

To All Shareholders

June 3, 2014

Notice of Convocation of the 149th Annual General Meeting of Shareholders

The 149th 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 24, 2014.¹

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 25, 2014
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 149th Fiscal Term (year ended March 31, 2014)
2. The Audit Report of the Consolidated Financial Statements for the 149th Fiscal Term (year ended March 31, 2014) 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

4. Exercise of voting rights:

You are kindly requested to review "How to Exercise Your Voting Rights" on pages 42 and 43 before exercising your 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 24, 2014.
2. Exercise of voting rights by Internet
You are kindly requested to exercise your voting rights by 5:00 p.m., Tuesday, June 24, 2014, after reviewing the instructions and cautionary statements.

* [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

* Pursuant to the Companies Act and Article 14 of Shionogi's Articles of Incorporation, the Notes to Consolidated Financial Statements and the Notes to Non-Consolidated Financial Statements are not included in this Notice of Convocation as they are available on our Internet website (<http://www.shionogi.co.jp/en/>). Therefore, the consolidated and non-consolidated financial statements audited by the Accounting Auditor and the corporate auditors include the Notes to Consolidated Financial Statements and the Notes to Non-Consolidated Financial Statements posted on our website in addition to the statements attached to this Notice of Convocation

* 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/en/>).

¹ Japan Standard Time

1. Overview of Operations

(1) Business Operations and Results

The Shionogi Group has a clear commitment to continuously discovering innovative, highly effective new drugs, and is strategically developing new drugs in Japan as well as the United States, Europe and Asia in order to maintain steady growth as a global R&D-based company.

In the domestic prescription pharmaceuticals market, Japan has become a super-aging society, and the government is accelerating policies to control drug prices, including those to promote the use of generics. In the National Health Insurance (NHI) drug price reductions in April 2014, prices were reduced by an average of around 2.5 percent (including consumption taxes) across the industry. Not only was the institutionalization of the premium for new drug development, which new drug manufacturers had been anxiously awaiting, abandoned, but the revisions contained even stricter provisions, including additional rules for the drug price reductions. On the other hand, new provisions were presented in the pricing rules for new drugs that value innovation to a certain degree, such as the introduction of a premium for pioneer medicines and expansion of pricing by the cost calculation method, indicating the future direction of the Japanese pharmaceutical market. In overseas markets, policies aimed at improving health insurance finances are being advanced primarily in developed countries against a background of aging populations and unstable economic conditions. Meanwhile, newly industrialized markets, which had been expanding rapidly, are showing signs of slowing growth. The operating environment of the pharmaceutical industry is expected to continue to change rapidly on a global scale, and consequently international competition for survival among companies will intensify.

Regarding this operating environment, the Shionogi Group positioned fiscal 2013 as the first year of the Group's globalization in the Third Medium-Term Business Plan covering the five years ending in fiscal 2015, and worked to fulfill the purpose expressed in the Company Policy – “to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve” – on a global basis.

1) Stable Operation and Expansion of Overseas Business

In the four years of the Third Medium-Term Business Plan, the Shionogi Group has made steady progress toward globalization, including the establishment of Shionogi Ltd., a development base in Europe, and the acquisition of Chinese company C&O Pharmaceutical Technology (Holdings) Limited, a base for business in Asia. U.S. subsidiary Shionogi Inc., which experienced volatile business results midway through the plan in transitioning to a business model focusing on new drugs, carried out reforms with a medium-to-long-term perspective under a new management team, and has stabilized its business. In the United States, the world's largest market, ospemifene (U.S. brand name: Osphena™), a treatment for postmenopausal vulvar and vaginal atrophy, was launched in June 2013 as the Shionogi Group's first global drug. The resources of the entire Shionogi Group have been mobilized to build this drug into a major product in the field of gynecology, an area with significant unmet medical needs (medical needs that are not addressed for reasons including lack of effective treatment). Although Shionogi was unable to reach its first-year sales target, prescriptions are increasing steadily. Sales promotion activities such as informing healthcare providers about the product's efficacy and safety and a disease education campaign aimed at patients, including television commercials, were carried out smoothly according to the plan set at the beginning of the fiscal year. Therefore, sales expansion is expected in the product's second year on the market.

2) Strengthening the Domestic Prescription Drug Business

In the domestic prescription drug business, with sales of existing products declining due to the NHI drug price revisions and promotion of the use of generics, Shionogi regards eight new drugs as a key to its growth, and has worked to expand their sales by positioning them as strategic products. As a result, the share of these eight strategic products in total domestic sales of prescription drugs expanded markedly to 55.2 percent in fiscal 2013, compared with 28.9 percent in fiscal 2009, the final year of the Second Medium-Term Business Plan, which drove an overall increase in sales of prescription drugs. For the Shionogi Group as a whole, sales increased slightly over the previous fiscal year, and operating income and ordinary income reached record levels for the second consecutive year.

3) Results in Research and Development

In research and development, the anti-HIV drug dolutegravir, for which Shionogi's former co-development partner ViiV Healthcare Ltd. (ViiV) of the United Kingdom filed for approval in the United States, Europe and Canada at the end of 2012, obtained approval in all of these areas, starting with the United States in August 2013. Sales through ViiV are now under way. Dolutegravir has gained strong market acceptance, and is positioned as a first-line option for treatment-naïve patients in the U.S. HIV treatment guidelines. In March 2014, approval was also obtained in Japan, where ViiV and Shionogi are co-promoting the product to healthcare providers.

Regarding the transfer of rights from Shionogi to ViiV of dolutegravir, which is expected to become a major product, Shionogi receives dividends related to its participation in ViiV management as a shareholder with a 10 percent equity stake under the agreement framework with ViiV that was revised in 2012. In addition, Shionogi retains rights to receive royalties at a fixed percentage of sales.

4) Response to Crestor Royalties

The Shionogi Group's most significant business challenge had been the loss of royalty revenue that was set to occur when the patents for the anti-hyperlipidemia treatment Crestor expired in 2016 and 2017 (the "Crestor Cliff"). To respond to that challenge, in addition to the aforementioned changes to the terms of the agreement for the anti-HIV drug dolutegravir, Shionogi adjusted its royalty agreement for Crestor in December 2013 with UK-based AstraZeneca, which markets Crestor globally. Under the new agreement, the royalty rate from 2014 to 2016 is reduced by a low single-digit number from the previous rate, and the period of royalty payments, which would have ended in 2016 under the previous agreement, is extended by seven years until 2023. In addition, Shionogi will receive a fixed minimum annual royalty payment in the low hundreds of million dollars from 2014 to 2020. These revisions to the agreement will enable Shionogi to secure a stable revenue base over the medium to long term.

5) Summary of Consolidated Results for Fiscal 2013

(Billions of yen)

Net Sales	289.7	Operating Income	63.6
	Y on Y Change 6.8 Y on Y Change (%) 2.4		Y on Y Change 4.0 Y on Y Change (%) 6.7
Ordinary Income	63.9	Net Income	41.8
	Y on Y Change 5.0 Y on Y Change (%) 8.5		Y on Y Change (24.9) Y on Y Change (%) (37.3)

Note: The Company has changed its presentation method for litigation expenses from FY2013. The year-on-year change and percentage change in operating income have been calculated using the restated figure for FY2012 that reflects this change.

① Sales

Net sales increased 2.4 percent year on year to ¥289.7 billion.

(Billions of yen; %)

	FY2012	FY2013	Y on Y Change	Y on Y Change (%)
Net Sales	282.9	289.7	6.8	2.4
Domestic sales of prescription drugs	165.7	168.3	2.6	1.5
Export/Overseas subsidiaries	30.6	34.0	3.4	11.1
Shionogi Inc.	17.0	21.4	4.4	26.0
C&O	5.8	5.9	0.1	1.0
Royalty income	69.8	70.7	0.9	1.2
Crestor	63.0	65.7	2.7	4.3

• 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 10.3 percent year on year to ¥92.9 billion, which compensated for lower sales of existing products.

• Exports and Overseas Subsidiaries

Export and overseas subsidiary sales increased ¥3.4 billion as existing products made a steady contribution to sales at Shionogi Inc. and ospemifene was launched. In addition, Shionogi sold the rights to its non-steroidal anti-inflammatory drug Naprelan ahead of its imminent patent expiration.

• Royalty Income

Global sales of Crestor by AstraZeneca decreased, but royalty income increased on a yen basis due in part to the weakening of the yen. Overall, royalty income increased year on year to ¥70.7 billion.

② Operating Income and Ordinary Income

Operating income increased 6.7 percent year on year to ¥63.6 billion. Ordinary income increased 8.5 percent year on year to ¥63.9 billion.

Operating income increased because of the growth in net sales and the increase in gross profit reflecting efforts to improve the gross margin. In addition, the increase in costs from investment in new products at Shionogi Inc. was limited by ongoing Company-wide cost reductions. Ordinary income increased partly because of foreign exchange gains from the weakening of the yen.

③ Net Income

Net income on a consolidated basis decreased 37.3 percent year on year to ¥41.8 billion. This was due to a large decrease in taxes and other expenses on a non-consolidated basis related to a loss on valuation of the stock of Shionogi Inc. in the previous fiscal year.

(2) Research and Development Activities and In-Licensing

The Shionogi Group has produced steady results in conducting research and development activities to achieve world-class research productivity and to quickly supply pharmaceuticals to global markets under its Third Medium-Term Business Plan. The Group is also continuously in-licensing products and technologies for future business expansion.

In the area of research in the Third Medium-Term Business Plan, Shionogi has been reinforcing its strength in discovering small molecule drugs as well as taking on the challenge of discovering large molecule drugs utilizing various leading-edge technologies. As a result, Shionogi has continuously created innovative, high-quality drug candidates, generating 12 potential new drugs in four years. In addition, Shionogi achieved its goal of reaching clinical POC^(note) for over 50 percent of its drug candidates. In the area of development, new products generated by Shionogi Pharmaceutical Research Center (SPRC), where research functions are concentrated, quickly advanced through preclinical testing and reached clinical POC. In addition, Shionogi has evolved into an organization capable of conducting phase II and later clinical trials globally and filing for regulatory approval worldwide. The most significant achievement has been obtaining approval for ospemifine and dolutegravir around the world. Ospemifine is the first drug containing a new active ingredient developed by Shionogi to obtain approval from the FDA, and is currently under review for approval in Europe. Dolutegravir, which has gained approval in the United States, Europe, Japan, Canada and other countries, was filed for approval based on testing conducted in co-development by ViiV and Shionogi, and its approval is the result of that co-development.

Note: POC: Proof of Concept (details are presented in the margins of table③ below)

1) Research Activities

SPRC, the backbone of the Shionogi Group's research functions, has continued to energetically conduct activities aimed at strengthening cooperation within Shionogi's research organization, increasing candidates for development and improving the success rate in moving from non-clinical to clinical trials. As concrete results, S-010887, an analgesic agent for neuropathic pain with a novel mechanism of action, and S-237648, which is expected to demonstrate a high level of efficacy and safety as the successor product of obesity treatments S-2367 and S-234462, both advanced into new clinical stages. In addition, SPRC created an oral anti-influenza treatment with a novel mechanism of action as a development candidate using the know-how on antiviral drug research cultivated in the creation of dolutegravir. 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

In October 2013, ViiV filed for approval in the United States and Europe for a single-tablet regimen containing the anti-HIV drug dolutegravir, an HIV integrase inhibitor approved globally in 2013, and the anti-HIV drugs abacavir and lamivudine, which have different mechanism of action from dolutegravir (both are nucleoside reverse transcriptase inhibitors). 3 drugs combination therapy that includes two nucleoside reverse transcriptase inhibitors is a first-line treatment option in the current HIV treatment guidelines. Therefore, this single-tablet combination drug, which enables treatment with once-daily dosing, is expected to improve convenience for patients and contribute substantially to HIV treatment, which requires long-term adherence to therapy.

The Shionogi Group is steadily moving forward with development of compounds in its strong pipeline, including S-297995, which is in late-stage development for alleviation of opioid-induced adverse effects, and S-888711 for thrombocytopenia. S-297995 is the first proprietary drug candidate that Shionogi has advanced to global Phase III clinical trials independently. Administration of the drug began in fall 2013, and development is progressing smoothly. Phase III clinical trials of S-888711 also started in Japan in fall 2013, and the start for oversea clinical trials is concurrently in preparation. The Shionogi Group will continue to move forward with faster, more effective development in Japan, the United States, Europe and Asia to enable the rapid supply of medicines that patients need to global markets.

The progress of the main clinical development activities at the end of the fiscal 2013 (ended March 31, 2014) are as follows:

① Approval

Therapeutic area	【Product Name】	Category (Administration)	Indication	Country/Region	Period
Infectious Disease	Dolutegravir sodium* 【Tivicay®】 【Tivicay™】	Integrase inhibitor (Oral)	HIV infection	Global	USA: Aug., 2013 Canada: Oct., 2013 Europe: Jan., 2014 Japan: Mar., 2014
Metabolic Syndrome	S-474474 【IRTRA®Combination Tablets】	Angiotensin receptor antagonist/diuretic combination (Oral combination)	Hypertension	Japan	Jun., 2013

*Approval obtained by ViiV

② NDA Submission

Therapeutic area	【Product Name】 (General name)	Category (Administration)	Indication	Country/Region	Period
Infectious Disease	Dolutegravir sodium /abacavir sulfate/ lamivudine*	Integrase inhibitor / Nucleoside analogue reverse transcriptase inhibitor (Oral combination)	HIV infection	USA Europe	Oct., 2013
Infectious Disease	Dolutegravir sodium*	Integrase inhibitor (Oral)	HIV infection	Japan	Dec., 2013

*Submission made by ViiV

③ Clinical Testing Initiated and in Progress

Therapeutic area	【Product Name】 (General name)	Category (Administration)	Indication	Country/ Region	Stage	
Infectious Disease	S-649266	Cephem antibiotics (Injection)	Infections	Japan USA	I	
Metabolic Syndrome	S-556971	Cholesterol absorption inhibitor (Oral)	Dyslipidemia	Japan	II (co-development with Kotobuki)	
Metabolic Syndrome	S-707106	Insulin sensitizer (Oral)	Type 2 diabetes	USA	II	
Metabolic Syndrome	S-237648	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity	Japan	I	
Pain	【Cymbalta®】	SNRI(serotonin & noradrenaline reuptake inhibitor (Oral)	Fibromyalgia	Japan	NDA submission in preparation (co-development with Eli Lilly Japan)	
Pain	【Cymbalta®】	SNRI(serotonin & noradrenaline reuptake inhibitor (Oral)	Chronic low back pain	Japan	III (co-development with Eli Lilly Japan)	
Pain	【OxyContin®】	Opioid (Oral)	Moderate to severe chronic pain	Japan	III	
Pain	S-297995 (Naldemedine)	Peripheral opioid receptor antagonist (Oral)	Alleviation of opioid-induced adverse effect	Global Japan	III	
Pain	S-117957	Analgesic agent for neuropathic pain (Oral)	Neuropathic pain	USA	POM	(co-development with Purdue)
Pain	S-120083	Analgesic agent for inflammatory pain (Oral)	Inflammatory pain	Japan	I	(co-development with Purdue)
Pain	S-010887	Analgesic agent for neuropathic pain (Oral)	Neuropathic pain	Japan	I	
Other	S-524101	Sublingual tablet of house-dust mite allergen extracts for immunotherapy	Allergic rhinitis caused by house-dust mite allergen	Japan	NDA submission in preparation	
Other	S-888711 (Lusutrombopag)	Small molecule TPO mimetic (Oral)	Thrombocytopenia	Japan	III	
				USA	II	
Other	S-555739	Prostaglandin D2 receptor antagonist (Oral)	Allergic rhinitis	Japan	III	
				USA	II	
				Europe	POM	
Other	S-877503 (Guanfacine hydrochloride)	Non-central nervous system stimulant (Oral)	Attention deficit hyperactivity disorder(ADHD)	Japan	II / III (co-development with Shire)	
Other	S-877489 (Lisdexamfetamine)	Central nervous system Stimulant (Oral)	Attention deficit hyperactivity disorder (ADHD)	Japan	II (co-development with Shire)	

Therapeutic area	【Product Name】 (General name)	Category (Administration)	Indication	Country/ Region	Stage
Other	S-588410	Cancer peptide vaccine (Injection)	Bladder cancer	Japan Europe	II
Other	S-488210	Cancer peptide vaccine (Injection)	Head and neck squamous cell carcinoma	Europe	I / II
Other	S-222611	HER2/EGFR dual inhibitor (Oral)	Malignant tumor	Europe	I / II
Other	S-646240	Peptide vaccine (Injection)	Age-related macular degeneration	Japan	II

Notes:

Phase I Clinical Trials	The initial phase of testing on humans. Confirms the drug's pharmacokinetics (the rate of absorption in the body and the rate and method of elimination) and safety in healthy adults (certain drugs such as anti-cancer agents, however, are tested in patients).
Phase II Clinical Trials	Clinical trials to test efficacy and safety by administering the drug to a relatively small number of patients and to determine the effective dose regimen (dosage amount, dosing interval, etc.).
Phase III Clinical Trials	Clinical trials to test efficacy and safety by administering the drug to a larger number of patients. In larger clinical trials, the drug's advantage compared with a placebo or an existing drug is also investigated.
POM (Proof of Mechanism)	Proof that the mechanism of action confirmed in the discovery stage can also be confirmed in humans, and whether a therapeutic effect can be expected.
POC (Proof of Concept)	Proof in clinical trials that the compound's concept (site and mechanism of action), including efficacy and safety, is reasonable as a treatment for the target disease.

3) In-Licensing of Products and Technologies

In addition to research and development, the Shionogi Group actively in-licenses products and technologies for future business development. In the area of pain, one of the targeted therapeutic areas in the Third Medium-Term Business Plan, the Shionogi Group concluded a license agreement with Mundipharma in November 2013 for the exclusive rights to develop, manufacture and commercialize that company's opioid pain treatments (prescription narcotics) tamper-resistant OxyContin tablets and Oxycodone/Naloxone Combination tablets in Japan. Tamper-resistant OxyContin tablets are a formulation of the prescription narcotic OxyContin[®] that has been modified to prevent it from being used improperly for non-medical uses. Oxycodone/Naloxone Combination tablets are an abuse-deterrent formulation that provide the pain relief of oxycodone while alleviating its adverse effects on the digestive system.

Abuse of prescription narcotics is a social problem in various countries, particularly the United States. The FDA has announced that it will not accept or approve applications for generic versions of original formulations, which have been deemed as having the potential for abuse, without abuse-deterrent measures such as making the drug difficult to pulverize or dissolve. In Japan, the use of OxyContin tablets is limited to cancer pain, but the Ministry of Health, Labour and Welfare has requested development of this drug for non-cancer pain, and the Shionogi Group is currently conducting Phase III clinical trials. With this expansion of the drug's indications to non-cancer pain, there are concerns that the risk of abuse will also rise in Japan as recipients of the drug increase. Therefore, the Shionogi Group, which conducts domestic sales of this prescription narcotic, has licensed and started domestic development of both agents.

In a similar initiative, the Shionogi Group concluded a license agreement with U.S. company Egalet Corporation in November 2013 for the development and commercialization of hydrocodone opioid drug that use Egalet's abuse-deterrent technology. Shionogi is in-licensing this technology for the purpose of fortifying its pipeline of pain medications in its overseas business. The technology is expected to have a synergistic effect in development and commercialization of S-297995, on which Shionogi is currently conducting multiple global Phase III clinical trials as a medicine that alleviates the side effects commonly induced by opioid pain medications. The Shionogi Group is committed to providing new treatment options to meet social and medical needs in the area of pain, one of its targeted therapeutic areas.

(3) Capital Investment

Shionogi Group capital investment for the fiscal year ended March 31, 2014 totaled ¥9.0 billion. The Group's primary investments were construction of a new animal breeding building at the Aburahi Facilities and a new injectable drug manufacturing facility by C&O Pharmaceutical Technology (Holdings) Limited.

(4) Fund-raising

The Shionogi Group conducted no fund-raising of note during the fiscal year ended March 31, 2014.

(5) Challenges Ahead

In executing its Third Medium-Term Business Plan for the five years ending March 31, 2015, the Shionogi Group has been establishing the foundation to overcome the “Crestor Cliff” that was approaching in 2016 and achieve continued growth by taking various measures to respond to the slowing global economy and rapid changes in the external environment such as large swings in foreign exchange rates. These measures have included establishing a new framework for the agreement on anti-HIV drugs with ViiV and the modification of the Crestor royalty structure with AstraZeneca. As a result, the management issues that the Group needs to address going forward have changed. Therefore, the Group ended the Third Medium-Term Business Plan one year ahead of schedule and made a fresh start in April 2014 by formulating a new Medium-Term Business Plan, Shionogi Growth Strategy 2020 (SGS2020), which sets out a clear growth vision leading up to fiscal 2020, ending March 31, 2021.

Rapid changes in external environment

- Difficult global economic conditions
- Increased sales competition among products
- Fluctuation in exchange rates

Adaptation to environmental changes

- Shift to new drug-driven business in the US
- Establish a new scheme for anti-HIV drugs
- Modify the contract for Crestor royalty

Forecasts for the target of the 3rd Mid-Term business plan

**Approach to address new business challenges
(Prepare a new Mid-Term business plan : SGS2020)**

The Shionogi Group’s top priority is addressing the urgent task of overcoming the “Crestor Cliff,” which was moved forward from fiscal 2016 to fiscal 2014 with the modification of the agreement with AstraZeneca in December 2013, and shifting to a new growth stage. Furthermore, the Group believes that stricter management of the business plan is necessary to link it to consistent growth while responding quickly to rapid changes in the operating environment. Accordingly, in executing SGS2020, the Shionogi Group will confirm results and progress each year and set clear objectives to be accomplished over the next three years on a rolling basis.

To achieve its targets for fiscal 2020, the Shionogi Group will make unified efforts to expedite measures to address management issues and enable growth as a globally competitive, drug discovery-based pharmaceutical company. The basic strategies of SGS2020 are as follows.

1) Top-line Growth

By improving efficiency with a strategy of selection and concentration, the Shionogi Group will work to create first-in-class (FIC)⁽¹⁾ and last-in-class (LIC)⁽²⁾ pharmaceutical products that will drive future growth.

External environmental factors that Shionogi considers significant going forward are the rapid aging of society on a global scale, financial pressures on the health insurance systems of developed countries, and the uncertain economic conditions in emerging countries. With ospemifene and dortegravir in the early stages of marketing and global drug candidates such as S-297995 expected to be approved and launched after fiscal 2017, the Shionogi Group also must address internal challenges, increasing its ability to nurture growth drivers, strengthening its sales force for new drugs to be marketed worldwide, and securing the ability to generate earnings without depending on royalties. Given these challenges, Shionogi will promote selection and concentration, including rigorous control of costs, as it transitions from overcoming the “Crestor Cliff” to a growth track led by new products. The Company has identified Japan and the United States as the markets that will drive the Shionogi Group’s growth over the next three years. Shionogi will focus on strengthening domestic business in its home market and showing real growth in the U.S., where the Group has changed to a business focused on new drugs. Shionogi will select and concentrate operating resources on the unmet medical needs of the present, near future and future as its therapeutic areas of focus for research, development and sales activities during the next three years.

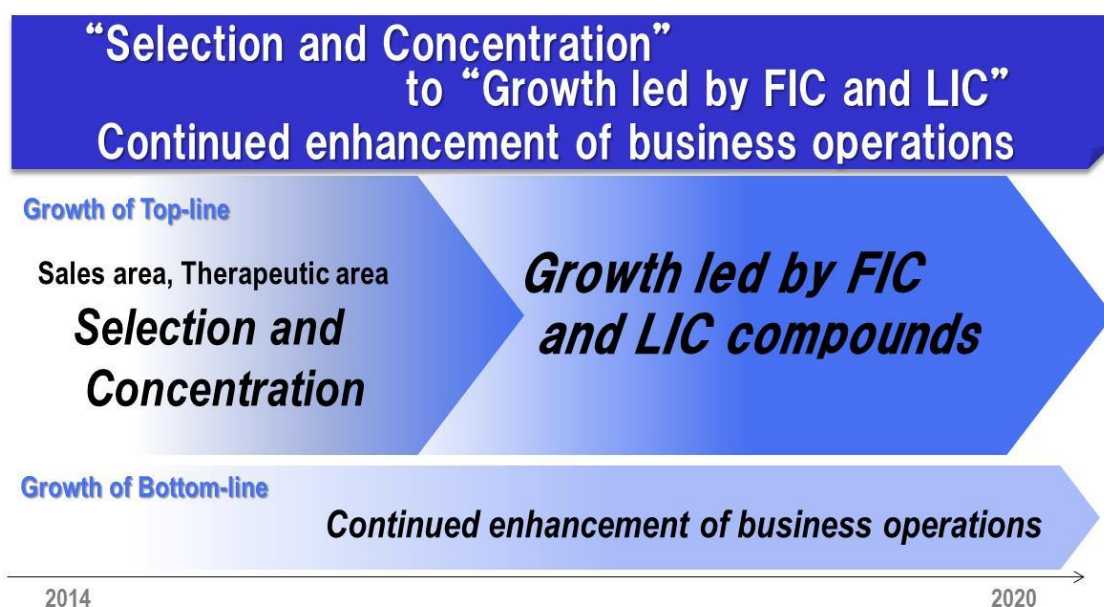
The specific areas selected for research and development for the near future are infectious diseases (drugs for viral and severe bacterial infections, and contributing to the anti-infective needs of emerging markets) and pain/neurology (opioid pain relievers, chronic pain drugs, etc.). Shionogi will work to create innovative new drugs to maximize the potential of existing products and strengthen its product lineup. To meet the medical needs of the future, particularly those created by the rapid aging of society, Shionogi will focus on research on obesity & geriatric metabolic disease and cancer & immunological disease, which will lead to continued growth after 2020.

To make sure that Shionogi satisfies medical needs, the Company believes that it must take a proactive and flexible approach to strengthening its pipeline not only through its own research but also by incorporating external research assets and drug discovery technologies. Accordingly, Shionogi established the Global Innovation Office (GIO) to unify functions for strengthening discovery and in-licensing of promising lead compounds and technologies. This will allow Shionogi to broaden its search for lead compounds with good potential while carrying out its strategy of selection and concentration.

Through these activities, the Shionogi Group will create world-class FIC and LIC drugs to realize medium-to-long-term growth.

Notes:

1. First in Class (FIC): Innovative medicines with particularly high novelty and efficacy that can change the existing therapeutic paradigm significantly
2. Last in Class (LIC): Unrivaled medicines with clear superiority over others with the same mechanism of action



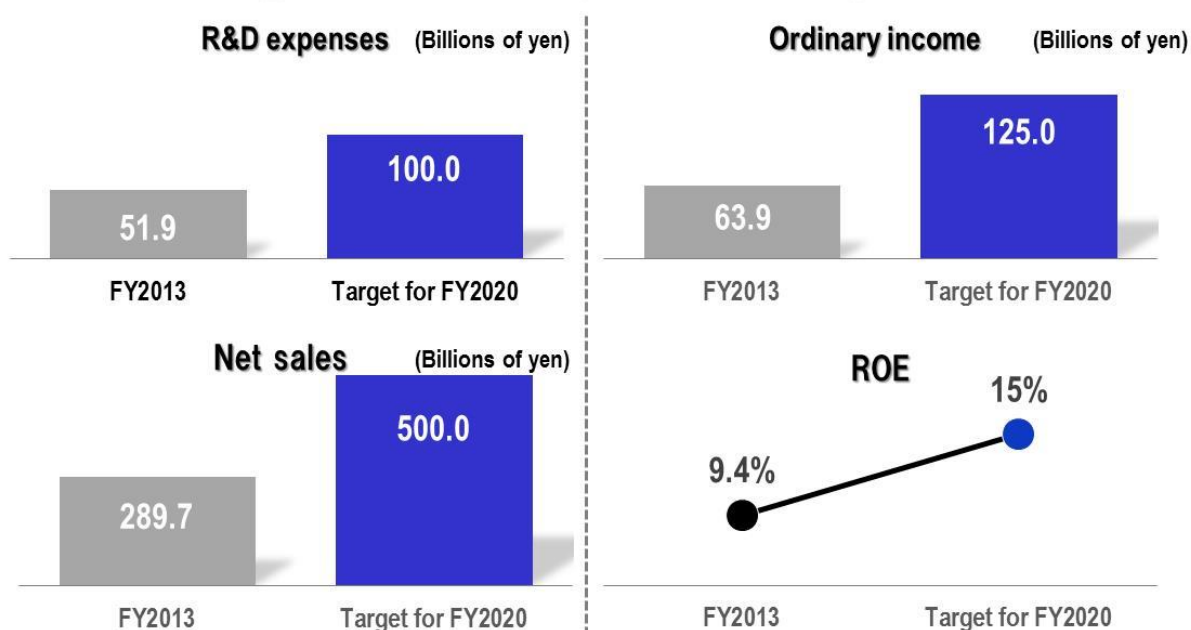
2) Bottom-line Growth

Shionogi's basic strategy for enhancing its business operations on a continuing basis focuses upon the appropriate allocation of resources (human and financial) according to its growth stage. In the near term, Shionogi will maintain the current resource level while improving productivity per employee, after which it will expand its resources in accordance with its growth potential.

Strengthening head office functions will be essential to accelerate growth. In particular, Shionogi will focus on strengthening strategy planning and implementation and establish a support structure to facilitate quick and accurate decision-making by senior management. In addition, Shionogi will further enhance development of human resources who will be the key to the Company's growth. The Company's senior executives are committed to human resource development and dedicated to the continuous education of employees in order to bring forth new leaders who can drive business innovation while maintaining full commitment to the mission to meet the challenges and needs of the society it serves. In response to the ever-changing conditions of the external environment, the Company will continue to develop each generation of employees with the goal that they will become leaders with the aforementioned capabilities, as such future leaders are its most important asset.

The Shionogi Group will also return profits to shareholders by continually strengthening its business operations to maximize profit and implementing a dividend policy to share its growth with shareholders starting in fiscal 2014.

Financial Target in SGS2020 (Consolidated)



To actualize its Company Policy – “to strive constantly to supply the best possible medicine to protect the health and well-being of the patients it serves” – on a global basis, the Shionogi Group will grow as a drug discovery-based pharmaceutical company and to contribute to the growth and advancement of the Japanese economy as a global pharmaceutical company that is trusted by patients, their families, healthcare providers and other stakeholders throughout the world.

(6) Business Results and Financial Position

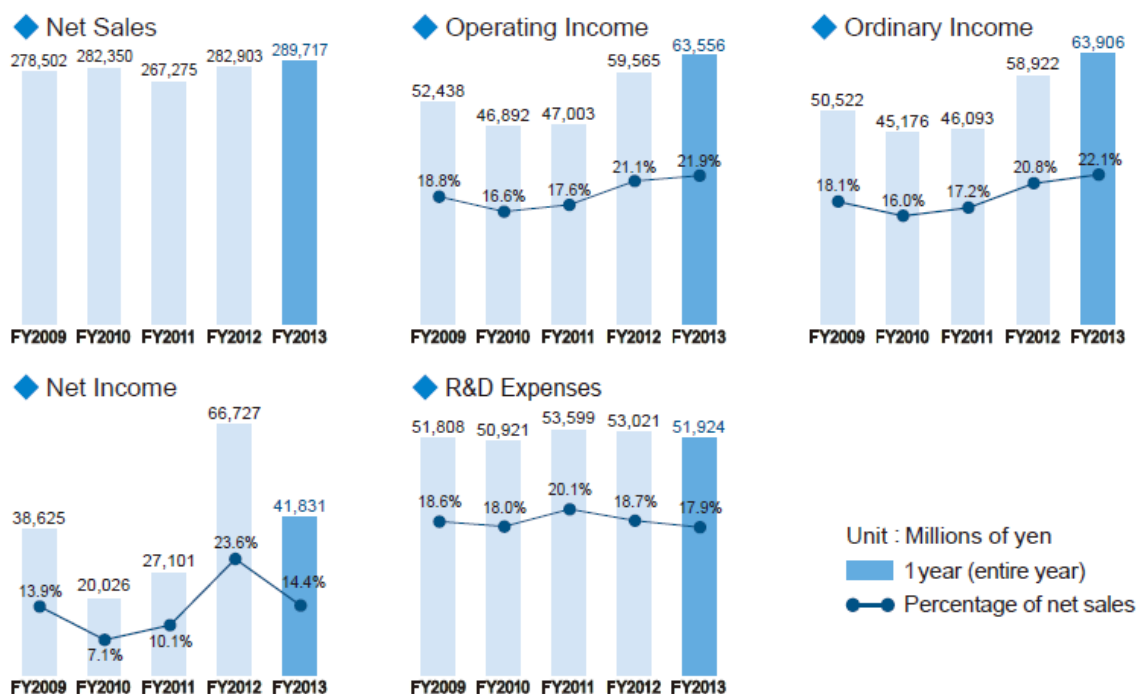
1) Business Results and Financial Position of the Corporate Group

(Millions of yen)

Classification	FY2009	FY2010	FY2011	FY2012	FY2013
Net sales	278,502	282,350	267,275	282,903	289,717
Operating income	52,438	46,892	47,003	59,565	63,556
Ordinary income	50,522	45,176	46,093	58,922	63,906
Net income	38,625	20,026	27,101	66,727	41,831
R&D expenses	51,808	50,921	53,599	53,021	51,924
Total assets	540,761	523,242	522,161	574,882	584,803
Net assets	341,976	328,096	347,198	423,633	472,412
Earnings per share	yen 115.33	yen 59.80	yen 80.93	yen 199.25	yen 124.91
Net assets per share	yen 1,019.71	yen 979.69	yen 1,027.83	yen 1,254.44	yen 1,398.78
Dividend per share	yen 36.00	yen 40.00	yen 40.00	yen 42.00	yen 46.00
Dividend payout ratio	% 31.2	% 66.9	% 49.4	% 21.1	% 36.8

Note: The Company has changed its presentation method for litigation expenses from FY2013. Operating income for FY2012 has been restated to reflect this change.

[Reference] Consolidated Financial Indicator



2) Business Results and Financial Position of the Company

(Millions of yen)

Classification	FY2009	FY2010	FY2011	FY2012	FY2013
Net sales	228,585	249,989	256,187	255,946	259,760
Operating income	49,256	60,435	62,875	66,068	73,206
Ordinary income	49,941	60,337	63,536	68,205	75,211
Net income (loss)	40,757	41,657	43,678	(32,014)	55,813
Total assets	553,013	565,170	575,447	511,433	534,264
Net assets	367,341	389,344	423,827	386,509	437,233
Earning (losses) per share	yen 121.70	yen 124.39	yen 130.42	yen (95.59)	yen 166.66
Net assets per share	yen 1,096.85	yen 1,162.57	yen 1,265.37	yen 1,153.74	yen 1,304.97

Note: The Company has changed its presentation method for litigation expenses from FY2013. Operating income for FY2012 has been restated to reflect this change.

(7) Significant Subsidiaries

Company Name	Paid-in Capital	Percentage of Ownership	Main Areas of Business
Shionogi Inc.	US dollars 8.00	100.0	Pharmaceutical manufacturing and sales
Shionogi Ltd.	Thousand UK 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	71.0	Pharmaceutical manufacturing and sales

(8) Main Operations of the Shionogi Group

The Shionogi Group mainly manufactures and sells pharmaceutical products.

(9) 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 ⁽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

(10) Employees

1) Number of Employees of the Corporate Group

Number of Employees	Y on Y Change
6,165	83

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
4,178	(60)	41.0	16.9

(11) Main Loans from Banks

(Millions of yen)

Loans from Banks	Loan Amount
Sumitomo Life Insurance Company	5,000
Nippon Life Insurance Company	5,000

2. Stock Data

- 1) Number of shares authorized to be issued: 1,000,000,000
- 2) Number of shares issued: 351,136,165 (including 16,242,701 shares of treasury stock)
- 3) Number of shareholders: 31,894
- 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)	23,512	7.02%
Sumitomo Life Insurance Company	18,604	5.55%
JP MORGAN CHASE BANK 385147	15,935	4.75%
Japan Trustee Services Bank, Ltd. (as a trustee)	14,970	4.47%
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%
Nippon Life Insurance Company	9,460	2.82%
Sumitomo Mitsui Banking Corporation	6,564	1.96%
SSBT OD05 OMNIBUS ACCOUNT – TREATY CLIENTS	5,162	1.54%
SUZUKEN CO., LTD.	4,341	1.29%
Nipponkoa Insurance Co., Ltd.	3,846	1.14%

Notes:

1. The Company owns 16,242,701 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 334,893,464 shares of total issued stock (excluding 16,242,701 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, 2014

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)
FY2013 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2013)	June 26, 2013	172	17,200 shares of common stock	193,000 yen	100 yen	July 12, 2013 to July 11, 2043	172 (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 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 issuance to employee (Issuer Number)
FY2013 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2013)	June 26, 2013	267	26,700 shares of common stock	193,000 yen	100 yen	July 12, 2013 to July 11, 2043	267 (12)

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	Tepei 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	Shinichi Yokoyama	Representative Director and Chairman of the Board of Sumitomo Life Insurance Company Outside Auditor of Sumitomo Chemical Co.,Ltd.
Corporate Auditor	Kenji Fukuda	Partner of DOJIMA Law Office
Corporate Auditor	Koichi Tsukihara	Outside Director of Gurunavi, Inc.

Notes:

1. Directors Akio Nomura, Tepei Mogi and Katsuhiko Machida are Outside Directors stipulated in Section 15, Article 2 of the Companies Act.
2. Auditors Shinichi Yokoyama, Kenji Fukuda and Koichi Tsukihara are Outside Corporate Auditors stipulated in Section 16, Article 2 of the Companies Act.
3. Directors Akio Nomura, Tepei Mogi and Katsuhiko Machida have each submitted notification as independent directors as stipulated by Tokyo Stock Exchange Group, Inc. .
4. Director who retired during the fiscal year is as follows:
Corporate Auditor Takeharu Nagata (Retired on June 26, 2013)

(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)	5 (3)	180 (36)	21 (-)	32 (-)	234 (36)	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)	6 (4)	92 (36)	- (-)	- (-)	92 (36)	
Total	11	273	21	32	326	

Notes:

1. The above table includes one corporate auditor who retired as of the close of the 148th Annual General Meeting of Shareholders held on June 26, 2013, and their respective remuneration amounts.
2. "Bonus" above is the relevant allowance for directors' bonuses for fiscal 2013.
3. "Stock options" above is the relevant expense recognized for fiscal 2013.

(3) Outside Board Members

1) Major Activities

Office	Name	Major Activities
Director	Akio Nomura	Mr. Nomura attended 11 of the 12 Board of Directors meetings held during fiscal 2013 and he made statements on the execution of duties by the directors from a broad perspective, focusing on the objectivity and impartiality of management, based on his long and successful career.
Director	Teppei Mogi	Mr. Mogi attended 11 of the 12 Board of Directors meetings held during fiscal 2013 and he made statements on the execution of duties by the directors from a broad perspective placing priority on the observance of social norms and compliance with laws and regulations and with recognition of the corporate responsibility held by the Company.
Director	Katsuhiko Machida	Mr. Machida participated in the Board of Directors meetings (attended all 12 meetings) held during fiscal 2013 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	Shinichi Yokoyama	Mr. Yokoyama participated in the Board of Directors meetings (attended all 12 meetings) held during fiscal 2013 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 2013 where significant matters of audit were discussed, and made recommendations as necessary.
Corporate Auditor	Kenji Fukuda	Mr. Fukuda attended 10 of the 12 Board of Directors meetings held during fiscal 2013 and he made statements on the execution of duties by the directors from a broad perspective based on his legal insight. He also attended in the Board of Corporate Auditors meetings (attended all 7 meetings) held during fiscal 2013 where significant matters of audit were discussed, and made recommendations as necessary.
Corporate Auditor	Koichi Tsukihara	Mr. Tsukihara attended all 10 Board of Directors meetings held after his election as a director on June 26, 2013, and he made statements on the execution of duties by the directors from a broad perspective based on his long and successful career. He also attended all 5 Board of Corporate Auditors meetings held after his election as a Corporate Auditor on June 26, 2013, 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 Teppey 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.

Sumitomo Life Insurance Company, where Corporate Auditor Shinichi Yokoyama serves as representative director and the chairman of the board, holds 5.55 percent of the Company's stock (which is the proportion of shares to the 334,893,464 shares of total issued stock excluding the 16,242,701 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.

The Company does not have any relationship that should be indicated with Gurunavi, Inc., where Koichi Tsukihara serves as an outside director.

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 ShinNihon LLC

(2) Compensation Paid to Independent Accounting Auditor for the Fiscal Year Ended March 31, 2014

1. Compensation paid to the Independent Accounting Auditor for the fiscal year ended on March 31, 2014:

52 million yen

2. Total of cash and other financial profits payable by the Company and its subsidiaries to the Independent Accounting Auditor:

52 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) 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 21, 2014, 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 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 business operations from group companies, and will properly manage and guide group companies based on the “Rules for Management of Shionogi Group Companies” in order to realize Shionogi’s Company Policy, Action Guidelines and Business Plan.

Group companies will promote appropriate and efficient business operations by conducting business management in accordance with the policies and guidelines mentioned above.

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, and other systems regarding the reporting to the corporate auditors

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

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

The directors or responsible employees for execution will inform the corporate 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.

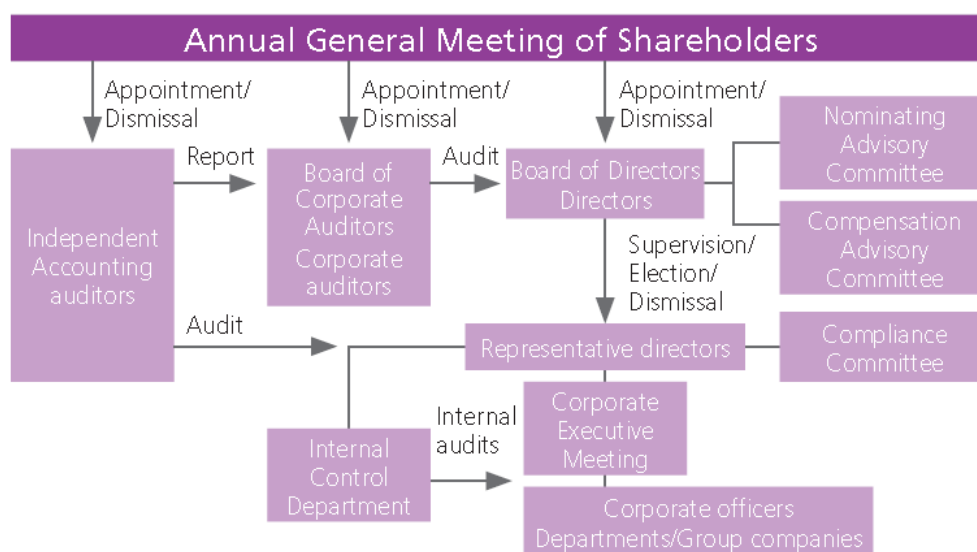
In line with its Company Policy, Shionogi recognizes that its social mission is to continually discover, develop, and provide useful and safe medicines, and to help improve the health of people and medical treatment around the world as well as quality of life by promoting appropriate use of those medicines. Shionogi strongly believes that accomplishing this mission through rigorous compliance will lead to enhancement of its corporate value. Accordingly, the Company carries out sound and transparent management practices throughout the corporate governance system it has established.

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 the Company'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 the Company's claim and upheld the ruling of the district court. There was no subsequent appeal to the Supreme Court, and the decision in favor of the Company's claim became final.

- 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 (brand 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. The Company became the sole plaintiff in October 2013.

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. 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. 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. Under a May 2013 settlement of the action filed in January 2009, Shionogi Inc. agreed to paid a settlement to Lupin Ltd.

Consolidated Balance Sheets

(As of March 31, 2014)

(Millions of yen)

Accounts	FY2013	(Reference) FY2012	Accounts	FY2013	(Reference) FY2012
Assets	584,803	574,882	Liabilities	112,390	151,249
Current Assets	253,130	266,845	Current Liabilities	78,669	98,207
Cash and deposits	34,238	21,575	Notes and accounts payable-trade	9,627	10,734
Notes and accounts receivable-trade	64,290	67,908	Short-term loans payable	-	7,500
Short-term investment securities	80,100	84,432	Current portion of long-term loans payable	-	31,500
Merchandise and finished goods	24,005	26,531	Current portion of bonds	20,000	-
Work in process	11,425	14,024	Income taxes payable	12,392	1,146
Raw materials and supplies	12,938	8,771	Provision	11,413	13,620
Deferred tax assets	10,197	21,035	Provision for bonuses	7,071	7,134
Other	15,957	22,577	Provision for sales returns	4,320	6,459
Allowance for doubtful accounts	(24)	(12)	Other provisions	21	26
			Other	25,236	33,706
Non-current assets	331,673	308,036	Non-current liabilities	33,721	53,041
Property, plant and equipment	78,976	78,473	Bonds payable	-	20,000
Buildings and structures, net	46,216	46,654	Long-term loans payable	10,034	10,027
Machinery, equipment and vehicles, net	9,972	8,079	Deferred tax liabilities	12,627	12,756
Land	9,755	9,769	Provision for retirement benefits	-	8,995
Construction in progress	6,864	7,524	Net defined benefit liabilities	9,967	-
Other	6,168	6,446	Other	1,091	1,262
Intangible assets	72,824	70,464	Net assets	472,412	423,633
Goodwill	42,878	40,293	Shareholders' equity	455,854	428,772
Sales rights	24,355	24,048	Capital stock	21,279	21,279
Other	5,590	6,123	Capital surplus	20,227	20,227
Investments and other assets	179,871	159,098	Retained earnings	434,103	407,007
Investment securities	149,519	122,628	Treasury stock	(19,756)	(19,741)
Deferred tax assets	8,015	5,732	Accumulated other comprehensive income	12,587	(8,662)
Prepaid pension cost	-	25,272	Valuation difference on available-for-sale securities	25,289	16,055
Net defined benefit assets	19,047	-	Deferred gains or losses on hedges	-	(450)
Other	3,379	5,555	Foreign currency translation adjustment	(6,113)	(24,267)
Allowance for doubtful accounts	(90)	(90)	Remeasurements of defined benefit plans	(6,588)	-
			Subscription rights to shares	207	123
Total assets	584,803	574,882	Minority interests	3,762	3,399
			Total liabilities and net assets	584,803	574,882

Consolidated Statements of Income

(Year ended March 31, 2014)

(Millions of yen)

Accounts	FY2013	(Reference) FY2012
Net sales	289,717	282,093
Cost of sales	77,993	78,574
Gross profit	211,724	204,329
Selling, general and administrative expenses	148,167	144,764
[R&D expenses]	[51,924]	[53,021]
Operating income	63,556	59,565
Non-operating income	4,789	4,220
Interest and dividends income	2,067	2,072
Other	2,722	2,147
Non-operating expenses	4,439	4,863
Interest expenses	888	1,123
Other	3,551	3,740
Ordinary income	63,906	58,922
Extraordinary income	4,757	41,680
Gain on sales of non-current assets	4,203	228
Gain on sales of investment securities	554	1,018
Gain on exchange of investment securities	-	40,433
Extraordinary loss	3,794	42,296
Impairment loss	878	40,835
Business structure improvement expenses	840	-
Settlement package	651	489
Loss on penalty	500	158
Loss on disposal of non-current assets	471	-
Loss on valuation of inventories	451	-
Loss on sales of non-current assets	-	329
Loss on disaster	-	269
Loss on valuation of investment securities	-	124
Special retirement expenses	-	89
Income before income taxes and minority interests	64,869	58,306
Income taxes-current	11,561	763
Income taxes-deferred	11,375	(9,295)
Income before minority interests	41,932	66,838
Minority interests in income	101	110
Net income	41,831	66,727

Consolidated Statements of Changes in Net Assets

(Year ended March 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	21,279	20,227	407,007	(19,741)	428,722
Changes of items during the period					
Dividends from surplus			(14,735)		(14,735)
Net income			41,831		41,831
Purchase of treasury stock				(14)	(14)
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	-	27,095	(14)	27,081
Balance at the end of current period	21,279	20,227	434,103	(19,756)	455,854

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	16,055	(450)	(24,267)	-	(8,662)	123	3,399	423,633
Changes of items during the period								
Dividends from surplus								(14,735)
Net income								41,831
Purchase of treasury stock								(14)
Net changes of items other than shareholders' equity	9,233	450	18,153	(6,588)	21,249	84	363	21,698
Total changes of items during the period	9,233	450	18,153	(6,588)	21,249	84	363	48,779
Balance at the end of current period	25,289	-	(6,113)	(6,588)	12,587	207	3,762	472,412

Non-consolidated Balance Sheets

(As of March 31, 2014)

(Millions of yen)

Accounts	FY2013	(Reference) FY2012	Accounts	FY2013	(Reference) FY2012
Assets	534,264	511,433	Liabilities	97,031	124,923
Current assets	248,264	242,385	Current liabilities	61,469	72,837
Cash and deposits	11,759	6,100	Accounts payable-trade	8,132	9,614
Accounts receivable-trade	61,012	62,667	Short-term loans payable	-	7,500
Short-term investment securities	80,100	84,412	Current portion of long-term loans payable	-	31,500
Merchandise and finished goods	21,287	23,425	Current portion of bonds	20,000	-
Work in process	11,088	13,663	Accounts payable-other	9,778	9,690
Raw materials and supplies	10,381	7,782	Accrued expenses	2,964	2,923
Advances	10,464	7,701	Income taxes payable	11,348	208
Deferred tax assets	4,149	13,750	Deposits received	3,168	3,555
Income tax receivable	-	10,352	Provision for bonuses	5,790	6,144
Short-term loans receivable	35,843	9,931	Provision for directors' bonuses	21	26
Other	2,187	2,598	Provision for sales returns	83	82
Allowance for doubtful accounts	(9)	-	Other	182	1,592
Non-current assets	285,999	269,048	Non-current liabilities	35,561	52,086
Property, plant and equipment	72,143	73,612	Bonds payable	-	20,000
Buildings, net	41,050	41,975	Long-term loans payable	10,000	10,000
Structures, net	1,678	1,737	Deferred tax liabilities	15,838	12,304
Machinery and equipment, net	9,524	7,499	Provision for retirement benefits	9,046	8,956
Vehicles, net	57	21	Other	676	825
Tools, furniture and fixtures, net	5,228	5,474	Net assets	437,233	386,509
Land	9,755	9,769	Shareholders' equity	411,844	370,781
Lease assets, net	31	62	Capital stock	21,279	21,279
Construction in progress	4,816	7,072	Capital surpluses	20,227	20,227
Intangible assets	8,262	7,608	Legal capital surplus	20,227	20,227
Software	2,568	2,731	Retained earnings	390,093	349,016
Sales rights	4,491	3,138	Legal retained earnings	5,388	5,388
Other	1,201	1,738	Other retained earnings	384,705	343,627
Investments and other assets	205,594	187,826	Reserve for special depreciation	14	30
Investment securities	81,825	67,356	Reserve for advanced depreciation of noncurrent assets	2,452	2,511
Stocks of subsidiaries and affiliates	92,195	89,858	General reserve	368,645	368,645
Investments in capital of subsidiaries and associates	30	-	Retained earnings brought forward	13,594	(27,558)
Long-term prepaid expense	2,202	4,478	Treasury stock	(19,756)	(19,741)
Prepaid pension cost	28,397	25,272	Valuation and translation adjustments	25,180	15,605
Other	1,032	951	Valuation difference on available-for-sale securities	25,180	16,055
Allowance for doubtful accounts	(90)	(90)	Deferred gains or losses on hedges	-	(450)
			Subscription rights to shares	207	123
Total assets	534,264	511,433	Total liabilities and net assets	532,264	511,433

Non-consolidated Statements of Income

(Year ended March 31, 2014)

(Millions of yen)

Accounts	FY2013	(Reference) FY2012
Net sales	259,760	255,946
Cost of sales	73,509	73,102
Gross profit, net	186,250	182,843
Selling, general and administrative expenses	113,043	116,775
[R&D expenses]	[49,050]	[50,234]
Operating income	73,206	66,068
Non-operating income	6,035	6,166
Interest and dividends income	1,943	2,311
Other	4,091	3,855
Non-operating expenses	4,030	4,029
Interest expenses	889	1,044
Other	3,140	2,984
Ordinary income	75,211	68,205
Extraordinary income	4,757	1,245
Gain on sales of non-current assets	4,203	228
Gain on sales of investment securities	554	1,016
Extraordinary loss	1,802	110,484
Impairment loss	878	-
Loss on disposal of non-current assets	471	-
Loss on valuation of inventories	451	-
Loss on sales of non-current assets	-	329
Loss on valuation of stocks of subsidiaries and affiliates	-	110,103
Loss on valuation of investment securities	-	51
Income (loss) before income taxes	78,167	(41,033)
Income taxes-current	10,924	114
Income taxes-deferred	11,429	(9,133)
Net income (loss)	55,813	(32,014)

Non-consolidated Statements of Changes in Net Assets

(Year ended March 31, 2014)

(Millions of yen)

	Capital surpluses		Retained earnings					Treasury stock	Total shareholders' equity
	Capital stock	Legal capital surplus	Legal retained earnings	Other retained earnings					
				Reserve for special depreciation	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward		
Balance at the beginning of the period	21,279	20,227	5,388	30	2,511	368,645	(27,558)	(19,741)	370,781
Changes of items during the period									
Reversal of reserve for special depreciation				(16)			16		-
Reversal of reserve for advanced depreciation of noncurrent assets					(59)		59		-
Dividends from surplus							(14,735)		(14,735)
Net income							55,813		55,813
Purchase of treasury stock								(14)	(14)
Net changes of items other than shareholders' equity									
Total changes of items during the period	-	-	-	(16)	(59)	-	41,153	(14)	41,063
Balance at the end of current period	21,279	20,227	5,388	14	2,452	368,645	13,594	(19,756)	411,844

	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 at the beginning of the period	16,055	(450)	15,605	123	386,509
Changes of items during the period					
Reversal of reserve for special depreciation					-
Reversal of reserve for advanced depreciation of noncurrent assets					-
Dividends from surplus					(14,735)
Net income					55,813
Purchase of treasury stock					(14)
Net changes of items other than shareholders' equity	9,124	450	9,575	84	9,659
Total changes of items during the period	9,124	450	9,575	84	50,723
Balance at the end of current period	25,180	-	25,180	207	437,233

Accounting Auditor's Audit Report

May 8, 2014

The Board of Directors
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

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

Takashi Umehara
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, 2013 to March 31, 2014.

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.

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, 2014

The Board of Directors
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

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

Takashi Umehara
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 149th fiscal term from April 1, 2013 to March 31, 2014.

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.

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 149th fiscal period from April 1, 2013 to March 31, 2014 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 content of the Board of Directors' resolution concerning the internal control system is appropriate. We found no matters requiring additional mention with regard to the details in the business reports or Directors' execution of duties concerning the Company's internal control system.

(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 Ernst & Young ShinNihon LLC are appropriate.

May 8, 2014

Board of Auditors, Shionogi & Co., Ltd.

Standing Corporate Auditor :Mitsuaki Ohtani

Standing Corporate Auditor :Sachio Tokaji

Outside Corporate Auditor :Shinichi Yokoyama

Outside Corporate Auditor :Kenji Fukuda

Outside Corporate Auditor :Koichi Tsukihara

REFERENCE MATERIALS CONCERNING THE EXERCISE OF VOTING RIGHTS

Proposals and Reference Matters

No. 1: Appropriation of Surplus

The Company's basic policy is to make aggressive investments in future business development to increase corporate value with a medium to long term perspective along with the growth of its business and to steadily increase dividends.

The Company had formerly set a target consolidated payout ratio of 40% as a performance-linked benchmark for distributing earnings. However, various measures have enabled the Company to achieve further stability with respect to future earnings. Going forward, the Company will take the ratio of dividends to shareholders' equity (DOE) into account in returning profits to shareholders with the aim of steadily increasing the dividend amount in proportion to growth.

Based on this policy, the Company proposes to appropriate retained earnings for the fiscal year ended March 31, 2014 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

¥24 per share of common stock

Total amount of dividends: ¥8,037,443,136

(3) Effective date of dividends

June 26, 2014

Including the interim dividend, cash dividends per share for the fiscal year ended March 31, 2014 totaled ¥46.00, an increase of ¥4.00 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	Reappointment Motozo Shiono (November 17, 1946)	<p>January 1972: Joined the Company</p> <p>June 1984: Director of the Company</p> <p>April 1987: General Manager, Accounting Department</p> <p>June 1987: Managing Director of the Company</p> <p>June 1990: Senior Managing Director of the Company</p> <p>March 1996: General Manager, Agro., Vet. & Industrial Chem. Division</p> <p>August 1999: President of the Company</p> <p>August 1999: General Manager, Corporate Planning Division</p> <p>April 2008: Chairman of the Boar of the Company (incumbent)</p> <p>(Major concurrent posts)</p> <p>Chief Director of The Cell Science Research Foundation</p>	266,648
2	Reappointment Isao Teshirogi (December 12, 1959)	<p>April 1982: Joined the Company</p> <p>January 1999: General Manager, Secretary Office and General Manager, Corporate Planning Department</p> <p>June 2002: Director of the Company</p> <p>October 2002: General Manager, Corporate Planning Department</p> <p>April 2004: Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division</p> <p>April 2006: Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division</p> <p>April 2007: Senior Executive Officer</p> <p>April 2008: President of the Company (incumbent)</p>	12,850
3	Reappointment Outside Director Candidate Akio Nomura (February 8, 1936)	<p>April 1958: Joined Osaka Gas Co., Ltd.</p> <p>June 1988: Director of Osaka Gas, Ltd.</p> <p>June 1989: Managing Director of Osaka Gas, Ltd.</p> <p>June 1991: Representative Director and Senior Managing Director of Osaka Gas, Ltd.</p> <p>June 1994: Representative Director and Vice President of Osaka Gas, Ltd.</p> <p>June 1998: Representative Director and President of Osaka Gas, Ltd.</p> <p>June 2000: Director of West Japan Railway Company (incumbent)</p> <p>June 2003: Representative Director and Chairman of Osaka Gas, Ltd.</p> <p>June 2008: Director of the Royal Hotel, Ltd. (incumbent)</p> <p>June 2009: Director of the Company (incumbent)</p> <p>(Major concurrent posts)</p> <p>Outside Director of The Royal Hotel, Ltd.</p>	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	Reappointment Outside Director Candidate Teppei Mogi (October 17, 1958)	<p>April 1989: Registration of Attorney at Law</p> <p>April 1989: Joined Oh-Ebashi Law Offices</p> <p>April 1992: Service at Brussels Office of Cleary, Gottlieb, & Hamilton LLP</p> <p>January 1993: Service at Rotterdam Office of De Brauw Blackstone Westbroek</p> <p>April 1994: Partner of Oh-Ebashi Law Offices</p> <p>August 2002: Partner of Oh-Ebashi LPC & Partners (incumbent)</p> <p>April 2004: Practitioner teacher, Graduate School of Law and Faculty in practical business at The Kwansai Gakuin University Law School (Full-time teacher)</p> <p>April 2005: Part-time instructor, Graduate School of Law, Kobe University (incumbent)</p> <p>June 2009: Director of the Company (incumbent)</p> <p>April 2010: Part-time instructor, Graduate School of Law and Faculty in practical business at The Kwansai Gakuin University Law School (incumbent)</p> <p>(Major concurrent posts) Partner of Oh-Ebashi LPC & Partners</p>	0
5	Reappointment Outside Director Candidate Katsuhiko Machida (June 22, 1943)	<p>March 1969: Joined Hayakawa Electric Industry Co., Ltd., which changed its name to Sharp Corporation in January 1970</p> <p>June 1987: Corporate Director of Sharp Corporation</p> <p>April 1990: Corporate Executive Director of Sharp Corporation</p> <p>October 1992: Corporate Senior Executive Director of Sharp Corporation</p> <p>June 1998: President of Sharp Corporation</p> <p>April 2007: Chairman of Sharp Corporation</p> <p>April 2008: Outside Director of Sekisui House Ltd.</p> <p>June 2008: Chairman and Chief Executive Officer of Sharp Corporation</p> <p>April 2010: Chairman of Sharp Corporation</p> <p>April 2012: Corporate Advisor of Sharp Corporation (resigned Corporate Director in June of the same year)</p> <p>June 2012: Director of the Company (incumbent)</p> <p>(Major concurrent posts) Outside Director of Sekisui House Ltd. (resigned in April 2014)</p>	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 (5) 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 (5) 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. 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 (2) years as of the end of this Annual General Meeting of Shareholders.
7. Messrs. Akio Nomura, Teppei Mogi and Katsuhiko Machida are registered as independent directors as defined in the regulations of the Tokyo Stock Exchange. If this proposal is approved and these three candidates are reelected as outside directors, they plan to continue as independent directors.
8. 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.

How to Exercise Your Voting Rights

There are three ways to exercise your voting rights.

 <p>1</p>	<p>If attending the General Meeting</p>		<p>Hand in your proxy form at the reception desk when you arrive (no signature or seal necessary)</p>
<p>Date & time of the General Meeting: Wednesday, June 25, 2014,</p>			
 <p>2</p>	<p>If exercising your voting rights by mail</p>		<p>Indicate your consent or refusal, then mail the form (please mail early)</p>
<p>Voting deadline: Form must arrive by 5:00 p.m., Tuesday, June 24, 2014</p>			
 <p>3</p>	<p>If exercising your voting rights by Internet</p>		<p>Please see the instructions below</p>
<p>Voting deadline: 5:00 p.m., Tuesday, June 24, 2014</p>			

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 24, 2014, 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 25, 2014.

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.