

To All Shareholders

June 1, 2016

Notice of Convocation of the 151st Annual General Meeting of Shareholders

The 151st 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., Wednesday June 22, 2016.¹

Yours faithfully,

Isao Teshirogi
Representative director and 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., Thursday, June 23, 2016
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 151st Fiscal Term (year ended March 31, 2016)
2. The Audit Report of the Consolidated Financial Statements for the 151st Fiscal Term (year ended March 31, 2016) by the Accounting Auditor and the Board of Corporate Auditors

Items for resolution:

- Proposal No. 1: Appropriation of Surplus
Proposal No. 2: Election of Six (6) Directors
Proposal No. 3: Election of Two (2) Corporate Auditors

4. Exercise of voting rights:

You are kindly requested to review "How to Exercise Your Voting Rights" on pages 2 and 3 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., Wednesday, June 22, 2016.
2. Exercise of voting rights by Internet
You are kindly requested to exercise your voting rights by 5:00 p.m., Wednesday, June 22, 2016, 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, Consolidated Statements of Changes in Net Assets, the Notes to Consolidated Financial Statements, Non-consolidated Statements of Changes in Net Assets 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

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: 10:00 a.m., Thursday, June 23, 2016</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., Wednesday, June 22, 2016</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., Wednesday, June 22, 2016</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.*, Wednesday, June 22, 2016 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 Thursday, June 23, 2016.

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.

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.

To return profits to shareholders by steadily increasing the dividend amount in proportion to growth, the Company has made DOE (dividend on equity) a performance indicator and set a target of 3.5% or higher as its policy for allocation of its business results.

Based on this policy, the Company proposes to appropriate retained earnings for the fiscal year ended March 31, 2016 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

¥34 per share of common stock

Total amount of dividends: ¥11,069,622,862

(3) Effective date of dividends

June 24, 2016



Including the interim dividend, cash dividends per share for the fiscal year ended March 31, 2016 totaled ¥62.00, an increase of ¥10.00 compared with the previous fiscal year.



No. 2: Election of Six (6) Directors


The term of office of all six (6) Directors expires at the end of this Annual General Meeting of Shareholders.


Candidates for Director are deliberated fairly, transparently and rigorously by the Nomination Advisory Committee, which is chaired by an outside director, and decided by the Board of Directors after obtaining the recommendation of the Nomination Advisory Committee.

Candidates for Director are as follows:

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts						
1	Reappointment  Motozo Shiono (November 17, 1946)	January 1972: Joined the Company June 1984: Director of the Company April 1987: General Manager, Accounting Department June 1987: Managing Director of the Company June 1990: Senior Managing Director of the Company March 1996: General Manager, Agro., Vet. & Industrial Chem. Division August 1999: Representative Director and President of the Company August 1999: General Manager, Corporate Planning Division April 2008: Chairman of the Board of the Company (incumbent)						
	<table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>266,648 shares</td> </tr> <tr> <td>Number of years served as Director</td> <td>32 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 11 Board of Directors meetings</td> <td>100%</td> </tr> </table>	Number of the Company's shares owned	266,648 shares	Number of years served as Director	32 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 11 Board of Directors meetings	100%	(Major concurrent posts) Chief Director of The Cell Science Research Foundation
	Number of the Company's shares owned	266,648 shares						
	Number of years served as Director	32 years (as at the closing of this Annual General Meeting of Shareholders)						
Attended all 11 Board of Directors meetings	100%							
		【Reasons for nominating the candidate for Director】 Mr. Motozo Shiono became Representative Director and President in 1999. He promoted the First Medium-Term Management Plan and Second Medium-Term Management Plan, and laid the foundation for generating profits. Since becoming Representative Director and Chairman in 2008, he has focused on running Board of Directors meetings as Chairman of the Board, and has appropriately supervised management's business execution. Therefore, we recommend that you vote for his reelection as a Director.						
2	Reappointment  Isao Teshirogi (December 12, 1959)	April 1982: Joined the Company January 1999: General Manager, Secretary Office and General Manager, Corporate Planning Department June 2002: Director of the Company October 2002: General Manager, Corporate Planning Department April 2004: Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division April 2006: Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division April 2007: Senior Executive Officer April 2008: Representative Director and President and CEO of the Company (incumbent)						
	<table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>14,250 shares</td> </tr> <tr> <td>Number of years served as Director</td> <td>14 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 11 Board of Directors meetings</td> <td>100%</td> </tr> </table>	Number of the Company's shares owned	14,250 shares	Number of years served as Director	14 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 11 Board of Directors meetings	100%	
	Number of the Company's shares owned	14,250 shares						
	Number of years served as Director	14 years (as at the closing of this Annual General Meeting of Shareholders)						
Attended all 11 Board of Directors meetings	100%							
		【Reasons for nominating the candidate for Director】 Mr. Isao Teshirogi became Representative Director and President and CEO in 2008. He has pushed forward with global research and development and expansion of overseas business in Europe and Asia to achieve the goals of the Third Medium-Term Management Plan, and secured the Company's medium-to-long-term profit foundation through globally competitive drug discovery capabilities and evolution of the Company's royalty business model. Since fiscal 2014, he has planned and guided the progress of the new Medium-Term Management Plan, Shionogi Growth Strategy 2020. Based on the results to date, we believe that he can make the Company "grow as a drug-discovery based pharmaceutical company," and therefore we recommend that you vote for his reelection as a Director.						

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts						
3	<p>Reappointment</p>  <p>Takuko Sawada (March 11, 1955)</p> <table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>24,100 shares</td> </tr> <tr> <td>Number of years served as Director</td> <td>1 year (as at the close of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 9 Board of Directors meetings</td> <td>100%</td> </tr> </table>	Number of the Company's shares owned	24,100 shares	Number of years served as Director	1 year (as at the close of this Annual General Meeting of Shareholders)	Attended all 9 Board of Directors meetings	100%	<p>April 1977: Joined the Company</p> <p>April 2002: Executive General Manager, Pharmaceutical Development Division</p> <p>April 2007: Officer and Executive General Manager, Pharmaceutical Development Division</p> <p>April 2010: Executive Officer and Executive General Manager, Pharmaceutical Development Division</p> <p>April 2011: Senior Executive Officer and Executive General Manager, Global Development Office</p> <p>April 2013: Senior Executive Officer and Senior Vice President, Global Development and, Pharmaceutical Development Division</p> <p>April 2014: Senior Executive Officer and Senior Vice President, Global Pharmaceutical Development Division</p> <p>April 2015: Senior Executive Officer and Senior Vice President, Corporate Strategy Division</p> <p>June 2015: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division</p> <p>October 2015: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division, and General Manager, Corporate Planning Department</p> <p>April 2016: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division (incumbent)</p> <p>【Reasons for nominating the candidate for Director】 Ms. Takuko Sawada primarily supervises development operations as Senior Executive Officer, and her accomplishments and results include establishing global development infrastructure such as the startup of Shionogi Ltd., and launching global products. Since April 2015, she has been responsible for the Corporate Strategy Division and adequately performed her duties in that role. We believe that she is the best person for further strengthening management and promoting diversity, and therefore recommend that you vote for her reelection as a Director.</p> <p>【Note】 Shows the rate of attendance at Board of Directors meetings held after her appointment to the Board on June 24, 2015.</p>
Number of the Company's shares owned	24,100 shares							
Number of years served as Director	1 year (as at the close of this Annual General Meeting of Shareholders)							
Attended all 9 Board of Directors meetings	100%							
4	<p>Reappointment Outside Director Candidate</p>  <p>Akio Nomura (February 8, 1936)</p> <table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>0 shares</td> </tr> <tr> <td>Number of years served as Outside Director</td> <td>7 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 11 Board of Directors meetings</td> <td>100%</td> </tr> </table>	Number of the Company's shares owned	0 shares	Number of years served as Outside Director	7 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 11 Board of Directors meetings	100%	<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) (Major concurrent posts) Outside Director of The Royal Hotel, Ltd.</p> <p>【Reasons for nominating the candidate for Outside Director】 Based on his many years of experience in corporate management, his insight and other qualities, Mr. Akio Nomura recognizes the corporate responsibility that the Company should fulfill and makes management decisions from a higher perspective with an emphasis on objectivity and independence, without bias in favor of corporate executive or specific interested parties. We therefore recommend that you vote for his reelection as a Director.</p> <p>At Board of Directors meetings, Mr. Nomura made many clear points and statements of support regarding the proposals of representative directors and others, such as the importance of expanding overseas business to China, ASEAN and other regions, and the necessity of improving internal rules and regulations from the standpoint of compliance. As Chairman of the Nomination Advisory Committee, he also led the committee members.</p> <p>【Notes】</p> <ul style="list-style-type: none"> Mr. Akio Nomura is the candidate of outside director stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act. Mr. Akio Nomura is registered as independent directors as defined in the regulations of the Tokyo Stock Exchange. If this proposal is approved and this candidate is reelected as outside directors, he plans to continue as independent director.
Number of the Company's shares owned	0 shares							
Number of years served as Outside Director	7 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 11 Board of Directors meetings	100%							

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts						
5	<p style="text-align: center;">Reappointment Outside Director Candidate</p> <div style="text-align: center;">  </div> <p style="text-align: center;">Teppei Mogi (October 17, 1958)</p> <table border="1" data-bbox="316 822 630 1151" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Number of the Company's shares owned</td> <td style="width: 50%;">0 shares</td> </tr> <tr> <td>Number of years served as Outside Director</td> <td>7 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 11 Board of Directors meetings</td> <td style="text-align: center;">100%</td> </tr> </table>	Number of the Company's shares owned	0 shares	Number of years served as Outside Director	7 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 11 Board of Directors meetings	100%	<p>April 1989: Registration of Attorney at Law April 1989: Joined Oh-Ebashi Law Offices July 1992: Service at Brussels Office of Cleary, Gottlieb, Steen & Hamilton LLP January 1993: Service at Rotterdam Office of De Brauw Blackstone Westbroek April 1994: Partner of Oh-Ebashi Law Offices August 2002: Partner of Oh-Ebashi LPC & Partners (incumbent) April 2004: Practitioner teacher, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (Full-time teacher) April 2005: Part-time instructor, Graduate School of Law, Kobe University (incumbent) June 2009: Director of the Company (incumbent) April 2010: Part-time instructor, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (incumbent) August 2014: Outside Corporate Auditor of NIITAKA Co., Ltd. June 2015: Outside Corporate Auditor of KURABO INDUSTRIES LTD. (incumbent) August 2015: Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd. (incumbent)</p> <p>(Major concurrent posts) Partner of Oh-Ebashi LPC & Partners Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd Outside Corporate Auditor of KURABO INDUSTRIES LTD.</p> <p>【Reasons for nominating the candidate for Outside Director】 Mr. Teppei Mogi has not been involved in company management in any way other than serving as outside director or corporate auditor in the past, but recognizes the corporate responsibility the Company should fulfill and makes fair management decisions, giving priority to legal compliance and social norms from a global perspective from his position as an attorney in international corporate law. We therefore recommend that you vote for his reelection as Outside Director. At Board of Directors meetings, Mr. Mogi provided legal points and suggestions on contractual matters with other companies related to global research and development, and offered advice on corporate governance and compliance systems, including those of overseas subsidiaries. As Chairman of the Compensation Advisory Committee, he also made fair decisions based on an independent and objective viewpoint.</p> <p>【Notes】</p> <ul style="list-style-type: none"> • Mr. Teppei Mogi is the candidate of outside director stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act. • Mr. Teppei Mogi is registered as independent director as defined in the regulations of the Tokyo Stock Exchange. If this proposal is approved and this candidate is reelected as outside director, he plans to continue as independent director. • The Company has paid attorney fees to Oh-Ebashi LPC & Partners, where Mr. Mogi is a partner, for certain specific cases involving international corporate legal affairs, an area in which this law firm has expertise. However, that compensation amounts to less than 1% of the total fees received by Oh-Ebashi LPC & Partners, and the Company has no advisory contract or other ongoing contractual relationship with Oh-Ebashi LPC & Partners. • At KURABO INDUSTRIES LTD., where Mr. Mogi became an outside corporate auditor in August 2015, inappropriate transactions, including round-trip transactions, by a former employee have come to light. As Chairman of the Special Investigation Committee of KURABO INDUSTRIES, Mr. Mogi was involved in an investigation to determine the details of the inappropriate transactions by the employee and whether there were any similar transactions by other employees. As a result of the investigation, similar transactions by multiple other employees were revealed, and the accounting treatment based on these transactions did not properly present KURABO INDUSTRIES' financial condition; consequently, corrections were made for prior fiscal years in the company's annual securities report and quarterly financial reports. Most of the problems took place in periods before Mr. Mogi was appointed. Based on the investigation, Mr. Mogi proposed various measures to prevent a recurrence, and has continued to monitor the implementation of those measures as a corporate auditor.
Number of the Company's shares owned	0 shares							
Number of years served as Outside Director	7 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 11 Board of Directors meetings	100%							

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts		
6	<p data-bbox="312 443 552 488">New appointment Outside Director Candidate</p>  <p data-bbox="312 770 491 815">Keiichi Ando (November 5, 1951)</p> <table border="1" data-bbox="312 869 632 972"> <tr> <td data-bbox="325 882 469 958">Number of the Company's shares owned</td> <td data-bbox="478 882 628 958">0 shares</td> </tr> </table>	Number of the Company's shares owned	0 shares	<p data-bbox="657 197 1394 586"> April 1976: Joined Sumitomo Bank Limited April 2003: Executive Officer, Sumitomo Mitsui Banking Corporation April 2006: Managing Executive Officer, Sumitomo Mitsui Banking Corporation April 2009: Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation April 2010: Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation March 2012: Retired as Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation April 2012: Representative Director and President, NEW KANSAI INTERNATIONAL AIRPORT COMPANY,LTD July 2012: Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD (incumbent) (Major concurrent posts) Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD </p> <p data-bbox="683 694 1378 1048"> 【Reasons for nominating the candidate for Outside Director】 Mr. Keiichi Ando has practical experience as a corporate executive at a financial institution and broad insight on finance. He also has experience and insight as a corporate executive in the airport management business, which has a major influence on the economy of the Kansai region. He formulated a Strategic Growth Program to address the broad and difficult issues in the airport management business, and the program is being successfully implemented as Japan's first airport business model. We have high regard for his management talent and expect that he will make management decisions with an emphasis on objectivity and impartiality. We therefore recommend that you vote for his election as an outside director. </p> <p data-bbox="683 1070 1378 1263"> 【Notes】 <ul style="list-style-type: none"> • Mr. Keiichi Ando is the candidates of outside directors stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act. • If this proposal is passed and Mr. Keiichi Ando is elected as an outside director, we plan to register him as an independent director in accordance with the rules of the Tokyo Stock Exchange. </p>
Number of the Company's shares owned	0 shares			

Notes:

1. There are no special interests between the candidates and the Company.
2. Outline of the contract with outside directors to limit their liability are as follows:
The Company has concluded contracts with Messrs. Akio Nomura and Teppei Mogi 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, and Teppei Mogi are reelected as outside directors at this Annual General Meeting of Shareholders, the Company will continue to conclude such contracts with the candidates.
3. Mr. Keiichi Ando is appointed as a Director, the Company plans to conclude a contract with Mr. Ando limiting his liability as 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 amount stipulated in Section 1, Article 425 of the Companies Act.


No. 3: Election of Two (2) Corporate Auditors


The term of office of corporate auditor Mitsuaki Ohtani and Shinichi Yokoyama will expire at the close of this General Meeting of Shareholders.

Accordingly, the Company proposes the election of two (2) corporate auditors newly.

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

Candidate for the corporate auditors are as follows:

Candidate No.	Name (Date of birth)	Career summary, position within the Company and other major posts								
1	Reappointment Outside Corporate Auditor  Shinichi Yokoyama (September 10, 1942)	April 1966: Joined Sumitomo Life Insurance Company July 2001: President and Chief Executive Officer, Sumitomo Life Insurance Company June 2003: Corporate Auditor, NEC Corporation July 2007: Chairman, Sumitomo Life Insurance Company June 2008: Outside Corporate Auditor of the Company (incumbent) June 2010: Outside Corporate Auditor, Sumitomo Chemical Co., Ltd. (incumbent) April 2014: Director and Corporate Advisor, Sumitomo Life Insurance Company June 2014: Outside Corporate Auditor, Rengo Co., Ltd. (incumbent) July 2014: Retired as Director and Corporate Advisor, Sumitomo Life Insurance Company (Major concurrent posts) Outside Corporate Auditor, Sumitomo Chemical Co., Ltd. Outside Corporate Auditor, Rengo Co., Ltd.								
	<table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>0 shares</td> </tr> <tr> <td>Number of years served as Outside Cooperate Auditor</td> <td>8 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 11 Board of Directors meetings</td> <td>100%</td> </tr> <tr> <td>Attended all 8 Board of Corporate Auditors meetings</td> <td>100%</td> </tr> </table>	Number of the Company's shares owned	0 shares	Number of years served as Outside Cooperate Auditor	8 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 11 Board of Directors meetings	100%	Attended all 8 Board of Corporate Auditors meetings	100%	<p>【Reasons for nominating the candidate for Outside Corporate Auditor】 Mr. Shinichi Yokoyama has extensive experience and broad insight as a corporate executive, and makes appropriate recommendations on directors' management decisions and performance of duties from an independent standpoint as a Corporate Auditor. Therefore, we recommend that you vote for his reelection as an Outside Corporate Auditor.</p> <p>At Board of Directors meetings and Board of Corporate Auditors meetings, Mr. Yokoyama made appropriate recommendations with respect to execution of duties and management decisions, primarily on finance and accounting, from a professional standpoint based on his extensive practical experience and broad insight as a corporate executive at a financial institution. He also deepened his knowledge on pharmaceuticals and the pharmaceutical industry, and provided suggestions for the product portfolio and product strategy. In addition, he made statements indicating the direction the Company should follow in the future in a broad range of areas, including opinions on improvement of the risk management system.</p>
	Number of the Company's shares owned	0 shares								
	Number of years served as Outside Cooperate Auditor	8 years (as at the closing of this Annual General Meeting of Shareholders)								
	Attended all 11 Board of Directors meetings	100%								
Attended all 8 Board of Corporate Auditors meetings	100%									
	<p>【Notes】</p> <ul style="list-style-type: none"> Mr. Shinichi Yokoyama is a candidate for outside corporate auditor stipulated in Article 2, Paragraph 3, Sub-paragraph 8 of the Enforcement Regulations of the Companies Act. Mr. Shinichi Yokoyama is registered as an independent auditor as defined in the regulations of the Tokyo Stock Exchange. If this proposal is approved and this candidate is reelected as outside corporate auditor, he plans to continue as an independent auditor. As of March 31, 2016, the Company had borrowings of ¥5.0 billion from Sumitomo Life Insurance Company, from which Mr. Shinichi Yokoyama retired as a Director, but these borrowings account for approximately 0.78% of the Company's consolidated total assets (as of March 31, 2016), and the Company plans to repay them in full in fiscal 2018. 									

Candidate No.	Name (Date of birth)	Career summary, position within the Company and other major posts		
2	<p data-bbox="316 277 475 300">New appointment</p>  <p data-bbox="316 577 453 629">Ikuo Kato (May 18, 1954)</p> <table border="1" data-bbox="320 674 635 752"> <tr> <td data-bbox="327 683 464 743">Number of the Company's shares owned</td> <td data-bbox="464 683 628 743">0 shares</td> </tr> </table>	Number of the Company's shares owned	0 shares	<p data-bbox="651 188 1390 456"> October 1988: Joined the Company April 2007: General Manager, Development Research Laboratories April 2010: General Manager, Drug Development Research Laboratories April 2011: General Manager, Drug Development Research Laboratories and Representative Director and President, Shionogi TechnoAdvance Research & Co., Ltd April 2013: General Manager, Drug Development Research Laboratories and Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd April 2014: Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd (incumbent) </p> <p data-bbox="662 488 1378 707"> 【Reasons for nominating the candidate for Corporate Auditor】 Mr. Ikuo Kato has served as General Manager of the Development Research Laboratories of the Company and as Representative Director and President and Chairman of the subsidiary. He is not only well-versed in research and development, but has insight on corporate management. As Representative Director and President and Chairman of the subsidiary, he offers comments as necessary to the Shionogi Group's management, and in our judgment, he has the appropriate character and insight to perform the duties of a Corporate Auditor. Therefore, we recommend that you vote for his election as a Corporate Auditor. </p> <p data-bbox="662 734 1385 808"> 【Note】 Mr. Ikuo Kato plans to retire as Director of Shionogi TechnoAdvance Research & Co., Ltd. on June 8, 2016. </p>
Number of the Company's shares owned	0 shares			

Notes:

1. There are no special interests between the candidates and the Company.
2. The Company has concluded a contract with Mr. Shinichi Yokoyama that limit his liability as 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 candidate Mr. Shinichi Yokoyama is reelected as outside corporate auditor at this Annual General Meeting of Shareholders, the Company plans to continue such contract with the candidate.
3. If Mr. Ikuo Kato is appointed as a corporate auditor, the Company plans to conclude a contract with Mr. Kato limiting his liability as stipulated in Section 1, Article 423 of the Companies Act based upon Section 1, Article 427 of the Companies Act and Article 32 of the Articles of Incorporation of the Company. The limited amount provided in the contract is the minimum amount stipulated in Section 1, Article 425 of the Companies Act.

[Reference]

Analysis and Self-Evaluation of the Effectiveness of the Board of Directors – Summary of Results

The Board of Directors analyzed and evaluated its effectiveness in 2015 by conducting questionnaires and interviews of individual directors and corporate auditors, with a focus on “6. Directors and the Board, (1) Framework, (3) Roles and Responsibilities, and (6) Operation” in the Basic Views and Guidelines on Corporate Governance set by the Company.

The following is a summary of the results:

1. Framework

In our evaluation, from the viewpoint of securing various elements including the number of independent outside directors, expertise and experience as well as diversity, the Board of Directors has generally secured the necessary framework for strengthening oversight of business execution and conducting fair management from an outside perspective.

The Board of Directors will consider ways to further strengthen the governance framework while taking the Company’s business development into account.

2. Roles and Responsibilities

In our evaluation, the Board of Directors engages in constructive discussions on supervision of business execution and decision-making on important matters that have an impact on the Company’s management, and fulfills its roles and responsibilities, including supervision of business execution, management development and the risk management system.

Some directors wanted enhanced reports on compliance and the operation of internal controls and on management development. Therefore, the Board of Directors will take up compliance and the operation of internal controls as matters to be reported to the Board of Directors, and will also receive periodic reports on the status of human resource development throughout the Company.

3. Operation

In our evaluation, the Board of Directors is operating appropriately from the standpoint of scheduling the Board of Directors meetings, providing the Board of Directors meeting documents and other information and securing the meeting time necessary for active discussion with free and constructive debate and exchange of opinions by all directors, including outside directors.

To further stimulate discussion, the Board of Directors will enhance the quality and quantity of information provided, including the use of meeting materials of the Corporate Executive Meeting, the deliberative body for business execution.

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

[Reference]

Reasons for Appointment of Corporate Auditors Other Than Corporate Auditor Candidates

Position	Name	Reasons for Corporate Auditor
Corporate Auditor	Akira Okamoto	<p>Mr. Akira Okamoto has served as General Manager of administrative units including the Business Support Center and the Human Resources Department, and is well-versed in corporate management. Recently, he has been involved in enhancement of the Company's corporate governance and upgrading and operation of the internal control system as General Manager of the Internal Control Department. We judged that he has the appropriate character and insight to perform the duties of a Corporate Auditor, and he was appointed as a Corporate Auditor at the Annual General Meeting of Shareholders in 2015.</p>
Outside Corporate Auditor	Kenji Fukuda	<p>Mr. Kenji Fukuda has not been involved in corporate management in ways other than serving as an outside director or corporate auditor in the past. However, as a lawyer, he has legal expertise with detailed knowledge of corporate law, and has the necessary insight to supervise corporate management. In our judgment, he reflects that knowledge and insight in the Company's audits, and therefore he was appointed as an Outside Corporate Auditor at the Annual General Meeting of Shareholders in 2015.</p> <p>At meetings of the Board of Directors and Board of Corporate Auditors, he brought up many points that are useful in management decisions, not only by discussing legal issues but also by presenting past examples. He also provided valuable advice regarding changes in auditing standards and the role of the Board of Corporate Auditors with the recent revisions to the Companies Act and application of the Corporate Governance Code.</p>
Outside Corporate Auditor	Koichi Tsukihara	<p>Mr. Koichi Tsukihara has extensive practical experience and broad insight as a corporate executive. We judged that he could appropriately perform the Company's audit work from a perspective that emphasizes independence as an auditor, and he was appointed as an Outside Corporate Auditor at the Annual General Meeting of Shareholders in 2013.</p> <p>At Board of Directors meetings, Mr. Tsukihara not only contributed points and opinions from the perspective of accounting and finance, but also provided opinions and advice on subjects such as sales strategies, improvement of business, risk management that incorporates a business continuity plan (BCP), and promotion of diversity. At Board of Corporate Auditors meetings, he submitted many requests and questions to the audit firm that serves as the Company's independent accounting auditor.</p>

The Requirements and Independence Standards

Requirements

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

Independence Standards

1. Outside directors and kansayaku shall not be a director, kansayaku, executive officer or employee of a company that is among the Group's major shareholders (shareholders with more than 10 percent of outstanding shares of the Group or one of the Group's top ten shareholders) or is among the companies of which the Group is the major shareholder (company that the Group owns more than 10 percent of outstanding shares or the Group is one of the top ten shareholders of a company).
2. Outside directors and kansayaku shall not be a director, kansayaku, executive officer or employee of a company that is among the Group's major suppliers (company for which transactions with the Group account for more than 1 percent of its or the Group's revenue).
3. Excluding director or kansayaku remuneration from the Group, outside directors and kansayaku shall not receive annual remuneration in excess of ¥10 million nor receive remuneration that exceeds 1 percent of the annual revenue of a company, institution or other organization.
4. Outside directors and kansayaku shall not have a position with a corporation or foundation to which the Group contributes more than ¥10 million annually.
5. The tenure of the Group's outside directors shall not exceed 10 years.
6. The tenure of the Group's outside kansayaku shall not exceed 12 years (3 terms).

1 Overview of Operations

In April 2014, we launched our Medium-Term Business Plan, Shionogi Growth Strategy 2020 (SGS2020), in which our vision is to grow as a drug discovery-based pharmaceutical company. We also established a basic strategy of selection and concentration on core businesses in order to strengthen functions for research, production and promotion. We have worked to enhance our development pipeline with FIC^{*1} and LIC^{*2} compounds, primarily in our core research therapeutic areas of infectious diseases and pain/CNS disorders. In fiscal 2015 in Japan, we launched Mulpleta[®] and Actair[®], obtained manufacturing and marketing approval for Crestor[®] OD Tablets, and obtained approval of new two(2) additional indications for Cymbalta[®]. Globally, we submitted applications for approval simultaneously in Japan and the United States for naldemedine, which the Shionogi Group had been developing independently.

Our basic policy is “to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.” We will continue to take the necessary measures to realize that policy globally.

■ SGS2020 Vision



*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 that have the same mechanism of action.

(1) Business Operations and Results

《Summary of Business Operation for Fiscal 2015》

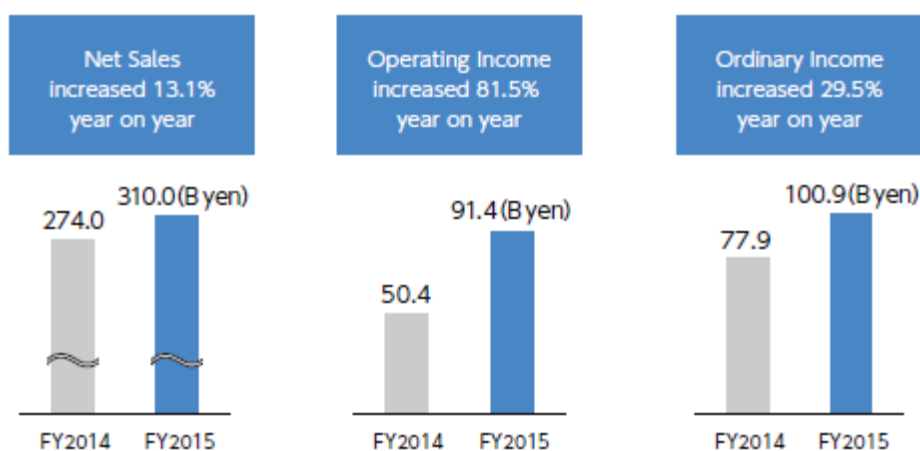
- Achieved plan with net sales of ¥310.0 billion
- Operating income was ¥91.4 billion and ordinary income was ¥100.9 billion, both new records, and profit attributable to owners of parent was ¥66.7 billion.
- Return on equity (ROE)^{*3} was 13.6%

Net sales were ¥310.0 billion, a 13.1 percent increase year on year. Domestic prescription drug sales of ¥162.1 billion (0.4 percent increase), exports and overseas subsidiary sales of ¥29.7 billion (3.6 percent increase) and royalty income of ¥101.8 billion (67.8 percent increase) all contributed to sales growth.

Operating income increased 81.5 percent to a record ¥91.4 billion. Factors contributing to the increase in operating income included improvement in the cost-to-sales ratio as a result of a change in the co-marketing arrangement for the antidepressant drug and pain medication Cymbalta[®] with Eli Lilly Japan K.K. (“Eli Lilly”), and more efficient use of selling, general and administrative expenses, including research and development expenses.

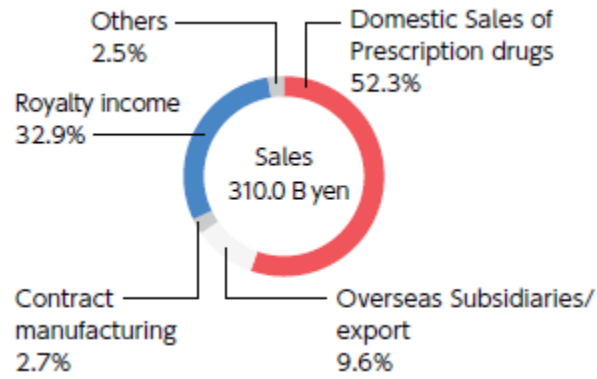
Ordinary income increased 29.5 percent to ¥100.9 billion, setting a new record for the fourth consecutive year. Dividend income from UK-based ViiV Healthcare Ltd. (“ViiV”) decreased because two years of dividend income were recorded in the previous year due to a change in the timing of recognition of dividend income, whereas in fiscal 2015, one year of dividends was recorded as usual.

Profit attributable to owners of parent increased 51.4 percent to ¥66.7 billion because of payment of income taxes for prior years in the previous fiscal year, in addition to the increase in operating income.

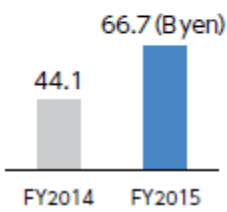


*3 ROE is a measure that indicates how effectively the company generated net income attributable to owners of the parent with the funds entrusted to it by shareholders.

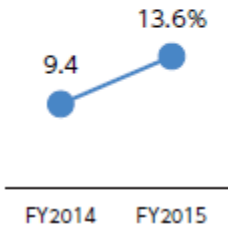
■ Net sales composition ratio



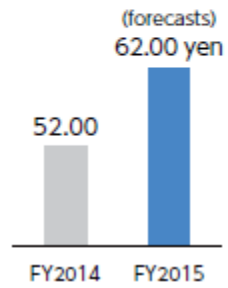
Profit attributable to owners of parent increased 51.4% year on year



ROE (Return on Equity) improved 4.2% year on year



dividend per share increasing JPY 10 year on year (forecasts)



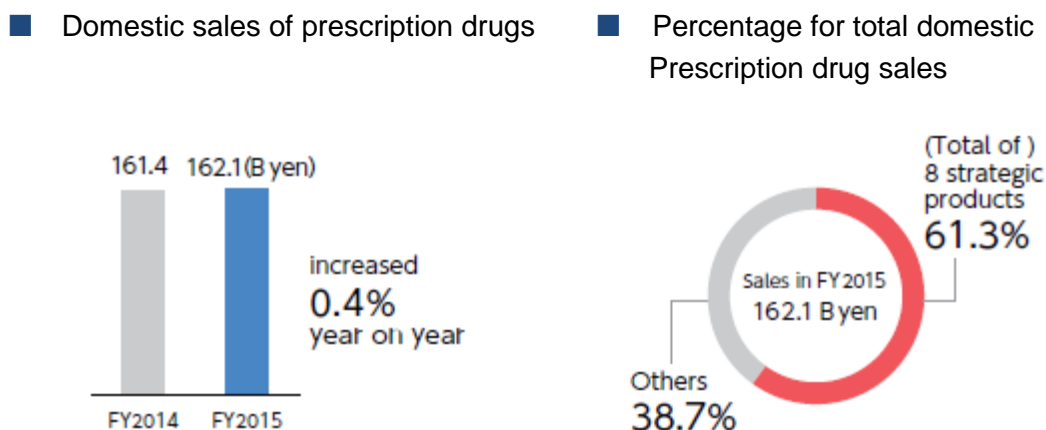
1) Domestic Prescription Drugs Market (Sales: ¥162.1 billion (0.4% up))

- Sales increased as growth in sales of the eight (8) strategic products*⁴ exceeded the decrease in sales of long-listed products.
- Launched Mulpleta[®] and Actair[®]
- Productivity per MR increased

Domestic sales of prescription drugs increased 0.4 percent year on year to ¥162.1 billion. Sales of the eight strategic products, centered on hyperlipidemia treatment Crestor[®], hypertension treatment Irbetan[®] and antidepressant drug Cymbalta[®] expanded 3.8 percent year on year to ¥99.4 billion, which more than offset the decrease in sales of long-listed products and contributed to sales growth.

During fiscal 2015, Shionogi launched two new drugs in areas of high unmet medical needs^{*5}: Mulpleta[®], a treatment for thrombocytopenia, and Actair[®], a treatment for allergic rhinitis caused by mite allergen. In addition, the eight strategic products accounted for 61.3 percent of Shionogi's total domestic prescription drug sales, up from 59.3 percent in the previous fiscal year, as new products increased their share of the product portfolio, further reducing the risk of sales declines due to drug price reductions.

Productivity per medical representative (MR) also increased as a result of efforts to conduct efficient business activities in the changing business environment.



*4 Cymbalta[®], Crestor[®], Irbetan[®] franchise, OxyContin[®] franchise, Finibax[®], Pirespa[®], Differin[®] and Rapiacta[®]

*5 Medical needs for diseases for which no adequate treatment has yet been found.

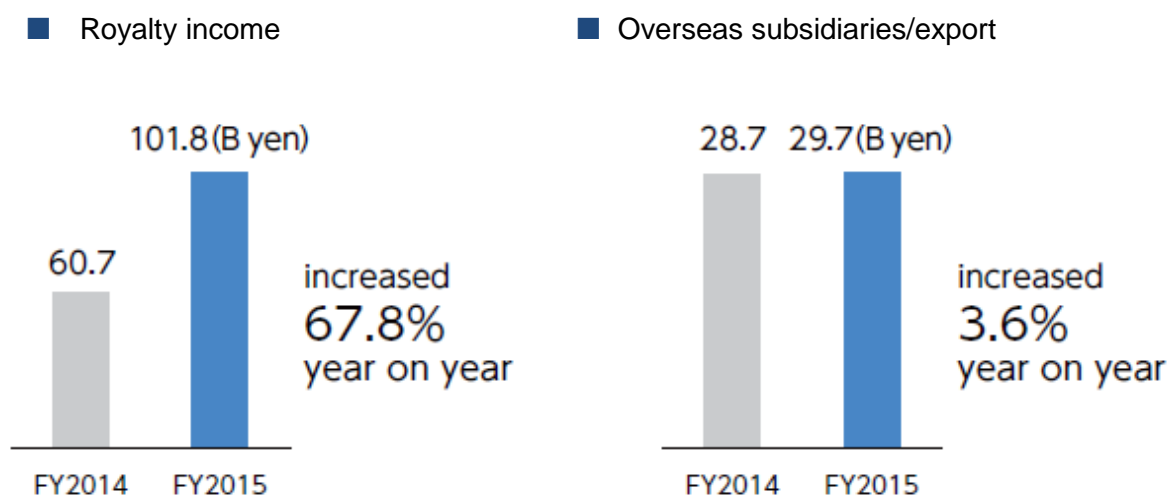
2) Overseas subsidiary sales/exports (Sales: ¥29.7billion (3.6% up))

Royalty income (Sales: ¥101.8billion (67.8% up))

- Royalties from Tivicay[®] and Triumeq[®] increased ¥34.7 billion
- Royalties from Crestor[®] increased ¥200 million
- Osphena[®] sales were solid in the U.S., and sales began in Italy under the brand name Senshio[™]

Total royalty income increased 67.8 percent to ¥101.8 billion. Global sales of the anti-HIV drug Tivicay[®] and the combination drug Triumeq[®], which Shionogi licensed to ViiV, exceeded £1.3 billion (approximately ¥230.0 billion), and royalties from ViiV increased ¥5.8 billion to ¥40.5 billion. Royalties from Crestor[®] were ¥47.6 billion, an increase of 0.4 percent, partly because of the weak yen.

Overseas subsidiary sales and exports increased 3.6 percent year on year to ¥29.7 billion. In U.S. business, Osphena[®] (ospemifene), a treatment for postmenopausal vulvar and vaginal atrophy (VVA), was the only drug that increased sales in the shrinking VVA market. In addition, the Shionogi Group began a phase III clinical trial for an additional indication to maximize the value of Osphena[®] in the United States. In Europe, sales began under the brand name Senshio[™] in Italy, which has an aging population.



3) Discovery Research

- Out-licensed a potential treatment for multidrug-resistant bacterial infections discovered at a Shionogi research laboratory
- Discovered a potential treatment for Alzheimer's disease through joint research
- Expanded collaboration with academia and external business partners in Japan and internationally

During fiscal 2015, in addition to enhancing ongoing global development and discovery research programs, the Shionogi Group focused on raising research productivity in collaboration with outside institutions and building a highly competitive research foundation. As a result, Shionogi licensed RSC-435830, a potential treatment for multidrug-resistant bacterial infections that was discovered by a Shionogi research laboratory, to GlaxoSmithKline plc. In addition, a potential treatment for Alzheimer's disease was discovered through joint research with a group company of Johnson & Johnson, and advanced it to the preclinical stage. In collaboration with outside institutions, Shionogi has accelerated discovery research in the areas of pain/CNS as well as emerging and re-emerging infectious diseases by cooperating with external partners such as PeptiDream Inc. and Nissan Chemical Industries, Ltd. and through external funding. In collaboration with academia, Shionogi collaborates with domestic universities and has also begun working on new discovery research in the UK by joining an industry-academic consortium in Cambridge.

4) CMC Research^{*6}

- Contributed to the launch of Mulpleta[®] and the approval of Crestor[®] OD Tablets
- Contributed to the simultaneous filing of applications in the United States and Japan for global development product naldemedine
- Successfully reduced API synthesis costs for S-033188, a potential treatment for influenza virus infections

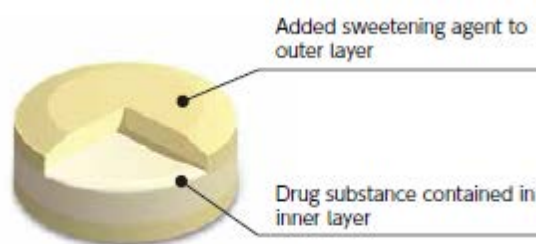
In fiscal 2015, the Shionogi Group focused on “high-value-added product development” and “global development and applications” utilizing its strengths in commercialization technology.

As a result, Shionogi’s unique technologies contributed to the September 2015 launch of Mulpleta[®], which has a poorly soluble API, through its successful formulation development. Shionogi also successfully developed the world’s first trilayer orally disintegrating (OD) tablet for core product Crestor[®], which led to the product obtaining approval in March 2016. The addition of these new formulations is expected to increase convenience for patients.

In addition, for naldemedine, which the Shionogi Group has been independently developing globally for the treatment of opioid-induced constipation, quick responses to the authorities that enable manufacturing in the key United States market, contributed to the simultaneous filing for approval in Japan and the United States.

By improving the API synthesis route of S-033188, a potential treatment for influenza virus infections, Shionogi also successfully reduced costs with an eye to commercial production. In addition, Shionogi further strengthened new therapeutic entity (NTE) discovery research^{*7} and launched multiple NTE discovery research programs.

■ First trilayer OD tablet for Crestor[®] in the world



^{*6} Chemistry, Manufacturing and Controls; research that integrates API manufacturing process research, formulation development research and quality control research

^{*7} Development research for the addition of new dosage forms, new routes of administration and new indications using known compounds

5) Global Development

- Filed simultaneous applications for approval of naldemedine in Japan and the United States
- S-033188 for the treatment for influenza virus infections was designated for priority review
- Phase III clinical trials began on S-649266 for the treatment of multidrug-resistant gram-negative bacterial infections
- Cymbalta[®] obtained additional approval for two indications in the area of pain
- Filed application for approval of S-877503 for the treatment of ADHD

In fiscal 2015, the Shionogi Group upgraded its global development framework covering Japan, the United States, Europe and Asia and worked to further improve strategic decision-making functions with the aim of increasing the productivity of new drug development. As a result, the Shionogi Group independently conducted global development of naldemedine, a potential treatment for opioid-induced constipation that the Group has positioned as one of its next core products, and filed simultaneous applications for approval in Japan and the United States in March 2016. In addition, S-033188 for the treatment of influenza virus infections was designated for priority review by the Ministry of Health, Labour and Welfare of Japan.

The priority review system is aimed at making cutting-edge treatments available to patients in Japan ahead of the rest of the world. In fiscal 2015, a total of six items were designated for priority review, including S-033188. Items in development that receive this designation can be expected to have a shorter review period until approval because discussions and review related to regulatory approval are given priority from the early stage of development. After completion of domestic phase II clinical trials, the Shionogi Group will carry out global development of S-033188 in collaboration with Switzerland-based F. Hoffmann-La Roche Ltd.

Overseas, phase III clinical trials on S-649266 for the treatment of multidrug-resistant gram-negative bacterial infections are under way. With fewer companies working on development of anti-infective agents, there is a growing sense of crisis worldwide about the threat of drug-resistant bacteria that are difficult to treat with existing drugs. The Shionogi Group will carry out global development of S-649266 to address unmet medical needs such as this.

In Japan, Cymbalta[®], which the Shionogi Group has been co-developing with Eli Lilly, obtained approval for the additional indications of pain associated with fibromyalgia in May 2015 and pain associated with chronic lower back pain in March 2016. An application has also been filed for the additional indication of pain associated with osteoarthritis. In addition, in January 2016 we filed an application for approval of S-877503, a potential treatment for ADHD for which we have conducted global development with Shire plc of Ireland.

In other developments, we obtained approval of Endoxan[®] and Predonine[®] for the additional indication of malignant lymphoma in June 2015. Shionogi developed these products based on requests from medical associations and other organizations.

Pipeline (as of March, 2016)

Non-clinical	Phase I	Phase II	Phase III	NDA submission
<p>Infectious diseases</p> <p>Pain/CNS</p> <p>Metabolic disorder</p> <p>Frontier</p>	<p>【Global】</p> <p>S-033188 Influenza virus Infection</p> <p>S-117957 Insomnia</p>	<p>S-649266 MDR Gram-negative Infections</p> <p>S-707106 Type2 diabetes</p> <p>S-488210 Head and neck squamous cell carcinoma</p> <p>S-222611 Malignant tumor</p> <p>S-588410 Bladder cancer</p>	<p>S-649266 MDR Gram-negative Infections</p> <p>Osphena® Vaginal dryness associated with postmenopausal VVA</p> <p>Lusutrombopag Thrombocytopenia</p>	<p>Naldemedine Opioid-induced constipation</p>
<p>Antibody drug candidate against Pseudomonas</p> <p>central neuropathic pain</p> <p>NTE Inhalation</p>	<p>【In Japan】</p> <p>Oxycodone Tamper resistant formulation</p> <p>S-120083 Inflammatory pain</p> <p>S-010887 Neuropathic pain</p>	<p>S-649266 MDR Gram-negative Infections</p> <p>S-033188 Influenza virus Infection</p> <p>S-525606 Allergic rhinitis caused by Japanese cedar allergen</p> <p>S-237648 Obesity</p> <p>S-588410 Bladder cancer</p>	<p>S-649266 MDR Gram-negative Infections</p> <p>S-877489 Pediatric ADHD</p> <p>Actair® Pediatric patients with perennial allergic rhinitis</p> <p>S-555739 Allergic rhinitis</p> <p>S-877503 Adult ADHD</p> <p>Oxycodone Moderate to severe chronic pain</p> <p>S-588410 Esophageal cancer</p>	<p>Naldemedine Opioid-Induced constipation</p> <p>Cymbalta® Pain associated with chronic low back pain</p> <p>S-877503 Adult ADHD</p>

(2) Capital Investment

The Shionogi Group's capital investment for the fiscal year ended March 31, 2016 totaled ¥9.9 billion. The Group's primary investments were construction of a manufacturing facility at the Tokushima Branch of CMC Laboratory and construction of a new research facility of the Kuise Site.

(3) Fund-raising

The Shionogi Group conducted no fund-raising of note during the fiscal year ended March 31, 2016.

(4) Fundamental policy on the appropriation of retained earnings

In the new medium-term business plan Shionogi Growth Strategy 2020 (SGS2020), the Shionogi Group stated its policy of using dividends on equity (DOE) as an indicator to steadily increase dividends in proportion to growth, and set a DOE target of 3.5 percent or more for the fiscal year ended March 31, 2016.

(5) Challenges Ahead

The operating environment of the pharmaceutical industry is expected to become increasingly challenging. Biennial drug price revisions were implemented in April 2016, and prices were reduced by an average of nearly 8 percent across the industry (in the upper 5 percent range for the Shionogi Group) based on drug cost. An opinion has emerged that another drug price revision should be carried out with the increase in the consumption tax rate planned for April 2017. In addition to the Japanese government's goal of achieving a surplus in the primary budget balance in fiscal 2020, the baby-boom generation will begin passing 75 years of age in 2025. As a result, the industry environment is likely to become even more severe due to stronger measures to reduce drug costs.

In SGS2020, the Shionogi Group is using a management-by-objective approach, annually updating its business plan for the three years ahead on a rolling basis to respond to changes in the external environment and achieve the targets for fiscal 2020. In fiscal 2016, the Group formulated and began implementing the business plan through fiscal 2018 based on the results of the previous year and new challenges.

■ Changes in the external environment

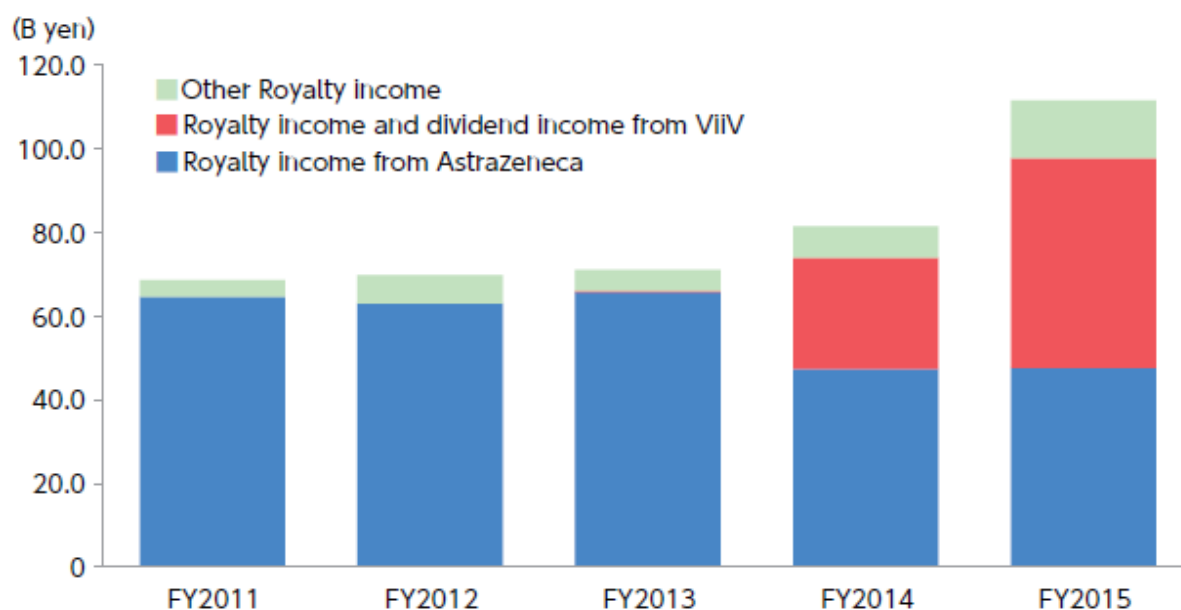


Positioning of Fiscal 2016 and Challenges Ahead

In fiscal 2016, the third year since the start of SGS2020, we will aim to realize our vision of growing as a drug discovery-based pharmaceutical company. To accomplish that, we will further develop the “cost-control mindset” that has become one of our strengths with our achievements to date, and will shift gears to the next level, a “return on investment mindset.” We will continue working to strengthen business operations, increase capital efficiency and maximize corporate value in ways such as prioritizing investment projects and verifying investment results by discussing overall optimization across the boundaries of research, production and promotion.

In fiscal 2016, the increase in royalties for Tivicay[®] and Triumeq[®] and dividends from ViiV is again expected to exceed the decrease in royalty for Crestor[®] from AstraZeneca.

■ Royalty income and dividend income from ViiV



1) Domestic prescription drugs

Due to rising medical costs with the aging of populations worldwide, there is a need for increasingly higher productivity in discovery research. Continuously creating better medicines at lower cost for patients is the challenge facing research-driven pharmaceutical companies. In response to this societal need, we will aim to create new global drugs to treat infectious diseases and pain/CNS, our areas of strength. We will also accelerate our discovery research program using various discovery approaches such as peptide drug discovery. To expand our competencies, we will promote industry-academia and business-to-business collaboration in Japan and overseas. Through such initiatives, we aim to maintain the share of compounds created at Shionogi research laboratories in our development pipeline at 50 percent or greater. In addition, we will accelerate exploratory research and clinical use of biomarkers, which can accurately measure disease progression and therapeutic effect, as well as development of diagnostics.

2) CMC Research

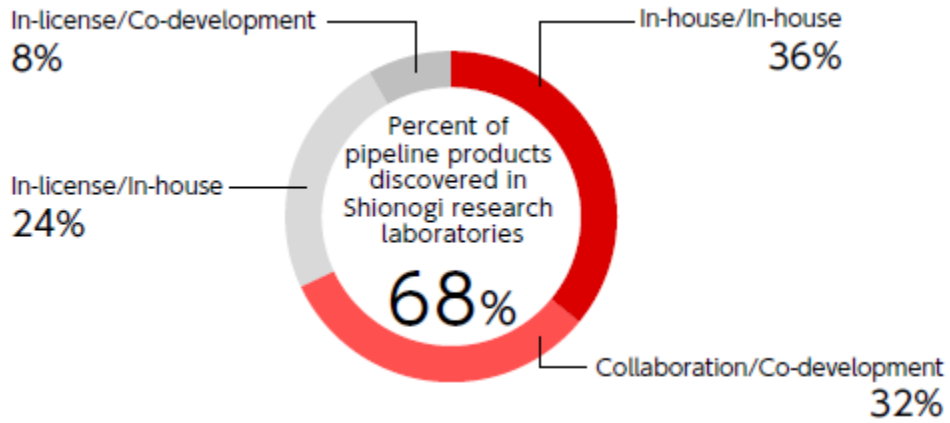
We will respond quickly and flexibly to the relevant regulatory authorities for naldemedine, a potential treatment for opioid-induced constipation, for which we submitted applications simultaneously in March in Japan and the United States. In addition, we are preparing to submit an application for approval of S-649266 for treatment of multidrug-resistant gram-negative bacterial infections in the United States, and are making preparations for a phase III clinical trial and new drug application for S-033188 for the treatment of influenza virus infections in Japan. In domestic development, we will focus on research related to commercialization of a tamper resistant formulation of mainstay product OxyContin[®]. We will continue to accelerate the progress of clinical development programs by using CMC technologies to drive development of high-value-added products, and will also focus on creation of new therapeutic entities.

3) Global development

In fiscal 2015, the Shionogi Group set up a global development system covering Japan, the United States, Europe and Asia, positioning the Group at the starting line of development competition with other companies as a global player.

In fiscal 2016, functional enhancement and standardization of global operations will be a priority. Starting in fiscal 2017, the exclusivity periods of our eight strategic products in Japan will end one after another. Therefore, we will advance as many as seven global phase III clinical trials and steadily file applications for approval with the aim of the earliest possible launches. In support of that effort, we will continue to enhance strategic decision-making functions and utilize IT systems, clinical data, and investigator-initiated clinical research. Furthermore, we will enhance the functions of the Medical Affairs Department, plan and execute clinical research of Shionogi Group products, and accumulate medical evidence.

■ Percentage for pipeline products discovered in origin



■ Direction of Shionogi R&D



4) Production and supply chain management

Public interest in the environmental, health and safety (EHS) initiatives of global companies is rising, and more customers are placing importance on EHS when they purchase products or select contract manufacturers.

In April 2016, the Shionogi Group established a new EHS Unit to assess the impact of the Group's business activities on EHS, set new goals and strengthen efforts for improvement. Particularly in procurement, manufacturing and supply activities, the Shionogi Group will conduct ongoing initiatives to promote the health and safety of its employees and people at affiliated companies and environmental preservation in local communities while continuing to economically provide stable supplies of high-quality products to the market

5) Marketing and sales

In Japan, the Shionogi Group seeks to expand sales by concentrating resources on providing information about strategic products, including Crestor[®] OD Tablets, which will be launched in June 2016. We will also promote appropriate use and work on phase IV development of Cymbalta[®], which was approved for the additional indication of pain associated with chronic low back pain in March 2016. Preparations have also begun for the launch of ADHD treatment S-877503, which is expected to be a future core product.

In overseas business, we will work to maximize the value of Osphena[®] in the United States and Senshio[™] in Europe. In the United States, preparations are moving forward for the launches of naldemedine, which we developed globally, and S-649266, a treatment for severe gram-negative bacterial infections.

■ Plan for Launch and additional approval

FY2016	FY2017		FY2018
[Global]	<p>S-649266 MDR Gram-negative Infections</p> <p>Naldemedine Opioid-induced constipation</p>	<p>S-888711 Thrombocytopenia</p>	<p>Osphena[®] Vaginal dryness associated with postmenopausal VVA</p>
[In Japan]	<p>ISODINE[®] for medical use disinfectant</p> <p>Cymbalta[®] Pain associated with osteoarthritis</p> <p>Crestor[®]OD tablets Hyper lipidemia</p>	<p>Naldemedine Opioid-induced constipation</p> <p>Oxycodone Moderate to severe chronic pain</p>	<p>S-877503 Pediatric ADHD</p> <p>Oxycodone Tamper resistant formulation</p> <p>S-033188 Influenza virus Infection</p> <p>S-877489 Pediatric ADHD</p> <p>Actair[®] Pediatric patients with perennial allergic rhinitis</p>

(6) Business Results and Financial Position

1) Business Results and Financial Position of the Corporate Group

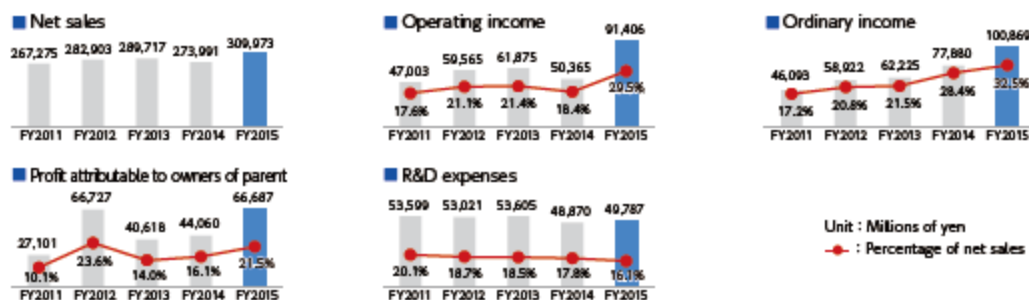
(Millions of yen)

Classification	FY2011	FY2012	FY2013	FY2014	FY2015
Net sales	267,275	282,903	289,717	273,991	309,973
Operating income	47,003	59,565	61,875	50,365	91,406
Ordinary income	46,093	58,922	62,225	77,880	100,869
Profit attributable to owners of parent	27,101	66,727	40,618	44,060	66,687
R&D expenses	53,599	53,021	53,605	48,870	49,787
Total assets	522,161	574,882	580,566	602,900	639,638
Net assets	347,198	423,633	467,836	478,883	513,877
Earnings per share	yen 80.93	yen 199.25	yen 121.29	yen 132.67	yen 204.83
Net assets per share	yen 1,027.83	yen 1,254.44	yen 1,385.11	yen 1,456.70	yen 1,564.73
Dividend per share	yen 40.00	yen 42.00	yen 46.00	yen 52.00	yen 62.00 ^{*1}
Return on Equity	% 8.1	% 17.5	% 9.2	% 9.4	% 13.6
Dividend on Equity	% 4.0	% 3.7	% 3.5	% 3.7	% 4.1 ^{*1}

Notes:

- The figures presented for dividend per share and dividend on equity are the amounts in the event Proposal No. 1 is approved without changes by the 151st Annual General Meeting of Shareholders.
- The Company changed its accounting policy for research and development expenses effective April 1, 2014. Figures for FY2013 have been restated to reflect this change.

[Reference] Consolidated Financial Indicators



2) Business Results and Financial Position of the Company

(Millions of yen)

Classification	FY2011	FY2012	FY2013	FY2014	FY2015
Net sales	256,187	255,946	259,760	246,980	283,428
Operating income	62,875	66,068	71,525	61,398	102,212
Ordinary income	63,536	68,205	73,530	70,409	103,642
Profit (loss)	43,678	(32,014)	54,600	42,153	74,975
Total assets	575,447	511,433	530,027	537,567	597,753
Net assets	423,827	386,509	432,656	430,129	485,167
Earnings (losses) per share	yen 130.42	yen (95.59)	yen 163.04	yen 126.93	yen 230.28
Net assets per share	yen 1,265.37	yen 1,153.74	yen 1,291.30	yen 1,320.32	yen 1,489.09

Note: The Company changed its accounting policy for research and development expenses effective April 1, 2014. Figures for FY 2013 have 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 12.00	100.0	Pharmaceutical clinical development and Pharmaceutical manufacturing and sales
Shionogi Ltd.	Thousand UK Pounds 700	100.0	Pharmaceutical clinical development and Pharmaceutical manufacturing and sales
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 clinical development and 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 (2) (3)	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
		Global Development office	Osaka, Osaka Prefecture
		Human Health Care Division Office	Suita, Osaka Prefecture
	Plants	Settsu Plant	Settsu, Osaka Prefecture
		Kanegasaki Plant	Isawa-gun, Iwate Prefecture
Research Laboratories	Shionogi Pharmaceutical Research Center	Toyonaka, Osaka Prefecture	
Overseas ⁽⁴⁾	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:

- In addition to the above list, the Company has business offices in every major city in Japan.
- The Tokyo Branch Office was relocated to Chiyoda-ku, Tokyo in May 2016.
- The Nagoya Branch Office, Fukuoka Branch Office and Sapporo Branch Office were eliminated on April 1, 2016, and now operate as business offices.
- Bases in overseas subsidiaries

(10) Employees

1) Number of Employees of the Corporate Group

Number of Employees	Y on Y Change
5,896	(163)

Note: 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
4,055	(84)	41.4	17.2

(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 25,559,022 shares of treasury stock)
- 3) Number of shareholders: 31,628
- 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)	29,391	9.02%
Japan Trustee Services Bank, Ltd. (as a trustee)	25,264	7.75%
Sumitomo Life Insurance Company	18,604	5.71%
JP MORGAN CHASE BANK 385147	16,638	5.11%
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	2.91%
Nippon Life Insurance Company	8,409	2.58%
Sumitomo Mitsui Banking Corporation	6,564	2.01%
STATE STREET BANK WEST CLIENT - TREATY 505234	5,021	1.54%
SUZUKEN CO., LTD.	4,341	1.33%
Trust & Custody Services Bank, Ltd. (as a trustee)	4,276	1.31%

Notes:

1. The Company owns 25,559,022 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 325,577,143 shares of total issued stock (excluding 25,559,022 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, 2016

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	217 (3)
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	371 (3)
FY2013 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2013)	June 26, 2013	172	17,200 shares of common stock	193,100 yen	100 yen	July 12, 2013 to July 11, 2043	201 (3)
FY2014 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 10, 2014)	June 25, 2014	178	17,800 shares of common stock	190,000 yen	100 yen	July 11, 2014 to July 10, 2044	206 (3)
FY2015 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 9, 2015)	June 24, 2015	99	9,900 shares of common stock	455,400yen	100 yen	July 10, 2014 to July 10, 2045	99 (3)

Notes:

- Each stock acquisition right is exercisable into 100 shares of common stock.
- 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.
- 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.
- Of the above, FY2011 stock acquisition rights, FY2012 stock acquisition rights, FY2013 stock acquisition rights and FY2014 stock acquisition rights granted to one director were granted before the director was appointed.
- 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 2015

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)
FY2015 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 9, 2015)	June 24, 2015	112	11,200 shares of common stock	455,400 yen	100 yen	July 10, 2015 to July 9, 2045	112 (11)

Notes:

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

4. Board Members

(1) Directors and Corporate Auditors

Position	Name	Areas of responsibility and other major posts
Representative Director and Chairman of the Board	Motozo Shiono	Chief Director of The Cell Science Research Foundation
President and Representative Director	Isao Teshirogi	
Director	Takuko Sawada	
Director	Akio Nomura	Outside Director of The Royal Hotel, Ltd.
Director	Tepei Mogi	Partner of Oh-Ebashi LPC & Partners Outside Director (audit & Supervisory Committee member) of NIITAKA Co., Ltd. Outside Corporate Auditor of KURABO INDUSTRIES LTD.
Director	Katsuhiko Machida	
Standing Corporate Auditor	Mitsuaki Ohtani	
Standing Corporate Auditor	Akira Okamoto	
Corporate Auditor	Shinichi Yokoyama	Outside Corporate Auditor of Sumitomo Chemical Co., Ltd. Outside Corporate Auditor of Rengo 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. Auditors Shinichi Yokoyama, Kenji Fukuda and Koichi Tsukihara have each submitted notification as independent auditors as stipulated by Tokyo Stock Exchange Group, Inc.
5. Summary of Contracts to Limit Liability
The Company has concluded contracts with all outside directors and outside corporate auditors to limit their liability as 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.
6. Directors and Corporate Auditors who retired during the Period
Standing Corporate Auditor: Sachio Tokaji (retired June 24, 2015)

(2) Amount of remuneration for Directors and Corporate Auditors

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It encompasses base monthly remuneration, performance-linked bonuses determined by results for the fiscal year and other factors, and stock options introduced in fiscal 2011. Outside directors only receive base remuneration.

Base monthly remuneration is determined according to the position and responsibilities of directors with due consideration of the operating environment and global trends. Bonuses are short-term incentives determined according to performance and other factors in each fiscal year based on a calculation matrix. In addition, Shionogi has introduced stock options to incentivize directors in their activities to increase the value of Shionogi shareholders over the medium to long term. New share subscription rights are allotted as a fundamental component in calculating base monthly remuneration.

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

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

(Millions of yen, except for persons)

Category	Persons remunerated	Amount of remuneration paid				Note
		Base remuneration	Bonus	Stock options	Total	
Directors (outside directors among directors)	6 (3)	219 (36)	88 (-)	42 (-)	350 (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 (3)	92 (36)	- (-)	- (-)	92 (36)	
Total	12	312	88	42	442	

Notes:

1. Includes the amount of remuneration paid to one corporate auditor who retired as of the close of the 150th Annual General Meeting of Shareholders held on June 24, 2015.
2. "Bonus" above is the relevant allowance for directors' bonuses for fiscal 2015.
3. "Stock options" above is the relevant expense recognized for fiscal 2015.

(3) Outside Board Members

1) Major Activities

Office	Name	Major Activities
Director	Akio Nomura	<p>At meetings of the Board of Directors, Mr. Nomura 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.</p> <p>Attended all 11 Board of Directors meetings Percentage of attendance: 100%</p>
Director	Teppey Mogi	<p>At meetings of the Board of Directors, Mr. Mogi 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.</p> <p>Attended all 11 Board of Directors meetings Percentage of attendance: 100%</p>
Director	Katsuhiko Machida	<p>At meetings of the Board of Directors, Mr. Machida 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.</p> <p>Attended all 11 Board of Directors meetings Percentage of attendance: 100%</p>
Corporate Auditor	Shinichi Yokoyama	<p>At meetings of the Board of Directors, Mr. Yokoyama made statements on the execution of duties by the directors from a broad perspective, based on his long and successful career. In addition, at meetings of the Board of Corporate Auditors, he discussed significant matters of audit and made recommendations as necessary.</p> <p>Attended all 11 Board of Directors meetings Percentage of attendance: 100% Attended all 8 Board of Corporate Auditors meetings Percentage of attendance: 100%</p>
Corporate Auditor	Kenji Fukuda	<p>At meetings of the Board of Directors, Mr. Fukuda made statements on the execution of duties by the directors from a broad perspective based on his legal insight. In addition, at meetings of the Board of Corporate Auditors, he discussed significant matters of audit and made recommendations as necessary.</p> <p>Attended all 11 Board of Directors meetings Percentage of attendance: 100% Attended all 8 Board of Corporate Auditors meetings Percentage of attendance: 100%</p>
Corporate Auditor	Koichi Tsukihara	<p>At meetings of the Board of Directors, Mr. Tsukihara made statements on the execution of duties by the directors from a broad perspective based on his long and successful career. In addition, at meetings of the Board of Corporate Auditors, he discussed significant matters of audit and made recommendations as necessary.</p> <p>Attended all 11 Board of Directors meetings Percentage of attendance: 100% Attended all 8 Board of Corporate Auditors meetings Percentage of attendance: 100%</p>

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

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

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

In addition, The Company does not have any relationship that should be indicated with NIITAKA Co., Ltd., where Teppei Mogi serves as an outside director (audit & supervisory committee member).

The Company does not have any relationship that should be indicated with Sumitomo Chemical Co., Ltd., and Rengo Co., Ltd. where Shinichi Yokoyama 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.

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, 2016

1. Compensation paid to the Independent Accounting Auditor for the fiscal year ended on March 31, 2016:

58 million yen

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

64 million yen

Notes:

1. The audit agreement entered into between the Independent Accounting Auditor 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.
2. For the amount in 1 above, the Board of Corporate Auditors received explanations from the Independent Accounting Auditor about the audit plan (including audit policies, items, team structure, expected time, and changes from the previous year) and the estimated amount of compensation, performed comparisons with the previous year's plan and actual results, compensation amount and compensation rate per unit of time, and checked and considered the opinions of related internal departments. As a result, the Board of Corporate Auditors judged and agreed that the amount of compensation was reasonable.
3. The Company paid compensation to the Independent Accounting Auditor for support in developing standards of use related to a cloud service (external information system), which is outside the scope of the work specified in Article 2, Paragraph 1 of the Certified Public Accountants Act.

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

In the event that the Company concludes that the Independent Accounting Auditor falls within the scope of any of the items in Article 340, Paragraph 1 of the Companies Act, its policy is for the Board of Corporate Auditors to dismiss the Independent Accounting Auditor with the consent of all Corporate Auditors.

In addition, in the event that the Company concludes that the appropriateness of the Independent Accounting Auditor's execution of its duties cannot be ensured in light of the criteria for proper evaluation of the Independent Accounting Auditor established by the Company, its policy is not to reappoint the Independent Accounting Auditor by resolution of the Board of Corporate Auditors.

(4) Business Suspension Orders Received in Past Two Years by the Independent Accounting Auditor

Details and summary of the order announced on December 22, 2015 by the Financial Services Agency:

- 1) Order issued to:
Ernst & Young ShinNihon LLC
 - 2) Content of the order
 - Suspension from accepting new business contracts for three months (from January 1 to March 31, 2016)
 - Business improvement order (order to improve of business operations)
- *In addition, a ruling for commencement of a hearing procedure was issued in connection with the order to pay a fine of approximately ¥2.1 billion.

3) Reasons for the order

- In their audits of the financial statements of another company, certified public accountants of the Independent Accounting Auditor, in negligence of due care, attested that financial statements containing material misstatements were free of material misstatements.
- The operations of the accounting auditor were found to be significantly inappropriate.

(5) Reason the Board of Corporate Auditors Did Not Make a Decision Not to Reappoint the Independent Accounting Auditor

The Board of Corporate Auditors received a report and requested an explanation from the Independent Accounting Auditor concerning the business suspension order the Independent Accounting Auditor received. Through an appropriate process based on the Board's Evaluation Criteria for Independent Accounting Auditors, the Board of Corporate Auditors conducted a rigorous evaluation and held discussions. As a result of this process, the Board of Corporate Auditors reached a decision that reappointment was appropriate, but will continue to monitor the Independent Accounting Auditor's improvement of its operations.

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.

(1) Systems to assure appropriate business operations

On April 25, 2016, 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 and Operation 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 order to realize the best corporate governance, the Company has established Basic Views and Guidelines on Corporate Governance. By practicing these policies and guidelines, the Company will aim for the continuous growth of the Shionogi Group and enhancement of its medium-to-long-term corporate value.

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

The Company will establish, improve and maintain a comprehensive risk management system, including a business continuity plan, in accordance with the Shionogi Group Risk Management Policy.

Each division will understand the internal risk factors, and take an appropriate action for avoidance or decrease of such risks by means of countermeasures according to the degree of such risk.

Especially, countermeasures for material risks which may have an influence on the Company's management will be discussed and determined at the corporate executive meeting and the responsible department will take appropriate action in cooperation with the related divisions based on such determination.

Moreover, with regard to emergency risks such as disasters, accidents and company scandals, etc., the Company enacted the "Crisis Management Policy" and defined the " Compendium for Disaster Measures", the " Compendium for Pandemic Measures" and the "Compendium for Corporate Scandals Measures" based on the policy, and the Company will promote crisis management while aiming to reflect respect for human life, be considerate of and contribute to regional communities and suppress derogation of corporate value.

In accordance with the Shionogi Group EHS* Policy, the Shionogi Group strives to conduct business activities in a manner that gives consideration to protection of the global environment, prevention of pollution, and support of the health and safety of its employees and the local communities in which Shionogi Group companies operate.

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

*EHS: Environment, Health and Safety

(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.

With regard to the status of execution of business, the General Administration Department will conduct business management of group companies and support the promotion of proper management of subsidiaries as the department in charge, and the Internal Control Department will conduct surveys as required to ensure the appropriateness and effectiveness of the businesses of group companies.

(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.

The Company will make it generally known among the directors and employees that employees assigned to assist the corporate auditors' duties follow the instructions of the corporate auditors.

(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.

The Company will ensure that officers or employees of the Company or group companies who make reports to the corporate auditors do not receive unfavorable treatment as a result of making such reports.

When a corporate auditor makes a claim to the Company for prepayment of expenses or other reason related to the execution of these duties, the Company will promptly process such expenses or debt, except where it is considered unnecessary.

(9) Other systems to assure effective audits by 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 addition, to ensure the effectiveness of audits throughout the group, the corporate auditors have established the "Group Company Audit Liaison Committee" and hold meetings regularly.

(2) Summary of status of systems to assure appropriate business operations

The status of these systems in the fiscal year ended March 31, 2016 in accordance with the Basic Policy for Construction and Operation of Internal Control System is summarized below.

1) Matters concerning directors' execution of duties

Meetings of the Board of Directors, which is composed of six directors, including three outside directors, were held 11 times in the fiscal year ended March 31, 2016. Eleven people, including the five corporate auditors, attended all of the meetings, where they made appropriate decisions on matters stipulated by law and the Company's Articles of Incorporation, and on important matters that require management's judgment, in accordance with the Board of Directors Regulations. They also supervised and ensured the legality of directors' execution of their duties.

The Board of Directors established and began implementing Basic Views and Guidelines on Corporate Governance as a way to contribute to promotion of appropriate corporate governance.

The Company has adopted the corporate officer system to clarify the executive and supervisory roles of management while facilitating responsive and flexible business operations. The Board of Directors makes decisions efficiently based on discussions of the Corporate Executive Meeting, which is held regularly (weekly).

Evaluations of internal controls are conducted based on plans to assure the credibility of financial reports.

For protection and management of information, the Company has established an information security system, and properly stores and manages information, including electronic records, in accordance with laws and regulations. Regarding elimination of antisocial forces, the Company makes efforts to collect and protect information and obtains the cooperation of various institutions and its legal advisors in refusing any relationships with such groups and maintains the elimination.

2) Matters concerning compliance

To assure legal compliance and ethical behavior in its business activities, the representative director and president and CEO talks about the importance of business ethics in the top message each quarter, and the Company makes efforts to instill a commitment to compliance in management and employees. The Compliance Committee (chaired by the representative director and president and CEO) holds discussions on compliance issues on a quarterly basis and provides regular compliance training to support risk management in business execution departments.

To verify the effectiveness of its internal control system, the Company strengthened monitoring by the Internal Control Department and set up a whistleblowing hotline as an internal reporting system in the Bureau of the Compliance Committee (the Company's General Administration Department) and at an external law firm to promote early detection of compliance violations and prevent their recurrence.

3) Matters concerning risk management

The Shionogi Group has established and maintained a comprehensive risk management system that includes a business continuity plan, and newly instituted the Shionogi Group Risk Management Policy to promote it. In addition, to prepare for risks such as disasters, accidents or corporate misconduct that require an urgent response, the Company conducts drills using the safety confirmation system for a hypothetical disaster or pandemic, as well as simulation training for a major earthquake in the Nankai Trough, to reduce risk and promote prevention, and is working to further improve the business continuity plan.

The Shionogi Group EHS* Policy has been established for the purpose of contributing to safe and secure work environments and a better society by conducting business activities in a manner that gives consideration to protection of the global environment, prevention of pollution, and support of the health and safety of employees and the local communities in which Shionogi Group companies operate. The Company has also set up the EHS Unit, which has commenced activities.

*EHS: Environment, Health and Safety

4) Matters concerning the Group company management system

Based on the Rules for Management of Shionogi Group Companies, departments in charge of the Company guide and supervise the business of subsidiaries, and the Company dispatches directors and corporate auditors to subsidiaries to supervise and audit their business execution.

In order to enhance the corporate value of the Group as a whole and fulfill its social responsibility, the Company familiarizes Group companies with the Company Policy and Action Guideline. In addition, the General Administration Department comprehensively promotes appropriate subsidiary management, while the Internal Control Department verifies the appropriateness and effectiveness of business execution at Group companies.

5) Matters concerning corporate auditors' execution of duties

Corporate auditors attend Board of Directors meetings, the Corporate Executive Meeting and other key meetings, obtain information related to business execution and management and information related to internal controls in a timely manner, and regularly meet with representative directors and department general managers to exchange opinions. In addition, they have established a framework for close cooperation with the Independent Accounting Auditor and the Internal Control Department to ensure the effectiveness of audits.

At the request of the corporate auditors, multiple employees were assigned to assist the auditors in their duties. Under the direction of the corporate auditors, they provided assistance as necessary in the corporate auditors' work, including assessment of the Independent Accounting Auditor by the Board of Corporate Auditors.

The Group Company Audit Liaison Committee, led by a standing corporate auditor, holds meetings regularly to verify the status of audits of the overall Group and to ensure the effectiveness of audits.

In the fiscal year ended March 31, 2016, the Group Company Audit Liaison Committee held eight meetings, and also held extraordinary meetings on important matters. The Committee broadly tested the appropriateness and effectiveness of management, compliance, risk management and the effectiveness of internal controls, and provided advice and suggestions to management as necessary.

[Reference]

Fundamental Approach to and System of Corporate Governance

In accordance with the Company Policy – the Group’s management philosophy – we believe it is our social mission to continually discover, develop and supply useful and safe medicines as well as to promote their appropriate use to help improve the health, medical treatment and quality of life of people around the world.

Based on our firm belief that strict compliance and efforts to fulfill this social mission translate into greater corporate value, we aim to generate sustained growth and achieve increases in corporate value through constructive communication with stakeholders, supported by transparent and fair management that continuously implements measures to adapt to changes in the operating environment.

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

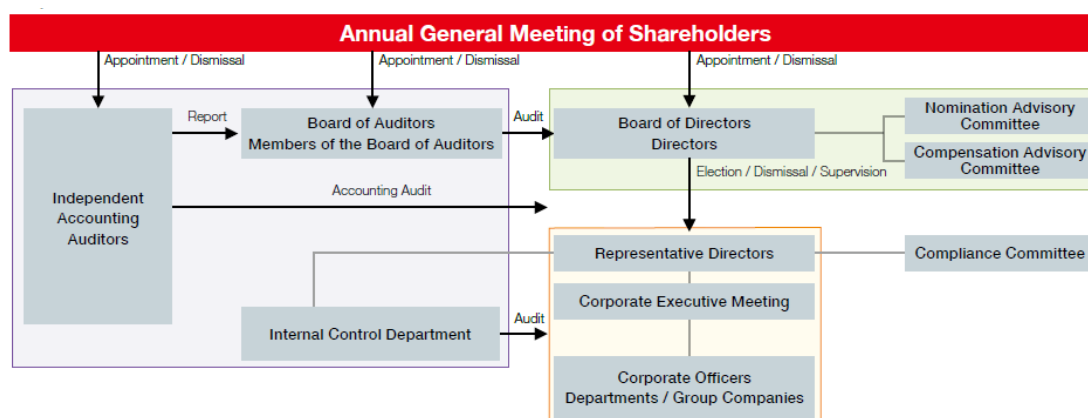
The Board of Directors is composed of six directors, three of whom are outside directors to further enhance management transparency and accountability to stakeholders. In addition, the Company has established a Nominating Advisory Committee and a Compensation Advisory Committee as advisory bodies to 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.

(As of March 31, 2016)

(Corporate Governance System)



7. Other Material Matters

Legal Actions

- 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[®]). 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 the Company in the United States.
In addition, the Company filed a patent infringement action against Sandoz in the U.S. District Court for the District of New Jersey under the patent on crystal form owned by the Company in December 2012. The action sought to make the effective date of FDA approval of the above generic drug ANDA no earlier than the expiration date of the patent.
Settlements were reached and both of these actions were concluded in March 2015.

In April 2013, the Company filed a patent infringement action against Hospira Inc., and in January 2015 against Aurobindo Pharma Ltd. and Apotex Inc. in the U.S. District Court for the District of New Jersey (also in the U.S. District Court for the Northern District of Illinois against Aurobindo Pharma Ltd.) under the patent on crystal form owned by the Company. 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. A settlement was reached and the action against Aurobindo Pharma Ltd. was concluded in February 2016. The actions against Hospira Inc. and Apotex Inc. are currently pending.

- The Company filed a patent infringement action on August 17, 2015 (local time) in Germany and on August 17, 2015 in Japan against MSD Sharp & Dohme GmbH and its European group companies, and MSD K.K. (hereinafter, collectively “MSD”), claiming that MSD’s integrase inhibitor ISENTRESS[®] infringes on Shionogi’s patents in Germany and Japan. MSD either filed a patent invalidation action or requested a patent invalidation trial for the UK patent corresponding to the German patent on August 24, 2015, the Netherlands patent corresponding to the German patent on October 8, 2015, and the Japanese patent on December 17, 2015. On January 5, 2016, MSD also filed an action requesting compulsory licensing of the German patent. For the European patent corresponding to the German patent, the Opposition Division of the European Patent Office (EPO) issued a decision maintaining the patent on March 13, 2015, but MSD appealed that decision with the EPO’s Board of Appeal on June 10, 2015. All of these actions are currently pending.

Consolidated Balance Sheets

(As of March 31, 2016)

(Millions of yen)

Accounts	FY2015	(Reference) FY2014	Accounts	FY2015	(Reference) FY2014
Assets	639,638	602,900	Liabilities	125,761	124,016
Current Assets	315,611	259,948	Current Liabilities	71,982	67,794
Cash and deposits	80,230	50,784	Notes and accounts payable-trade	11,050	11,572
Notes and accounts receivable-trade	65,207	70,584	Current portion of long-term loans payable	—	38
Short-term investment securities	97,200	58,700	Income taxes payable	20,294	16,447
Merchandise and finished goods	21,263	18,943	Provision	12,621	11,233
Work in process	8,839	11,786	Provision for bonuses	10,118	8,315
Raw materials and supplies	12,080	13,751	Provision for sales returns	2,414	2,873
Deferred tax assets	13,301	13,538	Other provisions	88	45
Other	17,532	21,886	Other	28,016	28,501
Allowance for doubtful accounts	(45)	(28)	Non-current liabilities	53,778	56,222
Non-current assets	324,027	342,951	Bonds payable	20,074	20,094
Property, plant and equipment	78,673	77,022	Long-term loans payable	10,000	10,000
Buildings and structures, net	46,985	47,277	Deferred tax liability	12,856	14,538
Machinery, equipment and vehicles, net	9,933	9,844	Net defined benefit liability	9,447	9,901
Land	8,408	8,409	Other	1,400	1,688
Construction in progress	7,871	5,415	Net assets	513,877	478,883
Other, net	5,474	6,075	Shareholders' equity	495,693	447,249
Intangible assets	71,626	80,328	Capital stock	21,279	21,279
Goodwill	41,208	46,534	Capital surplus	20,227	20,227
Sales rights	26,282	29,055	Retained earnings	503,946	455,497
Other	4,135	4,738	Treasury stock	(49,759)	(49,754)
Investments and other assets	173,727	185,600	Accumulated other comprehensive income	13,745	27,010
Investment securities	146,451	158,339	Valuation difference on available-for-sale securities	26,748	28,675
Deferred tax assets	5,163	7,186	Foreign currency translation adjustment	(7,333)	3,843
Net defined benefit asset	19,663	18,439	Remeasurements of defined benefit plans	(5,669)	(5,508)
Other	2,491	1,696	Subscription rights to shares	352	270
Allowance for doubtful accounts	(44)	(62)	Non-controlling interests	4,085	4,353
Total assets	639,638	602,900	Total liabilities and net assets	639,638	602,900

Consolidated Statements of Income

(Year ended March 31, 2016)

(Millions of yen)

Accounts	FY2015	(Reference) FY2014
Net sales	309,973	273,991
Cost of sales	74,758	82,189
Gross profit	235,214	191,801
Selling, general and administrative expenses	143,808	141,436
[R&D expenses]	[49,787]	[48,870]
Operating income	91,406	50,365
Non-operating income	12,663	31,495
Interest and dividends income	11,911	22,522
Other	752	8,972
Non-operating expenses	3,200	3,979
Interest expenses	207	274
Other	2,992	3,705
Ordinary income	100,869	77,880
Extraordinary income	3,066	5,860
Gain on sales of investment securities	3,066	86
Gain on sales of non-current assets	—	5,584
Gain on transfer of business	—	189
Extraordinary loss	6,483	1,689
Impairment loss	2,583	—
Settlement package	1,900	1,306
Special retirement expenses	1,295	383
Loss on valuation of investment securities	704	—
Income before income taxes	97,452	82,051
Income taxes-current	28,724	20,820
Income taxes for prior periods	—	13,543
Income taxes-deferred	2,100	3,468
Profit	66,628	44,218
Profit(loss) attributable to non-controlling interests	[58]	158
Profit attributable to owners of parent	66,687	44,060

Non-consolidated Balance Sheets

(As of March 31, 2016)

(Millions of yen)

Accounts	FY2015	(Reference) FY2014	Accounts	FY2015	(Reference) FY2014
Assets	597,753	537,657	Liabilities	112,586	107,437
Current assets	285,994	250,936	Current liabilities	57,744	49,846
Cash and deposits	30,208	22,399	Accounts payable-trade	10,057	9,320
Accounts receivable-trade	61,084	66,412	Accounts payable-other	12,167	11,784
Short-term investment securities	97,200	58,700	Accrued expenses	4,103	2,858
Merchandise and finished goods	17,586	16,178	Income taxes payable	19,320	15,282
Work in process	8,346	11,309	Deposits received	3,193	3,224
Raw materials and supplies	9,585	10,348	Provision for bonuses	8,411	7,018
Advance payments-trade	328	1,159	Provision for directors' bonuses	88	45
Deferred tax assets	7,987	7,829	Provision for sales returns	73	82
Short-term loans receivable	47,600	50,763	Other	329	230
Other	6,065	5,849	Non-current liabilities	54,841	57,590
Allowance for doubtful accounts	-	(12)	Bonds payable	20,074	20,094
Non-current assets	311,759	286,631	Long-term loans payable	10,000	10,000
Property, plant and equipment	69,923	68,311	Deferred tax liabilities	14,969	16,671
Buildings, net	39,898	40,151	Provision for retirement benefits	8,818	9,746
Structures, net	1,998	2,101	Other	979	1,079
Machinery and equipment, net	9,722	9,497			
Vehicles, net	40	39	Net assets	485,167	430,129
Tools, furniture and fixtures, net	4,268	4,720	Shareholders' equity	458,066	401,334
Land	8,408	8,409	Capital stock	21,279	21,279
Lease assets, net	533	623	Capital surpluses	20,227	20,227
Construction in progress	5,051	2,767	Legal capital surplus	20,227	20,227
Intangible assets	12,479	9,555	Other capital surplus	-	0
Software	1,757	2,070	Retained earnings	466,319	409,581
Sales rights	10,331	6,784	Legal retained earnings	5,388	5,388
Other	389	700	Other retained earnings	460,931	404,193
Investments and other assets	229,357	208,764	Reserve for special depreciation	2	5
Investment securities	83,499	88,325	Reserve for advanced depreciation of noncurrent assets	5,599	5,538
Stocks of subsidiaries and affiliates	116,300	92,489	General reserve	368,645	368,645
Investments in capital of subsidiaries and associates	603	30	Retained earnings brought forward	86,684	30,005
Long-term prepaid expense	391	530	Treasury stock	(49,759)	(49,754)
Prepaid pension cost	27,245	26,449	Valuation and translation adjustments	26,748	28,525
Other	1,359	1,002	Valuation difference on available-for-sale securities	26,748	28,525
Allowance for doubtful accounts	(43)	(62)	Subscription rights to shares	352	270
Total assets	597,753	537,567	Total liabilities and net assets	597,753	537,567

Non-consolidated Statements of Income

(Year ended March 31, 2016)

(Millions of yen)

Accounts	FY2015	(Reference) FY2014
Net sales	283,428	246,980
Cost of sales	70,435	77,296
Gross profit, net	212,992	169,684
Selling, general and administrative expenses	110,780	108,285
[R&D expenses]	[48,111]	[47,127]
Operating income	102,212	61,398
Non-operating income	4,543	12,483
Interest and dividends income	2,941	2,198
Other	1,601	10,285
Non-operating expenses	3,112	3,472
Interest expenses	213	270
Other	2,899	3,202
Ordinary income	103,642	70,409
Extraordinary income	3,066	5,652
Gain on sales of investment securities	3,066	67
Gain on sales of non-current assets	-	5,584
Extraordinary loss	3,105	-
Settlement package	1,900	-
Special retirement expenses	1,003	-
Loss on valuation of stocks of subsidiaries and affiliates	202	-
Income before income taxes	103,603	76,061
Income taxes-current	28,158	20,096
Income taxes for prior periods	-	13,543
Income taxes-deferred	469	267
Profit	74,975	42,153

Accounting Auditor's Audit Report

May 10, 2016

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, 2015 to March 31, 2016.

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 10, 2016

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 151st fiscal term from April 1, 2015 to March 31, 2016.

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 151st fiscal period from April 1, 2015 to March 31, 2016 and submit our report as follows:

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

- (1) The Board of 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 requested additional explanations as necessary.
- (2) Each Corporate Auditor, in accordance with the auditing standards, auditing policies and share of assignment, etc., stipulated by the Board of 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, and conducted audits by the following method.
 - 1) We attended the Board of Directors meetings and other material meetings, received reports regarding the situation of the business operations from the Directors and employees, requested additional explanations as necessary, perused the material documents on decisions and investigated the operations and assets at the Company's head office and other main offices. 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.
 - 2) 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 Directors regarding a system to assure appropriate operations of the Company (and the corporate group consisting of the Company's subsidiaries) under Paragraphs 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 internal control over financial reporting, we received reports regarding the evaluation of such internal control and the situation of auditing from the Directors and employees, requested additional explanations as necessary, and expressed our opinion.
 - 3) 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 requested additional explanations as necessary.

We also received notification that the "system to assure appropriate execution of the duties" (the items 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 requested additional explanations as necessary.

In addition, we received a report from the Accounting Auditors on their submission of a business improvement plan to the Financial Services Agency on January 29, 2016 in relation to the business improvement order issued to the Accounting Auditors by the Financial Services Agency on December 22, 2015, and on the results of a voluntary self-inspection based on administrative penalties, and requested an explanation.

Based on the above method, we reviewed the financial statements (the balance sheets, the statements of income, the statements of changes 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 10, 2016

Board of Corporate Auditors, Shionogi & Co., Ltd.

Standing Corporate Auditor :Mitsuaki Ohtani

Standing Corporate Auditor :Akira Okamoto

Outside Corporate Auditor :Shinichi Yokoyama

Outside Corporate Auditor :Kenji Fukuda

Outside Corporate Auditor :Koichi Tsukihara