transition to a focus on eight strategic products that are expected to generate stable, long-term earnings, facility utilization should be more level and stable.
2. Consolidated overseas subsidiaries have conventionally mainly used the straight-line method. The Shionogi Group therefore needed to standardize its accounting policies with the use of the straight-line method to effectively and efficiently allocate resources among its unified network of bases in Japan, North America, Europe and Asia, and to support the construction, maintenance and operation of its global R&D, production and sales organization.

   For the fiscal year ended March 31, 2013, the effect of this change compared with the former method increased gross profit by ¥540 million, operating income by ¥3,254 million, and ordinary income and income before income taxes and minority interests by ¥3,423 million, respectively.

6. Changes in presentation of information

(Consolidated balance sheets)

Construction in progress is presented as a discrete line item for the fiscal year ended March 31, 2013 because of its increased materiality. It was formerly included in “Other” in property, plant and equipment.

(Notes on Consolidated Balance Sheets)

1. All amounts are rounded down to the nearest million yen.
2. Pledged assets

Cash and deposits	7 million yen
Liabilities secured by the above assets	
“Other” of current liabilities	6 million yen
3. Accumulated depreciation amount of property, plant and equipment	176,039 million yen
4. Guaranteed liabilities	9 million yen

(Notes on Consolidated Statements of Income)

1. All amounts are rounded down to the nearest million yen.
2. Gain on sales of noncurrent assets

Land	228 million yen

3. Loss on sales of noncurrent assets

Buildings and structure	205 million yen
Land	57 million yen
Other	66 million yen
Total noncurrent assets	329 million yen

4. Impairment loss

The Shionogi Group recognized asset impairment as follows.

(Millions of yen)

Location	Class	Amount
U.S.A	Goodwill	26,371
U.S.A	Sales rights etc.	14,464

The Shionogi Group categorizes assets for business operations into groups that are based on the product lines used in management accounting, and categorizes rental and underutilized assets individually.

Upon concluding the agreement concerning anti-HIV drugs with ViiV Healthcare Ltd. of the United Kingdom, Shionogi Group considered reallocation of the management resources of U.S. operations and found impairment of marketing rights and other assets associated with products that Shionogi Inc. handles. Shionogi Group also found impairment of goodwill due to a change in grouping from the overall prescription drug business to U.S. operations. As a result, the Shionogi Group recognized impairment loss equivalent to the reduction in carrying value to recoverable value required for impaired asset groups.

5 Loss on disaster

This expense is the amount assumed not covered by insurance claim in connection with the disposal of inventory by fire in the supplier of Shionogi Inc. in 2011.

6 Settlement package

This expense is mainly attributable to a lawsuit brought against Lupin Ltd.by Shionogi Inc.

7 Special retirement expenses

This expense is mainly attributable to the retirement of Shionogi Inc.

(Notes on Consolidated Statement of Changes in Net Assets)

1. Type and number of shares in issue and type and number of shares of treasury stock

(Shares)

	April 1, 2012	Increase	Decrease	March 31, 2013
Shares in issue				
Common stock	351,136,165	-	-	351,136,165
Total	351,136,165	-	-	351,136,165
Treasury stock				
Common stock	16,240,245	2.958	7,200	16,236,003
Total	16,240,245	2,958	7,200	16,236,003

Note:
1. The increase of 2,958 shares in treasury stock reflects the purchase of odd-lot shares.
2. The decrease of 7,200 shares in treasury stock reflects the exercise of subscription rights to shares.

2. Dividends

(1) Dividend payments

Resolution	Category	Total dividends	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders held on June 27, 2012	Common stock	6,697 million yen	20 yen	March 31, 2012	June 28, 2012
Meeting of Board of Directors held on November 2, 2012	Common stock	6,698 million yen	20 yen	September 30, 2012	December 3, 2012

(2) Dividends whose effective date is subsequent to March 31, 2013

The following is to be approved at the 148th Annual General Meeting of Shareholders to be held on June 26, 2013.

Resolution	Category	Total dividends	Dividend resource	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 26, 2013	Common stock	7,367 million yen	Retained earnings	22 yen	March 31, 2013	June 27, 2013

(3) Shares Issuable during the Share Subscription Rights Exercise Period as of March 31, 2013

Subscription rights to shares

	FY 2011 Subscription Rights to Shares for Shionogi & Co., Ltd.	FY 2012 Subscription Rights to Shares for Shionogi & Co., Ltd.
Date of resolution issuance	June 24, 2011	June 27, 2012
Class of shares to be issued upon exercise of the subscription rights to shares	Common stock	Common stock
Number of shares to be issued upon exercise of the subscription rights to shares	45,000	79,100

Note: The Stock Acquisition Rights Agreement concluded between the Company and the stock acquisition rights holders stipulates the following during the exercise period:

1. During the stock acquisition rights exercise period, Company directors who are stock acquisition rights holders who cease to be a Company director may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction.
2. During the stock acquisition rights exercise period, Company corporate officers who are stock acquisition rights holders who cease to be a Company corporate officer or whose employment contract with the Company expires (excluding the re-employment contract after retirement) may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction.
   Corporate officers who are stock acquisition rights holders and who are elected as directors may not exercise their stock acquisition rights until they officially retire as directors.

(Notes on Financial Instruments)

1. Matters relating to financial instruments

The Shionogi Group manages surplus capital using financial instruments that carry little or no risk, and procures the required capital from bank loans and bond issues.

As for credit risk of customers concerning notes and accounts receivable-trade, the risk reduction is promoted through the periodical monitoring of counterparty status by the Financial & Accounting Department and related departments in accordance with the established internal procedures. For listed stocks among short-term and long term investments, the Shionogi Group examines their fair value quarterly.

Short-term and long-term loans and bonds are financed based on the business plan to undertake the manufacturing and sales of pharmaceuticals, and the Group performs the fixing of interest cost by carrying out interest rate swap transactions against the interest rate risk for a portion of short-term and long-term loans. For derivatives transactions, the Group uses ordinary transactions in accordance with established internal procedures.

2. Matters relating to fair value of financial instruments

Fair value and difference compared to the carrying value reported in the balance sheets as of March 31, 2013 were as follows. Note 2 provides information on financial instruments that are not included because of the difficulty of determining their fair value.

(Millions of yen)

	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference
(1) Cash and deposits	21,575	21,575	-
(2) Notes and accounts receivable-trade	67,908	67,902	(6)
(3) Short-term and long term investment securities			
Bonds held to maturity	19	19	-
Other marketable securities	150,724	150,724	-
(4) Notes and accounts payable-trade	(10,734)	(10,734)	-
(5) Short-term loans payable	(7,500)	(7,500)	-
(6) Current portion of long-term loans payable	(31,500)	(31,698)	198
(7) Accrued income taxes	(1,146)	(1,146)	-
(8) Bonds payable	(20,000)	(20,210)	210
(9) Long-term loans payable	(10,027)	(10,729)	702
(10) Derivatives transactions (*2)	(726)	(726)	-

(*1) Parentheses indicate liabilities.

(*2) Derivative transactions are presented as net amounts receivable or payable, with net amounts payable in parentheses.

Notes:

1. Marketable securities, derivatives transactions and methods for estimating fair value of financial instruments

(1) Cash and deposits

All deposits are short-term. Therefore, carrying value is used for the fair value of deposits because these amounts are essentially the same.

(2) Notes and accounts receivable-trade

Fair value of receivables that require time for recovery is calculated as discounted present value using interest rates adjusted for credit risk and time until redemption for receivables grouped by period. Carrying value is used for the fair value of short-term receivables other than the preceding because these amounts are essentially equivalent.

(3) Short-term and long-term investment securities

Domestic certificates of deposit included in short-term investments are all short term. Therefore, carrying value is used for the fair value of deposits because these amounts are essentially the same. The fair value of short-term investments and investments in securities excluding domestic certificates of deposit is the price listed on securities exchanges or quoted by financial institutions for bonds and the price listed on securities exchanges for equities.

(4) Notes and accounts payable-trade / (5) Short-term loan payable

Carrying value is used for the fair value of these short-term investments because these amounts are essentially equivalent.

(6) Current portion of long-term loans payable / (9) Long-term loans payable

Fair value of these investments is estimated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans. Interest rate swaps subject to special treatment are used for long-term floating-rate loans. “(10) Derivatives transactions” provides additional explanation. Principal and interest of the loans in which these interest rate swaps are embedded are discounted using a reasonable estimate of the interest rate on the loan at the time of issue.

(7) Accrued income taxes

Carrying value is used for the fair value of these short-term investments because these amounts are essentially equivalent.

(8) Bonds payable

The fair value of bonds issued by the Company is estimated based on market prices.

(10) Derivatives transactions

Fair value is estimated based on prices quoted by financial institutions.

The fair value of gain or loss resulting from forward foreign exchange contracts embedded in the payable subject to hedging is included in the fair value of the corresponding payable (refer to above (4)). The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan (refer to above (9)).

2. Financial instruments for which determining fair value is difficult

(Millions of yen)

Classification	Carrying value reported in the balance sheets
Unlisted stocks	56,317

Financial instruments for which determining fair value is difficult because no market price is available are not included in “(3) Short-term and long-term investment securities”.

(Notes on Rental and Other Real Estate Assets)

1. Matters relating to the situation of rental and other real estate assets

The Shionogi Group has office buildings, etc. (including land) for lease in Tokyo and other areas.

In the fiscal year ended March 31, 2013, rental income from these rental and other real estate assets was ¥1,100 million (with rental revenues mainly recorded in net sales and rental expenses mainly recorded in cost of sales).

2. Matters relating to the fair value, etc. of rental and other real estate assets

(Millions of yen)

Carrying value reported in the balance sheets	Fair value
4,946	19,532

Notes:
1. Carrying value reported in the balance sheets is the amount of accumulated depreciation deducted from the acquisition cost.
2. The fair value as of the period end is the amount calculated mainly based on "real estate appraisal standards" (including those amounts that were adjusted employing an index, etc.).

(Notes on Amounts per Share)

1. Net assets per share 1,254.44 yen
2. Earnings per share 199.25 yen
3. Earnings per share (diluted) 199.17 yen

(Notes on Business Combination)

Transfer of equity ownership by business divestitures

(1) Summary of equity ownership transfer

1. Name of equity ownership transferee
   ViiV Healthcare Ltd.
2. Details of equity ownership transferred
   Shionogi Group equity ownership (50 percent) in Shionogi-ViiV Healthcare L.P. (an equity method affiliate; "the JV"), which was established under a joint venture agreement between the Shionogi Group and ViiV Healthcare Ltd. ("ViiV") of the United Kingdom
3. Reason for change in equity ownership
   The Shionogi Group initially formed the JV with the goal of developing and marketing products. Development focused on the HIV integrase inhibitor dolutegravir (generic name; Shionogi code name: S-349572; "DTG") and related products (including combinations of DTG and other integrase inhibitors S-265744 and S-247303).
   However, combination therapy is forecast to become the mainstream in treating HIV. Therefore, a JV with DTG as its only asset would require complex management. The Shionogi Group established this JV with the assumption that it would become a base for U.S. sales, but this need diminished when the Shionogi Group acquired Sciele Pharma, Inc. (now Shionogi Inc.) in 2008. Among other issues, Shionogi Inc. had its marketing models different from one of an HIV drug. Changing circumstances over time therefore led the Shionogi Group to initiate discussion of a new framework.
   The acquisition of clinical trial data required for NDAs was completed in October 2012. With the submission of NDAs for DTG planned for 2012, the Shionogi Group concluded an agreement under which it transferred all of its equity in the JV to ViiV in return for a 10 percent equity stake in ViiV. The NDAs for DTG were submitted in December 2012.
4. Date of equity ownership transfer
   October 31, 2012
5. Outline of the transfer including legal method
   Contribution in-kind
   ViiV received equity ownership in the JV. In return, the Shionogi Group received shares of ViiV.

(2) Summary of accounting method implemented

The transfer was accounted for as a transfer of assets in exchange for shares of the transferee (excluding business divestitures) based on the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, December 26, 2008) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, December 26, 2008).

1. Gain on exchange

   ¥40,433 million

   The Shionogi Group recognized the difference between the carrying value of the its equity position in the JV and the market value (fair value) of a 10 percent equity position in ViiV as extraordinary income (gain on exchange of investment securities).

2. Carrying value of the transferred equity ownership

   Investment securities ¥7,278 million

(3) Name of reportable segment of inclusion

Prescription drugs

(4) Income (loss) associated with the transfer of equity ownership reported on the consolidated statements of income for the fiscal year ended March 31, 2013

(Millions of yen)

Net sales	-
Operating loss	3,515
Ordinary loss	2,965

Note: These are items on the JV’s statements of income presented in proportion to the equity ownership transferred.

Non-consolidated Balance Sheets

(As of March 31, 2013)

(Millions of yen)

Accounts	FY2012	(Reference) FY2011	Accounts	FY2012	(Reference) FY2011
Assets	511,433	575,447	Liabilities	124,923	151,620
Current assets	242,385	213,916	Current liabilities	72,837	65,739
Cash and deposits	6,100	4,764	Accounts payable-trade	9,614	7,819
Accounts receivable-trade	62,667	60,716	Short-term loans payable	7,500	-
Short-term investment securities	84,412	86,522	Current portion of long-term loans payable	31,500	14,000
Merchandise and finished goods	23,425	22,181	Current portion of bonds	-	10,000
Work in process	13,663	12,462	Accounts payable-other	9,690	10,604
Raw materials and supplies	7,782	10,738	Accrued expenses	2,923	4,500
Advances	7,701	4,685	Income taxes payable	208	9,171
Deferred tax assets	13,750	3,948	Deposits received	3,555	2,806
Income taxes receivable	10,352	-	Provision for bonuses	6,144	6,149
Short-term loans receivable	9,931	4,816	Provision for directors' bonuses	26	25
Other	2,598	3,086	Provision for sales returns	82	120
Allowance for doubtful accounts	-	(6)	Other	1,592	543
Noncurrent assets	269,048	361.531	Noncurrent liabilities	52,086	85,880
Property, plant and equipment	73,612	70,043	Bonds payable	20,000	20,000
Buildings, net	41,975	41,008	Long-term loans payable	10,000	49,000
Structures, net	1,737	1,494	Deferred tax liabilities	12,304	7,218
Machinery and equipment, net	7,499	6,595	Provision for retirement benefits	8,956	8,757
Vehicles, net	21	10	Other	825	904
Tools, furniture and fixtures, net	5,474	5,166	Net assets	386,509	423,827
Land	9,769	9,856	Shareholders' equity	370,781	416,187
Lease assets, net	62	369	Capital stock	21,279	21,279
Construction in progress	7,072	5,540	Capital surpluses	20,227	20,227
Intangible assets	7,608	5,616	Legal capital surplus	20,227	20,227
Software	2,731	2,443	Retained earnings	349,016	394,426
Sales rights	3,138	840	Legal retained earnings	5,388	5,388
Other	1,738	2,333	Other retained earnings	343,627	389,038
Investments and other assets	187,826	285,870	Reserve for special depreciation	30	58
Investment securities	67,356	55,071	Reserve for advanced depreciation of noncurrent assets	2,511	2,574
Stocks of subsidiaries and affiliates	89,858	192,683	General reserve	368,645	338,645
Investments in other securities of subsidiaries and affiliates	-	7,562	Retained earnings brought forward	(27,558)	47,760
Long-term prepaid expense	4,478	6,831	Treasury stock	(19,741)	(19,746)
Prepaid pension cost	25,272	22,809	Valuation and translation adjustments	15,605	7,581
Other	951	1,009	Valuation difference on available-for-sale securities	16,055	7,722
Allowance for doubtful accounts	(90)	(97)	Deferred gains or losses on hedges	(450)	(141)
			Subscription rights to shares	123	58
Total assets	511,433	575,447	Total liabilities and net assets	511,433	575,447

Non-consolidated Statements of Income

(Year ended March 31, 2013)

(Millions of yen)

Accounts	FY2012	(Reference) FY2011
Net sales	255,946	256,187
Cost of sales	73,102	74,529
Gross profit, net	182,843	181,658
Selling, general and administrative expenses	116,955	118,782
[R&D expenses]	[50,234]	[51,783]
Operating income	65,888	62,875
Non-operating income	6,166	4,718
Interest and dividends income	2,311	1,988
Other	3,855	2,729
Non-operating expenses	3,850	4,058
Interest expenses	1,044	1,223
Other	2,805	2,834
Ordinary income	68,205	63,536
Extraordinary income	1,245	1,928
Gain on sales of noncurrent assets	228	587
Gain on exchange of investment securities	1,016	152
Gain on cancellation of shares due to absorption of a subsidiary	-	1,188
Extraordinary loss	110,484	1,573
Loss on sales of noncurrent assets	329	-
Loss on valuation of stocks of subsidiaries and affiliates	110,103	-
Loss on valuation of investments in securities	51	407
Loss on disaster	-	1,165
Income (loss) before income taxes	(41,033)	63,891
Income taxes-current	114	19,970
Income taxes-deferred	(9,133)	243
Net income (loss)	(32,014)	43,678

Non-consolidated Statements of Changes in Net Assets

(Year ended March 31, 2013)

(Millions of yen)

	Capital stock	Capital surpluses		Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings: Reserve for special depreciation	Other retained earnings: Reserve for advanced depreciation of noncurrent assets	Other retained earnings: General reserve	Other retained earnings: Retained earnings brought forward		
Balance as of April 1, 2012	21,279	20,227	-	5,388	58	2,574	338,645	47,760	(19,746)	416,187
Changes of items during the period										
Reversal of reserve for special depreciation					(28)			28		-
Reversal of reserve for advanced depreciation of noncurrent assets						(63)		63		-
Provision of general reserve							30,000	(30,000)		-
Dividends from surplus								(13,395)		(13,395)
Net loss								(32,014)		(32,014)
Purchase of treasury stock									(4)	(4)
Disposal of treasure stock			(0)						8	8
Transfer to capital surplus from retained earnings			0					(0)		-
Net changes of items other than shareholders' equity										
Total changes of items during the period	-	-	-	-	(28)	(63)	30,000	(75,319)	4	(45,405)
Balance as of March 31, 2013	21,279	20,227	-	5,388	30	2,511	368,645	(27,558)	(19,741)	370,781

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of April 1, 2012	7,722	(141)	7,581	58	423,827
Changes of items during the period					
Reversal of reserve for special depreciation			-	-	-
Reversal of reserve for advanced depreciation of noncurrent assets			-	-	-
Provision of general reserve			-	-	-
Dividends from surplus			-	-	(13,395)
Net loss			-	-	(32,014)
Purchase of treasury stock			-	-	(4)
Disposal of treasure stock			-	-	8
Transfer to capital surplus from retained earnings			-	-	-
Net changes of items other than shareholders' equity	8,333	(309)	8,024	64	8,088
Total changes of items during the period	8,333	(309)	8,024	64	(37,317)
Balance as of March 31, 2013	16,055	(450)	15,605	123	386,509

Notes on Non-consolidated Financial Statements

(Significant Accounting Policies)

1. Basis and method of valuation of significant assets
   (1) Securities
      1. Stocks of subsidiaries and affiliates
         At cost determined by the moving average method
      2. Other securities
         Market value available
            At fair value, based on market price or other appropriate quotation as of period end (Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)
         Market value not available
            At cost determined by the moving average method
            (The securities based on the Financial Instruments and Exchange Law article 2.2 are evaluated at their net profit/loss (equity method).)
   (2) Derivatives
      Market value method
   (3) Inventories
      Inventories are stated at the lower of cost, determined by the average method, or net selling value.
2. Method of depreciation for noncurrent assets
   (1) Property, plant and equipment (excluding lease assets)
      Straight-line method
   (2) Intangible assets (excluding lease assets)
      Straight-line method
      Expenditures relating to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).
   (3) Lease assets
      For lease transactions not involving transfer of ownership, lease assets are depreciated over their useful lives using the straight-line method until the residual value reaches zero.
      However, the Company continues to account for finance lease transactions not involving the transfer of ownership that were concluded prior to the beginning of the first year when “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13; Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16; the Japanese Institute of Certified Public Accountants, Accounting Committee, January 18, 1994; revised March 30, 2007) were applied (April 1, 2008) in a manner similar to the accounting treatment for ordinary operating lease transactions.

3. Basis for providing significant allowances and provisions

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.

(2) Provision for bonuses

To prepare for payment of bonuses to employees, a provision for bonuses is provided based on the estimated amount of bonuses to be paid.

(3) Provision for directors' bonuses

To prepare for payment of bonuses to directors and corporate auditors, a provision for directors' bonuses is provided based on the estimated amount of bonuses to be paid.

(4) Provision for sales returns

The Company provides for loss on product returns in an amount equivalent to the income on the sale of products that the Company estimates will be returned.

(5) Provision for retirement benefits

To prepare for the payment of retirement benefits to employees, a provision for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end. Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees. Actuarial gain or loss is proportionally amortized each year following the year in which the gain or loss is recognized, principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

4. Foreign currency translation

Monetary receivables and payable denominated in foreign currencies are translated into Japanese yen using the spot exchange rate on the balance sheet date. Gain or loss resulting from translation is credited or charged to income.

5. Significant hedge accounting

(1) Method of hedge accounting

In principle, deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward foreign exchange contracts that meet specified conditions. Hedges that meet conditions for the special treatment of interest-rate swaps are accounted for separately.

(2) Hedging instruments and hedged items

・Hedging instruments:
Forward foreign exchange contracts, currency options and interest-rate swaps

・Hedged items:
Foreign currency-denominated claims and obligations, forecast transactions and debt

(3) Hedging policy

The Company enters into forward foreign exchange contracts and uses currency options with the objective of hedging the risk of exchange rate fluctuations in connection with its foreign currency-denominated claims and obligations. Additionally, the Company also enters into interest-rate swaps with the objective of hedging the risk of interest rate fluctuations relating to its debt.

(4) Methods for evaluating the effectiveness of hedging

The Company evaluates the effectiveness of its hedging practices by comparing the cash flow fluctuations for hedged items and hedging methods and using changes in both as a basis for its evaluation. However, evaluations concerning the effectiveness of forward foreign exchange contracts accounted for by the allocation method and interest rate swaps accounted for using special treatment are omitted.

6. Consumption tax

Amounts reflected in the non-consolidated financial statements are stated exclusive of consumption tax.

7. Changes in Accounting Policies

Change in Method of Depreciation for Property, Plant and Equipment

The Shionogi Group has changed its method of depreciation for property, plant and equipment to the straight-line method effective the year ending March 31, 2013 from the declining balance method mainly used in the past.

Under the Third Medium-Term Business Plan from the fiscal year ended March 31, 2011, the Shionogi Group is implementing a fundamental strategy of generating steady growth by transitioning its organization away from its former focus on products that grew rapidly soon after launch to a focus on eight strategic products that are expected to generate stable, long-term earnings. In addition, the Shionogi Group is developing globally by establishing bases in North America, Europe and Asia with the objective of globalizing new drug development.

Aiming to expand sales of the eight strategic products mentioned above, the Shionogi Group has nearly completed programs to consolidate and strengthen production facilities that included constructing a plant for solid preparations and strengthening tablet and granulation facilities. In addition, the Shionogi Group expects the sales of eight strategic products to exceed 50 percent of prescription drug sales in Japan for the first time during the fiscal year ended March 31, 2013, and to account for a higher percentage in the future. A consolidated subsidiary established in the United Kingdom, Shionogi Ltd., began operations in the fiscal year ended March 31, 2013, giving the Shionogi Group bases in North America, Europe and Asia. The Shionogi Group took this opportunity to review and change its method of depreciation for property, plant and equipment to the straight-line method for the reasons below because the Shionogi Group decided this would present its financial position more appropriately.

1. The Shionogi Group formerly focused on products that grew rapidly soon after launch, which enabled comparatively faster facility investment cost recovery. With the transition to a focus on eight strategic products that are expected to generate stable, long-term earnings, facility utilization should be more level and stable.
2. Consolidated overseas subsidiaries have conventionally mainly used the straight-line method. The Shionogi Group therefore needed to standardize its accounting policies with the use of the straight-line method to effectively and efficiently allocate resources among its unified network of bases in Japan, North America, Europe and Asia, and to support the construction, maintenance and operation of its global R&D, production and sales organization.

For the fiscal year ended March 31, 2013, the effect of this change compared with the former method increased gross profit by ¥426 million, operating income by ¥3,110 million, and ordinary income by ¥3,279 million, respectively, and decreased loss before income taxes by ¥3,279 million.

8. Changes in presentation of information

(Balance Sheets)

Advance payments and Long-term prepaid expense are presented as discrete line items for the year ended March 31, 2013 because of their increased materiality. They were formerly included in “Other” in current assets and noncurrent assets, respectively.

(Notes on Non-consolidated Balance Sheets)

1. All amounts are rounded down to the nearest million yen.	
2. Accumulated depreciation amount of property, plant and equipment	168,598 million yen
3. Guaranteed liabilities	9 million yen
4. Short-term credit for subsidiaries and affiliates	10,752 million yen
Short-term debts to subsidiaries and affiliates	5,777 million yen

(Notes on Non-consolidated Statements of Income)

1. All amounts are rounded down to the nearest million yen
2. Transactions with subsidiaries and affiliates

Business transactions	17,775 million yen
Transactions other than business transactions	2,373 million yen

3. Gain on sales of noncurrent assets

Land	228 million yen

4. Loss on sales of noncurrent assets

Buildings	172 million yen
Land	57 million yen
Structures	32 million yen
Other	66 million yen
Total noncurrent assets	329 million yen

5. Loss on valuation of stocks of subsidiaries and affiliates

This expense is attributable to the loss from securities revaluation of Shionogi Inc.

(Notes on Non-consolidated Statements of Changes in Net Assets)

Shares held as of March 31, 2013

Common stock	16,236,003 shares

(Notes on Tax Effects)

Principal components of deferred tax assets and deferred tax liabilities

Deferred tax assets:	
Loss brought forward from the previous term	11,244 million yen
Loss on valuation of stocks of subsidiaries and affiliates	5,310 million yen
R&D expenses	4,771 million yen
Loss on revaluation of investments in securities	2,904 million yen
Provision for bonuses	2,334 million yen
Other	2,734 million yen
Subtotal deferred tax assets	29,300 million yen
Valuation Allowance	(9,402) million yen
Total deferred tax assets	19,898 million yen

Deferred tax liabilities:	
Valuation difference on available-for-sale securities	(8,871) million yen
Provision for retirement benefits	(5,536) million yen
Reserve for advanced depreciation of noncurrent	(1,388) million yen
Other	(2,655) million yen
Total deferred tax liabilities	(18,451) million yen
Net deferred tax liabilities	1,446 million yen

(Notes on Amounts per Share)

1. Net assets per share 1,153.74 yen
2. Losses per share 95.59 yen

While Shionogi shares are potentially subject to dilution, diluted losses per share are not presented for the fiscal year ended March 31, 2013 because of the net loss per share for the fiscal year.

(Notes on Retirement Benefits)

The Company employs a cash balance plan (interest indexed annuity), retirement lump sum plan and defined contribution pension plan.

Additionally, when an employee retires, the Company on occasion pays a premium severance payout not subject to the actuarial calculation of its retirement benefit obligation in compliance with retirement benefit accounting methods.

1. Retirement benefit obligations

(Retirement benefit obligations	(86,632) million yen
Fair value of plan assets	85,763 million yen
Plan assets in excess of retirement benefit obligations	(869) million yen
Unrecognized actuarial loss	18,459 million yen
Unrecognized prior service costs	(1,275) million yen
Net retirement benefit obligation	16,315 million yen
Prepaid pension costs	25,272 million yen
Provision for retirement benefits	(8,956) million yen

2. Retirement benefit expenses

Service cost	1,961 million yen
Interest cost	1,657 million yen
Expected return on plan assets	(2,039) million yen
Amortization of actuarial loss	2,441 million yen
Amortization of prior service cost	(1,912) million yen
Other	690 million yen
Retirement benefit expenses	2,798 million yen

3. Basis for calculation of retirement benefits obligation, etc.

Periodic allocation method for projected benefits	Straight-line attribution
Discount rate	1.2%
Expected rates of return on plan assets	2.8%
Amortized period of past service cost obligations	10 years (straight-line method)
Amortized period of actuarial loss	10 years (Expenses are paid from the following fiscal year using the straight-line method)

Note:
At the end of the fiscal year ended March 31, 2013, the Company re-evaluated the 2.0 percent discount rate applied at the beginning of the fiscal year. As a result, the Company judged that a change in the discount rate would affect its retirement benefit obligation, and therefore changed the discount rate to 1.2 percent.

Accounting Auditor's Audit Report

May 8, 2013

The Board of Directors
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

Akihiko Masuda
Designated and Engagement Partner with limited liability (C.P.A.)

Hideki Maekawa
Designated and Engagement Partner with limited liability (C.P.A.)

Pursuant to Paragraph 4 of Article 444 of the Companies Act, we have audited the consolidated balance sheets, the consolidated statements of income and the consolidated statements of changes in net assets of Shionogi & Co., Ltd. and its consolidated subsidiaries (the "Company") for fiscal term from April 1, 2012 to March 31, 2013.

Management's Responsibility for the Consolidated Financial Statements

Company management is responsible for preparing and appropriately presenting the consolidated financial statements in accordance with generally accepted accounting standards in Japan. This responsibility includes establishing and maintaining internal controls deemed necessary by management to prepare and present the consolidated financial statements without material misstatement due to fraud or error.

Independent Accounting Auditor's Responsibility

Our responsibility is to express an independent opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted accounting standards in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

Our audit involves procedures conducted to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. We choose and apply audit procedures in accordance with our judgment, based on our assessment of the risk of material misstatement in the consolidated financial statements due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation and appropriate presentation of the consolidated financial statements in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes examining the accounting policies adopted by management and their method of application, as well as the overall presentation of the consolidated financial statements, including evaluation of significant estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements above present properly, in every material aspect, the financial position and results of operations of Shionogi & Co., Ltd. and its consolidated subsidiaries for the relevant term of the consolidated financial statements in accordance with generally accepted auditing standards in Japan.

Emphasized Items

As described in the changes in accounting policies, the Company and its consolidated subsidiaries have changed its method of depreciation for property, plant and equipment to the straight-line method effective the year ended March 31, 2013 from the declining balance method mainly used in the past.

This fact has no impact on our opinion.

Interests in the Company

We have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

Accounting Auditor's Audit Report

May 8, 2013

The Board of Directors
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

Akihiko Masuda
Designated and Engagement Partner with limited liability (C.P.A.)

Hideki Maekawa
Designated and Engagement Partner with limited liability (C.P.A.)

Pursuant to Item 1, Paragraph 2, Article 436 of the Companies Act, we have audited the balance sheets, the statements of income and the statements of changes in net assets of Shionogi & Co., Ltd. (the "Company") for the 148th fiscal term from April 1, 2012 to March 31, 2013.

Management's Responsibility for the Financial Statements

Company management is responsible for preparing and appropriately presenting the financial statements and the supplementary schedules in accordance with generally accepted accounting standards in Japan. This responsibility includes establishing and maintaining internal controls deemed necessary by management to prepare and present the financial statements and the supplementary schedules without material misstatement due to fraud or error.

Independent Accounting Auditor's Responsibility

Our responsibility is to express an independent opinion on the financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with generally accepted accounting standards in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements and the supplementary schedules are free of material misstatement.

Our audit involves procedures conducted to obtain audit evidence supporting the amounts and disclosures in the financial statements and the supplementary schedules. We choose and apply audit procedures in accordance with our judgment, based on our assessment of the risk of material misstatement in the financial statements and the supplementary schedules due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation and appropriate presentation of the financial statements and the supplementary schedules in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes examining the accounting policies adopted by management and their method of application, as well as the overall presentation of the financial statements and the supplementary schedules, including evaluation of significant estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

Audit Opinion

In our opinion, the financial statements and the supplementary schedules above present properly, in every material aspect, the financial position and results of operations of Shionogi & Co., Ltd. for the relevant term of the financial statements in accordance with generally accepted auditing standards in Japan.

Emphasized Items

As described in the changes in accounting policies, the Company has changed its method of depreciation for property, plant and equipment to the straight-line method effective the year ended March 31, 2013 from the declining balance method mainly used in the past.

This fact has no impact on our opinion.

Interests in the Company

We have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

Audit Report of the Board of Corporate Auditors

The Board of Corporate Auditors has compiled this Audit Report, upon due discussion, based on the audit report prepared by each Corporate Auditor regarding the execution of Directors' duties for the 148th fiscal period from April 1, 2012 to March 31, 2013 and submit our report as follows:

1. The Auditing Methods and Contents of Corporate Auditors and the Board of Corporate Auditors

The Board of the Corporate Auditors stipulated the auditing policies and share of assignment, etc., received reports regarding the situation and results of the audit from each Corporate Auditor and received reports regarding the situation of the business operations from the Directors and the Accounting Auditors, and, as required, received explanations.

Each Corporate Auditor, in accordance with the auditing standards, auditing policies and share of assignment, etc., stipulated by the Board of the Corporate Auditors, communicated with the Directors, the internal control section of the Company, and employees, endeavored to collect information and organize the environment for auditing, attended the Board of the Directors meetings and other material meetings, received reports regarding the situation of the business operations from the Directors and employees, as required, received explanations, perused the material documents on decisions and investigated the operations and assets at the Company's head office and other main offices.

In addition, we monitored and verified a system to assure appropriate execution of the Directors' duties in accordance with the related regulations and the Articles of Incorporation, the resolution of the Board of the Directors regarding a system to assure appropriate operations of the Company under Paragraph 1 and 3, Article 100 of the Enforcement Regulations of the Companies Act and the system established pursuant to such resolution (the Internal Control System).

With respect to the Internal Control regarding the financial reports, we received reports regarding the evaluation of such Internal Control and the situation of auditing from the Directors and Ernst & Young ShinNihon LLC, as required, received explanations.

With respect to the Company's subsidiaries, we communicated with and held opinion exchange meetings with the Directors and Corporate Auditors, etc., of subsidiaries, and, as required, received reports regarding the business operations from subsidiaries.

Based on the above mentioned method for auditing, we reviewed the business reports and supporting schedules for the relevant fiscal year.

Furthermore, we monitored and verified whether the Accounting Auditors maintain their independence and conduct the appropriate audit, received reports regarding the execution of their duties from the Accounting Auditors, and, as required, received explanations.

We also received notification that the "system to assure appropriate execution of the duties" (the item enumerated in each number of Article 131 of the Corporate Accounting Regulations Ordinance) was established in accordance with the "Quality Control Standards for Auditing" (adopted by the Business Accounting Deliberation Council on October 28, 2005), and as required received explanation.

Based on the above mentioned method, we reviewed the financial statements (the balance sheets, the statements of income, the statements of change in net assets and notes on financial statements) as well as the supporting schedules, and the consolidated financial statements (the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in net assets and notes on consolidated financial statements) for the relevant fiscal year.

2. Result of Audit

(1) Results of audit on the business reports, etc.

1) The business reports and supporting schedules present properly the Company's affairs in accordance with the related regulations and the Articles of Incorporation of the Company.

2) No improper acts or serious matters in violation of the related regulations or the Articles of Incorporation in the course of execution of the Directors' duties have been observed.

3) The resolutions of the Board of the Directors regarding the Internal Control System are appropriate and there is nothing to point out with regard to the published content of the business reports and the execution of the Directors' duties concerning the Internal Control System including the internal control for financial reporting.

(2) Results of audit on the financial statements and supporting schedules

The methods and results of the audit made by Ernst & Young ShinNihon LLC are appropriate.

(3) Results of audit on the consolidated financial statements

The methods and results of the audit made by Shin Nihon & Co. are appropriate.

May 8, 2013

Board of Auditors, Shionogi & Co., Ltd.

Standing Corporate Auditor: Mitsuaki Ohtani

Standing Corporate Auditor: Sachio Tokaji

Outside Corporate Auditor: Takeharu Nagata

Outside Corporate Auditor: Shinichi Yokoyama

Outside Corporate Auditor: Kenji Fukuda

Proposals and Reference Matters

No. 1: Appropriation of Surplus

The Company's basic policy is to make an aggressive investment in future business development according to its growth to increase corporate value in the medium to long term perspective and to make stable increases in the dividend in accordance with fiscal year results.

The Company has increased its performance-linked benchmark for distributing earnings, the target consolidated payout ratio, to 40 percent from 35 percent as of the fiscal year ended March 31, 2013 to return profits to shareholders.

The Company, based on the above-mentioned principles, proposes to appropriate the retained earnings for the fiscal year ended March 31, 2013 as follows:

1. Year-end dividends

(1) Type of dividend assets

Cash

(2) Allocation of dividend assets to the shareholders and total amount of allocation

¥22 per share of common stock

Total amount of dividends: ¥7,367,803,564

(3) Effective date of dividends

June 27, 2013

Including the interim dividend, cash dividends per share for the fiscal year ended March 31, 2013 totaled ¥42.00, an increase of ¥2.00 compared with the previous fiscal year.

No. 2: Election of Five (5) Directors

The term of office of all five (5) Directors expires at the end of this Annual General Meeting of Shareholders.

Accordingly, the Company proposes the election of five (5) Directors.

Candidates for Director are as follows:

Candidate No.	Name (Date of birth)	Career summary, position within the Company and other major posts	Number of the Company's shares owned
1	Motozo Shiono (November 17, 1946)	January 1972: Joined the Company June 1984: Director of the Company April 1987: General Manager, Accounting Department June 1987: Managing Director of the Company June 1990: Senior Managing Director of the Company March 1996: General Manager, Agro., Vet. & Industrial Chem. Division August 1999: President of the Company August 1999: General Manager, Corporate Planning Division April 2008: Chairman of the Boar of the Company (incumbent) (Major concurrent posts) Chief Director of The Cell Science Research Foundation	266,648
2	Isao Teshirogi (December 12, 1959)	April 1982: Joined the Company January 1999: General Manager, Secretary Office and General Manager, Corporate Planning Department June 2002: Director of the Company October 2002: General Manager, Corporate Planning Department April 2004: Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division April 2006: Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division April 2007: Senior Executive Officer April 2008: President of the Company (incumbent)	11,750
3	Outside Director Candidate Akio Nomura (February 8, 1936)	April 1958: Joined Osaka Gas Co., Ltd. June 1988: Director of Osaka Gas, Ltd. June 1989: Managing Director of Osaka Gas, Ltd. June 1991: Representative Director and Senior Managing Director of Osaka Gas, Ltd. June 1994: Representative Director and Vice President of Osaka Gas, Ltd. June 1998: Representative Director and President of Osaka Gas, Ltd. June 2000: Director of West Japan Railway Company (incumbent) June 2003: Representative Director and Chairman of Osaka Gas, Ltd. June 2008: Director of the Royal Hotel, Ltd. (incumbent) June 2009: Director of the Company (incumbent) (Major concurrent posts) Director of The Royal Hotel, Ltd.	0

Candidate No.	Name (Date of birth)	Career summary, position within the Company and other major posts	Number of the Company's shares owned
4	Outside Director Candidate Teppei Mogi (October 17, 1958)	April 1989: Registration of Attorney at Law April 1989: Joined Oh-Ebashi Law Offices April 1992: Service at Brussels Office of Cleary, Gottlieb, Steen & Hamilton LLP January 1993: Service at Rotterdam Office of De Brauw Blackstone Westbroek April 1994: Partner of Oh-Ebashi Law Offices August 2002: Partner of Oh-Ebashi LPC & Partners (incumbent) April 2004: Practitioner teacher, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (Full-time teacher) April 2005: Part-time instructor, Graduate School of Law, Kobe University (incumbent) June 2009: Director of the Company (incumbent) April 2010: Part-time instructor, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (incumbent) (Major concurrent posts) Partner of Oh-Ebashi LPC & Partners	0
5	Outside Director Candidate Katsuhiko Machida (June 22, 1943)	March 1969: Joined Hayakawa Electric Industry Co., Ltd., which changed its name to Sharp Corporation in January 1970 June 1987: Corporate Director, Sharp Corporation April 1990: Corporate Executive Director, Sharp Corporation October 1992: Corporate Senior Executive Director, Sharp Corporation June 1998: President, Sharp Corporation April 2007: Chairman, Sharp Corporation April 2008: Outside Director, Sekisui House Ltd. (incumbent) June 2008: Chairman and Chief Executive Officer, Sharp Corporation April 2010: Chairman, Sharp Corporation April 2012: Corporate Advisor, Sharp Corporation (Retired Corporate Director in June of the same year,) June 2012 Director of the Company (incumbent) (Major concurrent posts) Outside Director, Sekisui House Ltd.	0

Notes:

1. There are no special interests between the candidates and the Company.
2. Messrs. Akio Nomura, Teppei Mogi and Katsuhiko Machida are the candidates of outside directors stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act.
3. The Company proposes to reelect the candidate Mr. Akio Nomura as outside director to reflect his abundant experience and broad discernment as a member of top management in its management. Mr. Nomura's term of office as outside director will be four (4) years as of the end of this Annual General Meeting of Shareholders.
4. The Company proposes to reelect the candidate Mr. Teppei Mogi as outside director to reflect his abundant experience and professional knowledge as Attorney at Law in its management and because Mr. Mogi has sufficiently fulfilled his role of outside director expected of him, even though he has not been involved in the management of a company before beyond his experience as outside director and outside auditor. Mr. Mogi's term of office as outside director will be four (4) years as of the end of this Annual General Meeting of Shareholders.
5. The Company does not have an advisory contract with Oh-Ebashi LPC & Partners, where Director Teppei Mogi is a partner. However, the Company has remunerated Oh-Ebashi LPC & Partners for expert advice regarding certain specific cases involving international legal affairs.
6. On January 16, 2008, Mr. Teppei Mogi was appointed as outside director of Senba Kitcho Co., Ltd. as part of that company's corporate rehabilitation measures following a scandal in which the company falsely labeled food items in 2007. Although Mr. Mogi strove to build a compliance structure and to reform the company's culture, another scandal involving the company, which occurred prior to his appointment (reuse of food ingredients), was brought to light after he was appointed, forcing the company to cease operations on May 28, 2008.
7. The Company proposes to elect the candidate Mr. Katsuhiko Machida as outside director to reflect his abundant experience and broad discernment as a member of top management in its management. Mr. Machida's term of office as outside director will be one (1) years as of the end of this Annual General Meeting of Shareholders.
8. The Company has submitted to Tokyo Stock Exchange Group, Inc. and Osaka Securities Exchange the independent directors/auditors notification, which states Messrs. Akio Nomura Teppei Mogi and Katsuhiko Machida are independent directors. If this proposal is approved and Messrs. Nomura, Mogi and Machida are appointed, all shall continue to serve as independent directors.
9. Outline of the contract with outside directors to limit their liability are as follows:
   The Company has concluded contracts with Messrs. Akio Nomura ,Teppei Mogi and Katsuhiko Machida that limit their liability stipulated in Section 1, Article 423 of the Companies Act based upon Section 1, Article 427 of the Companies Act and Article 25 of the Articles of Incorporation of the Company. The limited amount provided in the contract is the minimum liability limit amount stipulated in Section 1, Article 425 of the Companies Act. In the event that the candidates, Messrs. Akio Nomura, Teppei Mogi and Katsuhiko Machida are reelected as outside directors at this Annual General Meeting of Shareholders, the Company will continue to conclude such contracts with the candidates.

No. 3: Election of One (1) Corporate Auditor

The term of office of corporate auditor Takeharu Nagata will expire at the close of this General Meeting of Shareholders.

Accordingly, the Company proposes the election of one (1) corporate auditor newly.

The consent of the Board of Corporate Auditors has been obtained for submission of this proposal.

Candidate for the corporate auditor is as follows:

Name (Date of birth)	Career summary, position and other major posts		Number of the Company's shares owned
Outside Corporate Auditor Candidate New Candidate Koichi Tsukihara (October 25, 1947)	April 1970: June 1997: June 1999: January 2001: April 2001: June 2003 April 2004: June 2005: April 2006 May 2006 June 2011 June 2012	Joined Sumitomo Bank Limited Director, Sumitomo Bank Limited Executive Officer, Sumitomo Bank Limited Managing Executive Officer, Sumitomo Bank Limited Managing Executive Officer, Sumitomo Mitsui Banking Corporation Managing Director and Managing Executive Officer, Sumitomo Mitsui Banking Corporation Senior Managing Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation Senior Managing Officer, Sumitomo Mitsui Financial Group Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation Vice President and Executive Managing Officer, Sumitomo Mitsui Financial Group Director ,Sumitomo Mitsui Banking Corporation (Retired in the same month,) President and Representative Director, Sumitomo Mitsui Card Co., Ltd Representative Director and Chairman, Sumitomo Mitsui Card Co., Ltd. Director and Chairman, Sumitomo Mitsui Card Co., Ltd (incumbent) Outside Director, Gurunavi, Inc. (incumbent)	0
	(Major concurrent posts) Director and Chairman, Sumitomo Mitsui Card Co., Ltd Outside Director, Gurunavi, Inc.		

Notes:

1. There are no special interests between the candidates and the Company.
2. Mr. Koichi Tsukihara is a candidate for outside corporate auditor as stipulated in Article 2, Paragraph 3, Sub-paragraph 8 of the Enforcement Regulations of the Companies Act.
3. Mr. Tsukihara has extensive management experience and knowledge. He was a director and an officer of Sumitomo Banking Corporation for many years, and his experience includes terms as President and Representative Director of Sumitomo Mitsui Card Company, Limited and Outside Director of Gurunavi, Inc. The Company therefore believes that Mr. Tsukihara is well qualified to serve as an outside corporate auditor committed to an objective perspective, and requests shareholders to elect him
4. If this proposal is approved and Mr. Koichi Tsukihara is appointed as an outside auditor, the Company plans to conclude a contract with Mr. Tsukihara limiting his liability stipulated in Section 1, Article 423 of the Companies Act based upon Section 1, Article 427 of the Companies Act and Article 32 of the Articles of Incorporation of the Company. The limited amount provided in the contract is the minimum amount stipulated in Section 1, Article 425 of the Companies Act.

Procedures on Exercise of Voting Rights through the Internet etc.

If you wish to exercise your voting rights through the Internet, please do so after taking the time to read and to fully understand the following:

1. Notice to Voting Service Website

To exercise your voting rights through the Internet, you must use the following voting service website designated by the Company.

Voting Service Website Address http://www.web54.net

*You can also read the QR Code® on the right and connect with the voting service website using a mobile phone with a bar code reading function. Please refer to the operating manual for your mobile phone to find out how.
(QR Code ® is a registered trademark of Denso Wave Incorporated)

2. Notice Regarding Handling of Voting Rights

(1) To exercise your voting rights through the Internet, please register your approval or disapproval of each proposition by using "the voting rights exercise code" and "password" for the exercise of voting rights indicated in the Proxy Card enclosed herewith and following the directions on the screen.

(2) Although it is acceptable to exercise voting rights through the Internet until 5:00 P.M.*, Tuesday, June 25, 2013, please exercise your voting rights as early as possible to assist us with compiling the results of the voting.

(3) If you exercise your voting rights both in writing and through the Internet, we will only accept the exercise of your voting rights through the Internet. If you exercise your voting rights more than once through the Internet etc. or in the personal Computer and mobile phone, we will only accept the last exercise of your voting rights as valid.

(4) The internet access fee to providers and telecommunications carriers and other fees for the usage of the website for exercising voting rights shall be borne by the shareholder.

3. Using the Password and Voting Rights Exercise Code

(1) Please protect your password because it is crucial for confirming your identity as a voting shareholder.

(2) Your password becomes invalid if you fail to input it correctly within the set number of times. Follow the instructions on the screen if you need to have a new password issued.

(3) The Voting Rights Exercise Code on the Proxy Card is only valid for the General Meeting of Shareholders on Wednesday, June 26, 2013.

4. System Requirements

(1) Voting via personal computer:

Microsoft® Internet Explorer 5.01 SP2 or greater, as Internet browser software, and appropriate hardware to use the required Internet browser software mentioned above;

(Microsoft® is a registered trademark of Microsoft Corporation in the United States and other countries.)

(2) Voting via mobile phone:

You may use any of the following services to vote your rights using a mobile phone. Your phone must be capable of 128bit SSL (Secure Socket Layer) encrypted communication.

1. i-mode 2. EZweb 3. Yahoo! Mobile

Note: Your voting via mobile phone will be handled as voting via personal computer if you access the system using a full browser mobile phone application, a personal computer with a telephone as the communication device, or a smartphone.

(i-mode, EZweb, Yahoo! and Yahoo! Mobile are registered trademarks of NTT DoCoMo, Inc., KDDI CORPORATION, Yahoo! Inc. of the United States, and Softbank Mobile Corp., respectively.

5.Reference Regarding Exercise of Voting Rights through the Internet

Please call the following number if you have any questions relating to exercise of voting rights through handling personal computer or mobile phone.

Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Web Support

【Exclusive Line】 0120-652-031 (9:00 A.M. – 9:00 P.M.*, toll free)

***Japan Standard Time**

6. Using the Electronic Voting Platform (Institutional Investors)

Institutional investors may exercise their voting rights for the General Meeting of Shareholders electronically using the Electronic Voting Platform operated by ICJ, Inc.