

To All Shareholders

May 31, 2017

## Notice of Convocation of the 152nd Annual General Meeting of Shareholders

The 152nd 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 21, 2017.<sup>1</sup>

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 22, 2017  
**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 152nd Fiscal Term (year ended March 31, 2017)
2. The Audit Report of the Consolidated Financial Statements for the 152nd Fiscal Term (year ended March 31, 2017) 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 One (1) Corporate Auditor

#### **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 21, 2017.
2. Exercise of voting rights by Internet  
You are kindly requested to exercise your voting rights by 5:00 p.m., Wednesday, June 21, 2017, after reviewing the instructions and cautionary statements.

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\* 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, "Business Results and Financial Position," "Main Operations of the Shionogi Group," "Main Offices, Plants, and Laboratories of the Shionogi Group," "Employees," "Main Loans from Banks," "Stock Acquisition Rights," "Independent Accounting Auditor" and "Systems and Policies of the Company" in the Business Report, as well as the 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/>).

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<sup>1</sup> Japan Standard Time

## How to Exercise Your Voting Rights


There are three ways to exercise your voting rights.

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1

If attending the General Meeting


Hand in your proxy form at the reception desk when you arrive  
(no signature or seal necessary)

Date & time of the General Meeting: 10:00 a.m., Thursday, June 22, 2017
- 

2

If exercising your voting rights by mail

Indicate your consent or refusal, then mail the form  
(please mail early)

Voting deadline: Form must arrive by 5:00 p.m., Wednesday, June 21, 2017
- 

3

If exercising your voting rights by Internet

Please see the instructions below

Voting deadline: 5:00 p.m., Wednesday, June 21, 2017

## 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 21, 2017 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 22, 2017.

### 4. 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**

### 5. 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 4.0% 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, 2017 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

¥38 per share of common stock

Total amount of dividends: ¥12,113,954,982

##### (3) Effective date of dividends

June 23, 2017



Including the interim dividend, cash dividends per share for the fiscal year ended March 31, 2017 totaled ¥72.00, 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	<p>Reappointment</p>  <p>Motozo Shiono (November 17, 1946)</p> <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>33 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 12 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	33 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 12 Board of Directors meetings	100%	<p>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. &amp; 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)</p> <p>(Major concurrent posts)  Chief Director of The Cell Science Research Foundation</p> <p><b>【Reasons for nominating the candidate for Director】</b>  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 further enhancing the operation of Board of Directors meetings as Chairman of the Board, such as by fostering an environment that enables outside directors to actively express their opinions and requests, and by enhancing the quality and quantity of information provided. He has also appropriately supervised management's business execution. Therefore, we recommend that you vote for his reelection as a Director.</p>
Number of the Company's shares owned	266,648 shares							
Number of years served as Director	33 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 12 Board of Directors meetings	100%							
2	<p>Reappointment</p>  <p>Isao Teshirogi (December 12, 1959)</p> <table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>14,750 shares</td> </tr> <tr> <td>Number of years served as Director</td> <td>15 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 12 Board of Directors meetings</td> <td>100%</td> </tr> </table>	Number of the Company's shares owned	14,750 shares	Number of years served as Director	15 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 12 Board of Directors meetings	100%	<p>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 &amp; Development Division  April 2006: Senior Executive Officer and Executive General Manager, Pharmaceutical Research &amp; Development Division  April 2007: Senior Executive Officer  April 2008: Representative Director and President and CEO of the Company (incumbent)</p> <p><b>【Reasons for nominating the candidate for Director】</b>  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 (SGS2020). He carried out an update of SGS2020 in October 2016. As part of that update, he set new quantitative targets from the perspectives of growth, efficiency and shareholder returns, and is strengthening and promoting measures to achieve them. 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.</p>
Number of the Company's shares owned	14,750 shares							
Number of years served as Director	15 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 12 Board of Directors meetings	100%							

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" data-bbox="312 640 628 972"> <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>2 year (as at the close of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 12 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	2 year (as at the close of this Annual General Meeting of Shareholders)	Attended all 12 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</p> <p>April 2017: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division (incumbent)</p> <p><b>【Reasons for nominating the candidate for Director】</b>  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 moving the Medium-Term Management Plan Shionogi Growth Strategy 2020 (SGS2020) forward, and played a central role in formulating the update of SGS2020 in October 2016.  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>
Number of the Company's shares owned	24,100 shares							
Number of years served as Director	2 year (as at the close of this Annual General Meeting of Shareholders)							
Attended all 12 Board of Directors meetings	100%							
4	<p>Reappointment Outside Director Candidate Independent Director</p>  <p>Akio Nomura (February 8, 1936)</p> <table border="1" data-bbox="312 1630 628 1962"> <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>8 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 12 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	8 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 12 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)</p> <p>(Major concurrent posts) Outside Director of The Royal Hotel, Ltd.</p> <p><b>【Reasons for nominating the candidate for Outside Director】</b>  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.  At Board of Directors meetings, Mr. Nomura made many clear points and statements of support, including concerns about the direction of research and development and overseas business, and advice on changing the management structure based on human resource development.  As Chairman of the Nomination Advisory Committee, he also led the committee members.</p> <p><b>【Notes】</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Mr. Akio Nomura 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.</li> </ul>
Number of the Company's shares owned	0 shares							
Number of years served as Outside Director	8 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 12 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 Independent Director</p> <div style="text-align: center;">  </div> <p style="text-align: center;">Teppei Mogi (October 17, 1958)</p> <table border="1" data-bbox="316 864 633 1193" 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>8 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 12 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	8 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 12 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 &amp; 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 &amp; 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.  August 2015: Outside Director (Audit &amp; Supervisory Committee member) of NIITAKA Co., Ltd. (incumbent)  June 2016: Outside Director (Audit &amp; Supervisory Committee member) of KURABO INDUSTRIES LTD. (incumbent)</p> <p>(Major concurrent posts)  Partner of Oh-Ebashi LPC &amp; Partners  Outside Director (Audit &amp; Supervisory Committee member) of NIITAKA Co., Ltd  Outside Director (Audit &amp; Supervisory Committee member) of KURABO INDUSTRIES LTD.</p> <p><b>【Reasons for nominating the candidate for Outside Director】</b>  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.</p> <p>At Board of Directors meetings, Mr. Mogi provided legal points and suggestions on protection of intellectual property, raised concerns about business tie-ups, 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><b>【Notes】</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• The Company has paid attorney fees to Oh-Ebashi LPC &amp; 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 &amp; Partners, and the Company has no advisory contract or other ongoing contractual relationship with Oh-Ebashi LPC &amp; Partners.</li> <li>• 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 and outside director (audit &amp; supervisory committee member).</li> </ul>
Number of the Company's shares owned	0 shares							
Number of years served as Outside Director	8 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 12 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="311 539 550 611">Reappointment Outside Director Candidate Independent Director</p>  <p data-bbox="311 891 486 936">Keiichi Ando (November 5, 1951)</p> <table border="1" data-bbox="311 987 627 1317"> <tr> <td data-bbox="311 987 467 1061">Number of the Company's shares owned</td> <td data-bbox="467 987 627 1061">0 shares</td> </tr> <tr> <td data-bbox="311 1061 467 1216">Number of years served as Outside Director</td> <td data-bbox="467 1061 627 1216">1 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td data-bbox="311 1216 467 1317">Attended all 10 Board of Directors meetings</td> <td data-bbox="467 1216 627 1317">100%</td> </tr> </table>	Number of the Company's shares owned	0 shares	Number of years served as Outside Director	1 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 10 Board of Directors meetings	100%	<p data-bbox="651 219 1388 752"> 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  July 2016: Retired as Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD  June 2016: Director of the Company (incumbent)  June 2016: Representative Director and President, GINSEN CO.,LTD (incumbent) </p> <p data-bbox="651 779 1157 828">(Major concurrent posts) Representative Director and President, GINSEN CO.,LTD</p> <p data-bbox="678 860 1380 1256"> <b>【Reasons for nominating the candidate for Outside Director】</b>  Mr. Keiichi Ando has practical experience as a corporate executive at a financial institution and broad insight on finance. He also coordinated the extremely difficult adjustments between the national government and the governments of Osaka Prefecture and Osaka City for the airport management business of Kansai, which was then at a crossroads, and his experience and insight built the foundation of Kansai Airports, which plays a leading role in the current Kansai economy. Thus, he recognizes the corporate responsibility we should fulfill and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. We therefore recommend that you vote for his reelection as an outside director.  At Board of Directors meetings, Mr. Ando presents many questions and opinions from the perspective of human resources and the use of assets that are important management resources, and provides appropriate advice about budget planning and management and capital policies, including investments. </p> <p data-bbox="678 1263 1380 1684"> <b>【Notes】</b> <ul style="list-style-type: none"> <li>• Shows the rate of attendance at Board of Directors meetings held after her appointment to the Board on June 23, 2016.</li> <li>• 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.</li> <li>• Mr. Keiichi Ando 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.</li> <li>• The Company pays insurance premiums in connection with the non-life insurance agency business to GINSEN CO., LTD., where Mr. Keiichi Ando is representative director and president, but the transaction amounts are considered insignificant as they are less than 1% of that company's net sales.</li> </ul> </p>
Number of the Company's shares owned	0 shares							
Number of years served as Outside Director	1 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 10 Board of Directors meetings	100%							

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, Teppei Mogi and Keiichi Ando that limit their liability stipulated in Section 1, Article 423 of the Companies Act based upon Section 1, Article 427 of the Companies Act and Article 25 of the Articles of Incorporation of the Company. The limited amount provided in the contract is the minimum liability limit amount stipulated in Section 1, Article 425 of the Companies Act. In the event that the candidates, Messrs. Akio Nomura, Teppei Mogi and Keiichi Ando are reelected as outside directors at this Annual General Meeting of Shareholders, the Company will continue to conclude such contracts with the candidates.




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

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

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

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

Candidate for the corporate auditor is as follows:

Name (Date of birth)	Career summary, position within the Company and other major posts		
<p data-bbox="204 622 440 696">New appointment Outside Corporate Auditor Independent Auditor</p>  <p data-bbox="204 972 408 1021">Masahide Hirasawa (September 15, 1947)</p> <table border="1" data-bbox="209 1066 525 1144"> <tr> <td data-bbox="213 1072 363 1140">Number of the Company's shares owned</td> <td data-bbox="363 1072 520 1140">0 shares</td> </tr> </table>	Number of the Company's shares owned	0 shares	<p data-bbox="560 434 1382 994">           April 1970: Joined Sumitomo Bank Limited            June 2003: Managing Director and Managing Executive Officer, Sumitomo Mitsui Banking Corporation                              Director, Sumitomo Mitsui Financial Group, Inc.            June 2004: Representative Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation            June 2005: Representative Director and Deputy President and Managing Executive Officer, Sumitomo Mitsui Banking Corporation            April 2007: Director, Sumitomo Mitsui Banking Corporation            June 2007: Corporate Auditor (part-time), Sumitomo Mitsui Banking Corporation                              Corporate Auditor, Sumitomo Mitsui Financial Group, Inc.            June 2009: Retired as Corporate Auditor (part-time), Sumitomo Mitsui Banking Corporation                              Retired as Corporate Auditor, Sumitomo Mitsui Financial Group, Inc.                              Outside Corporate Auditor, Mazda Motor Corporation (incumbent)                              Representative Director and Chairman of the Board, Royal Hotel, Ltd. (incumbent)            June 2012: Outside Corporate Auditor, Asahi Broadcasting Corporation (incumbent)            (Major concurrent posts)            Representative Director and Chairman of the Board, Royal Hotel, Ltd.            Outside Corporate Auditor, Mazda Motor Corporation            Outside Corporate Auditor, Asahi Broadcasting Corporation         </p> <p data-bbox="560 999 1382 1294"> <b>【Reasons for nominating the candidate for Outside Corporate Auditor】</b>            Mr. Masahide Hirasawa has practical experience and wide-ranging insight on finance as an executive of a financial institution, and has experience in appropriately monitoring management as representative director and chairman of a hotel company. In addition, he has experience as an auditor of a financial institution and in the manufacturing industry. Particularly in the manufacturing industry, he has experience in auditing a business that operates globally, primarily in the United States and Europe, and in our judgment, he will audit the Company with a global perspective.            We expect that he will reflect these attributes in the Company's audits on the appropriateness of management decisions and execution of duties of directors from a viewpoint that emphasizes independence as an auditor, and therefore recommend that you vote for his election as a corporate auditor.         </p>
Number of the Company's shares owned	0 shares		

Notes:

1. There are no special interests between the candidates and the Company.
2. Mr. Masahide Hirasawa is a candidate for outside corporate auditor stipulated in Article 2, Paragraph 3, Sub-paragraph 8 of the Enforcement Regulations of the Companies Act.
3. If this proposal is approved and this candidate is reelected as outside corporate auditor, Mr. Masahide Hirasawa will be registered as an independent auditor as defined in the regulations of the Tokyo Stock Exchange.
4. If Mr. Masahide Hirasawa is appointed as a corporate auditor, the Company plans to conclude a contract with Mr. Masahide Hirasawa 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 2016 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, the Board of Directors has secured the number of independent outside directors necessary for strengthening oversight of business execution and conducting fair management from an outside perspective, and further secured the necessary framework from the viewpoint of securing various elements and diversity, including diversity of expertise and experience, by appointing an outside director with expertise in finance in 2016.

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

To enhance reporting on operation of compliance and internal controls, which was an issue in the previous fiscal year, and reporting on management development, the status of compliance activities was reported at meetings of the Board of Directors, and the status of management development was reported at meetings between outside directors and the president to exchange opinions.

In view of the improvements above, 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.

The Board of Directors plans to continue to enhance reports on compliance and the operation of internal controls and on management development, and will also supervise business execution, management development and the risk management system.

3. Operation

To enhance the quality and quantity of information provided to the Board of Directors, which was an issue in the previous fiscal year, the general manager in charge of the Corporate Executive Meeting provided explanations on topics discussed at the Corporate Executive Meeting, the deliberative body for business execution, when making advance briefings on Board of Directors meeting documents.

In view of the improvements above, 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 advance briefings and secure time for deliberation of important and highly specialized matters.

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]

## 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 auditor shall not exceed 12 years (3 terms).

[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.

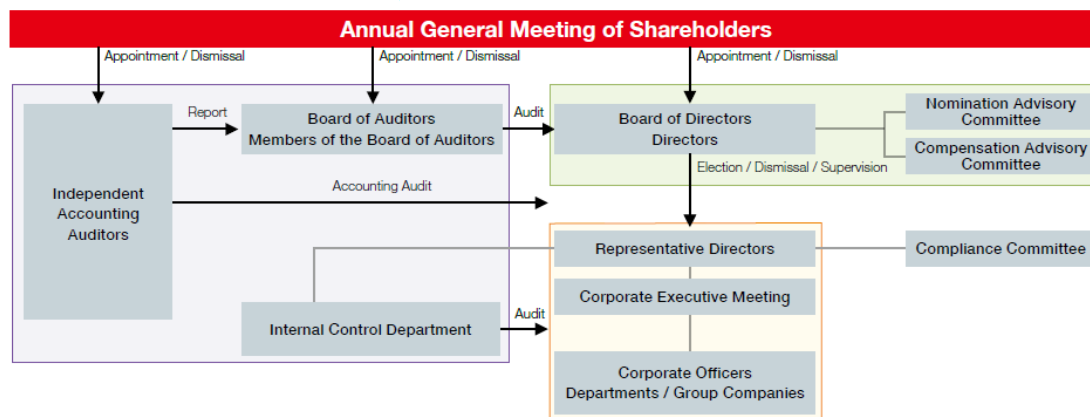
The Board of Directors is composed of six directors, three of whom are outside directors to further enhance management transparency and accountability to stakeholders. In addition, the Company has established a Nominating Advisory Committee and a Compensation Advisory Committee as advisory bodies to 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, 2017)

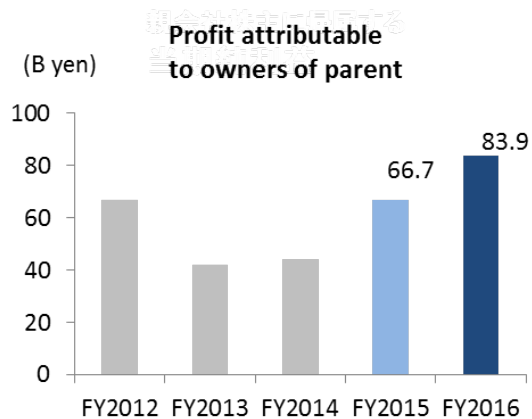
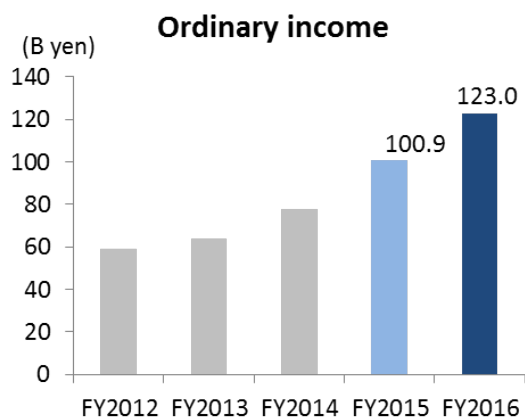
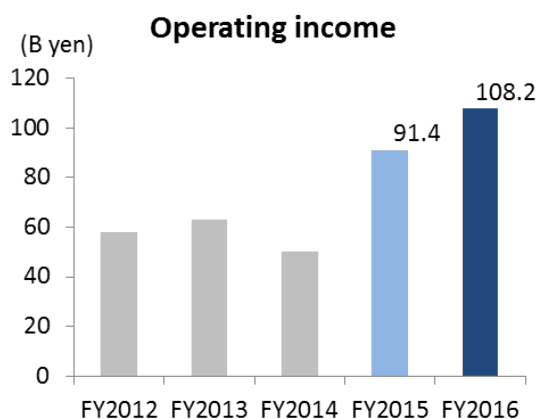
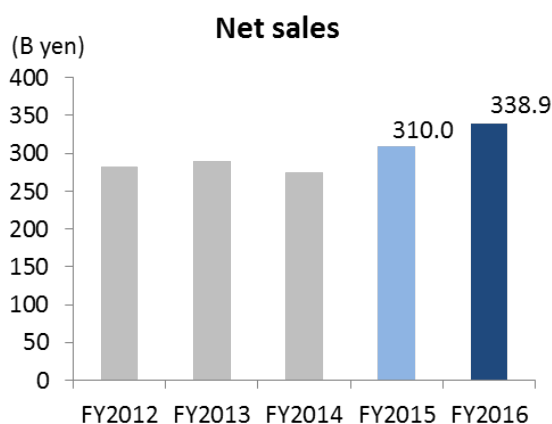
(Corporate Governance System)



Financial Highlights of the Shionogi Group

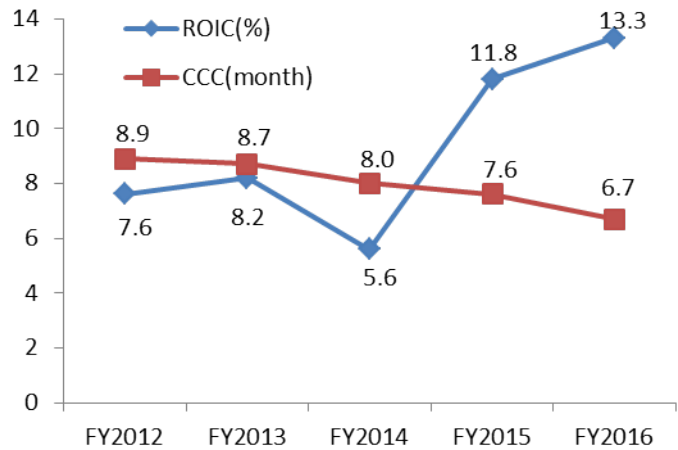
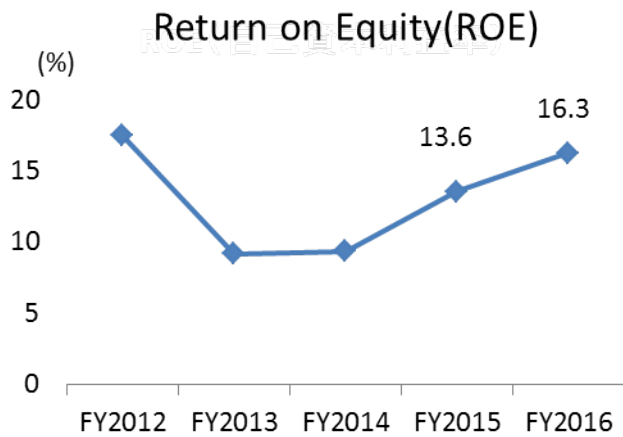
Performance

- Net sales: 338.9 B yen, higher than the target
  - Growth in royalty income on the back of rising global sales of HIV franchise products
  - Net sales growth in Japan, centered on strategic products
- Record-high ordinary income, operating income and profit attributable to owners of parent



## Capital Efficiency KPI

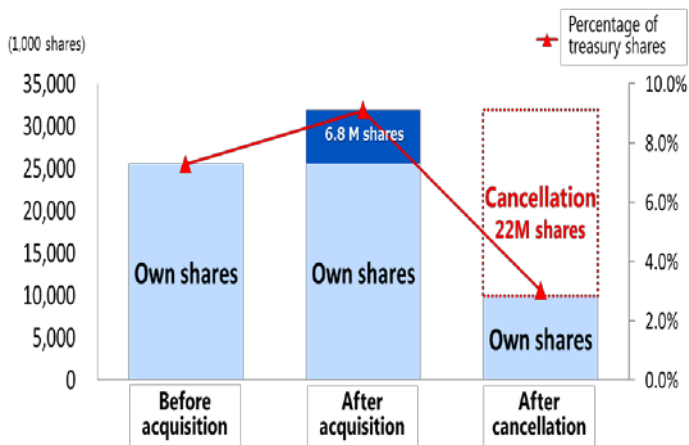
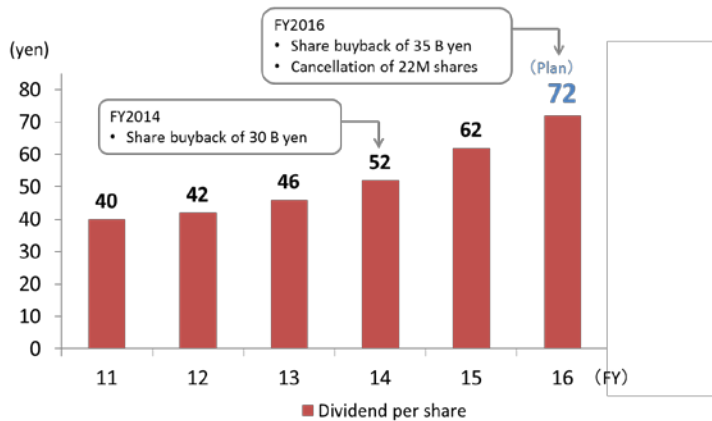
Improved ROE, ROIC and CCC



## Shareholder return policy

Continuous dividend increases and flexible share buybacks

Planning to increase dividend for five consecutive years



## 1 .Current State of the Shionogi Group

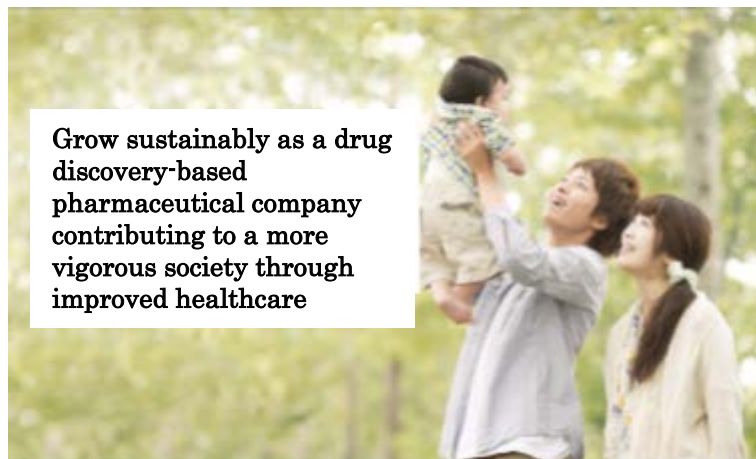
In April 2014, the Shionogi Group started the Medium-Term Management Plan, Shionogi Growth Strategy 2020 (SGS2020), a growth strategy for the period up to 2020.

In the plan, we identified infectious diseases and pain/CNS disorders as our core therapeutic areas, and set the vision of “growing as a drug discovery-based pharmaceutical company” based on small-molecule drug discovery, our strength. We are aiming to realize our basic policy “to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.”

We also took measures for selection and concentration of sales areas for sales growth, and worked to strengthen ongoing business operations for profit growth. As a result, we have increased the possibility that we will be able to reach our 2020 targets for ordinary income and return on equity (ROE), which were set at the start of the plan, two years ahead of schedule.

Among the changes in our business environment, it is assumed that even greater changes in the social environment will occur, including financial pressure on the National Health Insurance system with the advance of the super-aged society, and the expansion and segmentation of medical needs.

Therefore, we updated SGS2020 in October 2016 to set even higher business targets. We also set a new vision – to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare” – in order to be a company that plays an essential role in society.



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

## 【Topics】 Shionogi's Initiatives and Evaluations from Outside the Company

Our various internal and external initiatives have received high evaluations from outside the Company.

### Named "Best IR Company" for Second Consecutive Year (November 14, 2016)

The Best IR Company Award is given to companies that have shown a deep understanding of the intent of IR, have active IR programs, and have obtained outstanding results such as winning a high level of trust from market participants. The 21<sup>st</sup> annual Best IR Company awards were presented in 2016. Shionogi won this award after having won the Special Prize in 2014 and Best IR Company in 2015.



### MHLW Equal Employment/Work-Life Balance Award (December 12, 2016)

Shionogi has been making efforts to promote the participation of women in the workplace, primarily through the working teams set up in the divisions of various operations, including R&D and sales. As a result, Shionogi received this award in recognition of its increased retention of female employees, increase in women in management positions and other improvements.

### Named a "Health and Productivity Stock" for Second Consecutive Year and Recognized as "Health and Productivity Enterprise" (February 21, 2017)

"Health and Productivity Stocks" are listed companies that strategically carry out employee health and productivity management from a management perspective, and are selected jointly by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange. A total of 24 companies were selected in 2016.

The "Health and Productivity Enterprise" recognizes corporations that practice excellent health and productivity management in cooperation with insurers.

Starting in 2017, 235 companies are selected jointly by METI and Nippon Kenko

Kaigi, which consists of leaders from the business community, medical groups and local governments.



### "Kurumin" Certification from MHLW (Since April 2011)

This is a program of the Minister of Health, Labour and Welfare to recognize companies that provide exceptional childcare support. Shionogi received this certification for proactively introducing a childcare support system to help employees to balance their careers with childcare, and workplace systems that enable diverse working styles.



### "Communication Barrier Free Project"

This is a project led by employees who have hearing impairments, and is intended to eliminate communication barriers and bring "the best possible medicine" to all people. In the year ended March 31, 2017, an app that converts voice to text was introduced in the Company, and subtitles were added to Shionogi TV commercials.



## (1) Business Operations and Results

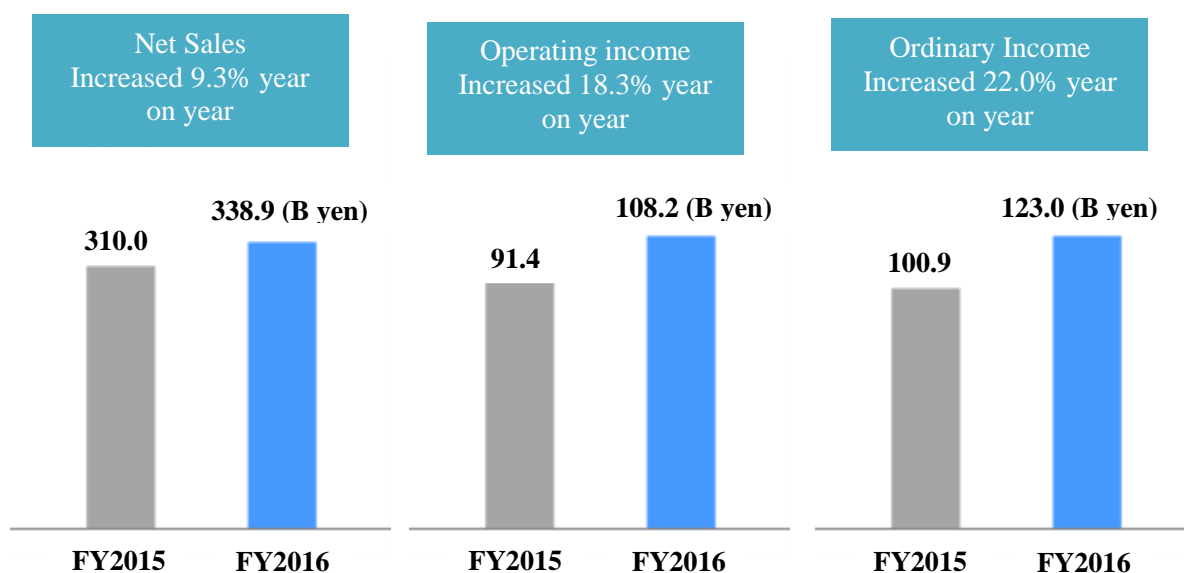
### Summary of Business Operation for Fiscal 2016

Net Sales	Operating Income	Ordinary Income
¥338.9 billion	¥108.2 billion	¥123.0 billion
Profit Attributable to Owners of Parent		Return on Equity (ROE)
¥83.9 billion		16.3%

Net sales were ¥338.9 billion (a 9.3 percent increase year on year.) The main contributor to sales was domestic prescription drug sales, which were ¥158.0 billion. The transfer of rights to long-listed drugs was a factor that reduced sales, but sales of strategic products were firm. Exports and overseas subsidiary sales were ¥29.2 billion (a 1.7 percent decrease), but royalty income of ¥115.7 billion (a 13.6 percent increase) contributed to sales growth.

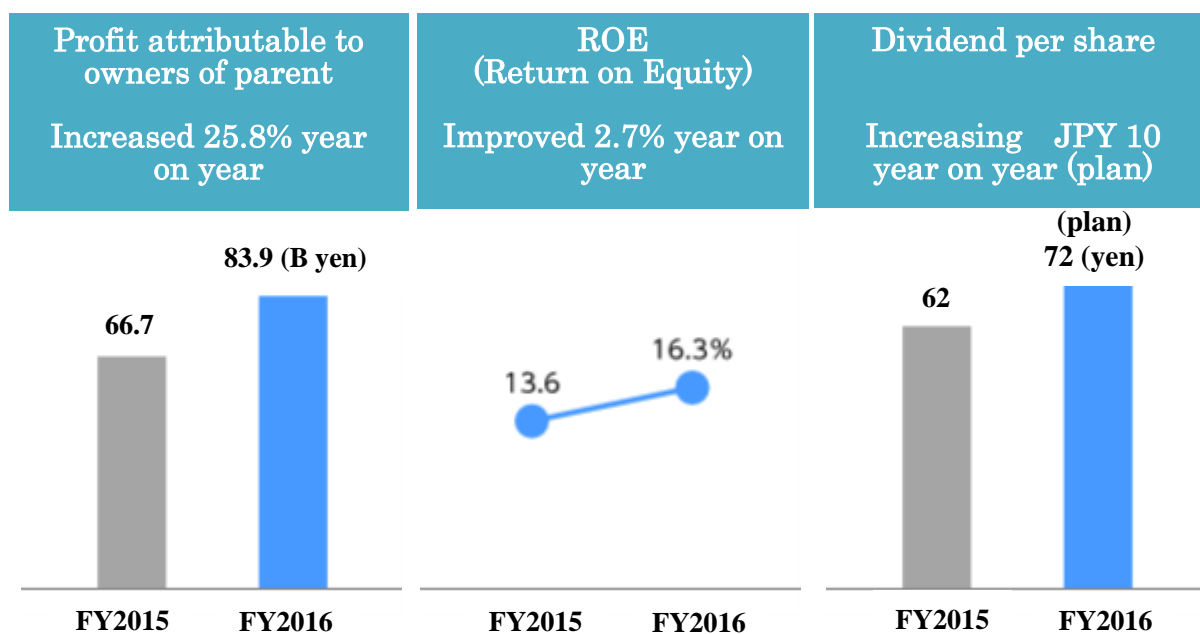
Operating income increased 18.3 percent to ¥108.2 billion, setting a new record for the second consecutive year.

Ordinary income was ¥123.0 billion (a 22.0 percent increase), setting a new record for the fifth consecutive year.



Profit attributable to owners of parent increased 25.8 percent to a record ¥83.9 billion, reflecting the increase in operating income.

As a result, return on equity (ROE), a measure that indicates how effectively the Group generated profit from the funds entrusted by shareholders, was 16.3 percent.



## ① Royalty Income and Dividend Income from ViiV

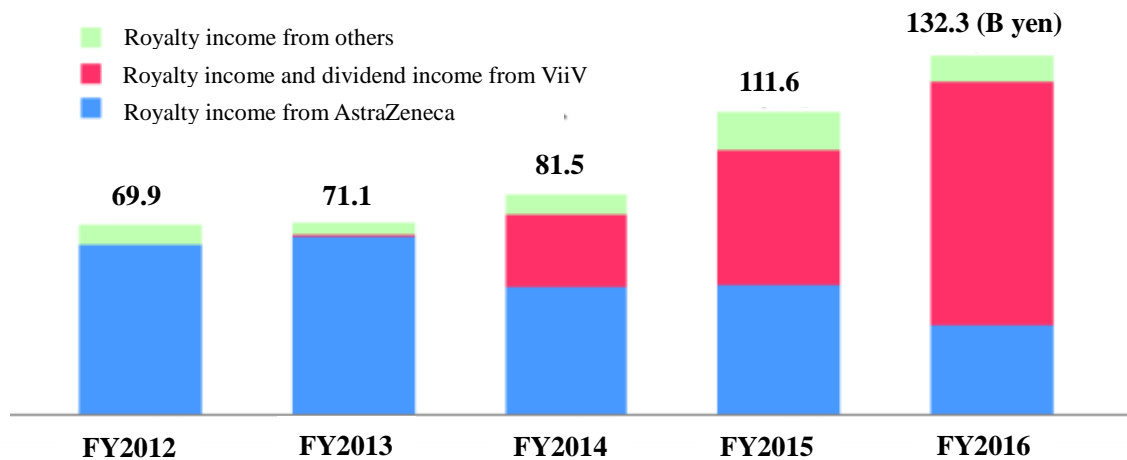
- Royalties for Tivicay® and Triumeq® increased ¥32.8 billion year on year
- Dividends from ViiV increased

Global sales of anti-HIV drug Tivicay® and combination drug Triumeq®, which Shionogi out-licensed to UK-based ViiV Healthcare Ltd., exceeded 2.6 billion pounds (approximately ¥360.0 billion), and dividend income from ViiV increased 81.1 percent to ¥73.3 billion.

In addition to the increase in the regular annual dividend from ViiV based on strong business, dividend income grew from the previous fiscal year because there was also an interim dividend.

Royalties for Crestor® from AstraZeneca decreased 30.6 percent to ¥33.0 billion, but the increase in royalties and dividends from ViiV exceeded the decrease in Crestor® royalties.

### ■ Royalty income and dividend income from ViiV



## ② Domestic Business/Overseas Business

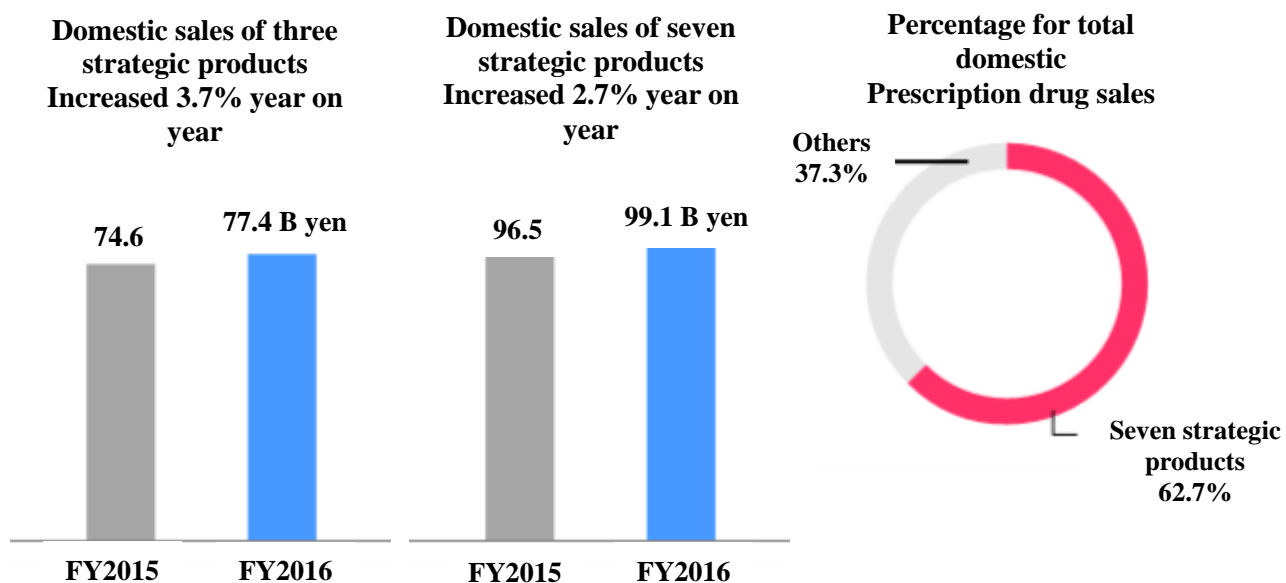
- Sales of the seven strategic products increased ¥2.6 billion year on year.
- Launched Crestor® OD Tablet and added new indication of pain to Cymbalta®
- Transferred rights for 24 long-listed products
- Entered into strategic business alliances for Symproic® and Osphena® in the U.S.

Domestic sales of prescription drugs were ¥158.0 billion, reflecting the effect of drug price reductions, but sales of strategic products continued to increase from the previous fiscal year, and sales of the seven strategic products totaled ¥99.1 billion (a 2.7 percent increase).

As a result, the seven strategic products accounted for 62.7 percent of Shionogi's domestic prescription drug sales (a 3.2 percent increase) and the transfer of rights to 24 long-listed products further clarified our shift to a business that is centered on new drugs and is not dependent on long-listed products.

In overseas business, Shionogi entered into strategic business alliances with Purdue Pharma L.P., a leader in the U.S. market for treatment of chronic pain, for Symproic® (a treatment for opioid-induced constipation) and with Duchesnay Inc., a specialty pharmaceutical company with a long-standing commitment to women's health, for Osphena® (a treatment for postmenopausal vulvar and vaginal atrophy). Shionogi will make full use of these alliances to conduct efficient management with its own, more limited, operating resources.

Furthermore, we will aim for highly productive business through sales of products specifically for the hospital market, including an injectable antibiotic discovered by Shionogi and a treatment for thrombocytopenia associated with chronic liver disease.



### ③ Research and Development

#### •Results of Discovery Research and CMC Research

In fiscal 2016, we advanced our discovery research program, undertaking full-fledged peptide discovery while focusing on small-molecule discovery research for the creation of FIC and LIC compounds.

As a result, we created multiple development candidates and development projects in core therapeutic areas (infectious disease and pain/CNS) and frontier therapeutic areas (obesity/geriatric metabolic disease, and oncology/immunology).

We also vigorously worked on discovery research using open innovation. Through joint research with other domestic and overseas companies and academia, we enhanced our drug discovery program and built up research assets that will become competitive strengths.

In CMC research, we established new CMC technologies, including technology for synthesis of poorly soluble peptides, technology for designing formulations with low API content, basic technology for inhalation DDS, and high-sensitivity analytical techniques that meet global standards.

Furthermore, to meet the need of society for innovative drug development that takes health economics into account, the Shionogi Group will carry out efforts to deliver products with high added value to patients economically.

#### Creation of Development Candidates

- ① Novel analgesic agent for neuropathic pain
- ② Novel anti-obesity drug
- ③ Novel botulinum toxin candidate (in-licensed from Tokushima University)

#### Creation of Development Projects

S-600918 (Analgesic agent for neuropathic pain)

GSK3342830 discovered in collaboration with GlaxoSmithKline of the UK entered a phase I clinical study

Cardiovascular program licensed to MedImmune of the U.S. entered a phase I clinical study

Licensed out drug discovery program in diabetes area to a global pharma

Commenced drug discovery programs utilizing peptide drug discovery platform technologies

## Results of Development

In fiscal 2016, in the first full-fledged global phase III clinical trial conducted by the Shionogi Group on its own, we worked to enhance clinical trial cost management and global clinical trial operations.

As a result, approval was obtained in Japan and the United States, and an application was filed in Europe, for naldemedine, a product from Shionogi research.

For cefiderocol, a drug candidate for the treatment of multidrug-resistant gram-negative bacterial infection, a global phase II clinical trial for complicated urinary tract infection was completed, and a global phase III clinical trial for hospital-acquired pneumonia/ventilator-associated pneumonia is in progress.

Phase III clinical studies of S-033188, a drug candidate with a novel mechanism of action for the treatment of influenza virus infection, are under way in Japan and overseas.

Cymbalta<sup>®</sup> was approved in Japan in December 2016 for the additional indication of pain associated with osteoarthritis.

For oxycodone abuse-deterrent tablets for treatment of persistent pain, Shionogi filed an application for manufacturing and marketing approval in Japan, and also filed for approval of the additional indication of moderate to severe chronic pain in response to a development request from an evaluation committee of the Ministry of Health, Labour and Welfare.

In March 2017, Shionogi obtained approval in Japan for INTUNIV<sup>®</sup>, a treatment for pediatric attention deficit/hyperactivity disorder (ADHD), which Shionogi had been co-developing with Shire plc of Ireland.

For Actair<sup>®</sup> house dust mite sublingual tablets, Shionogi filed for approval in Japan for use in children 5 to 11 years old, in addition to adults.

Naldemedine Opioid-induced constipation	Approval obtained (Japan, United States), application filed (Europe)
Cefiderocol Multidrug-resistant gram-negative bacterial infections	<ul style="list-style-type: none"> <li>• Completed global phase II clinical trial for multidrug-resistant urinary tract infections</li> <li>• Global phase III clinical trial under way for hospital-acquired pneumonia / ventilator-associated pneumonia</li> </ul>
S-033188 Influenza virus infection	Global phase III clinical trial under way
Cymbalta <sup>®</sup>	Approval obtained for additional indication of pain associated with osteoarthritis (Japan)
Oxycodone abuse-deterrent tablets	Application filed (Japan)
INTUNIV <sup>®</sup> ADHD (pediatric)	Approval obtained (Japan)
Actair <sup>®</sup> dust mite sublingual tablets	Application filed for additional use in children (Japan)

Pipeline (as of March 2017)

Non-clinical	Phase I	Phase II	Phase III	NDA Submission
	<b>Global</b>	<b>Cefiderocol</b> Multidrug-resistant Gram-negative bacterial infections <b>S-120083</b> Inflammatory pain <b>S-707106</b> Type2 diabetes <b>S-488210</b> Head and neck squamous cell carcinoma <b>S-222611</b> Malignant tumor <b>S-588410</b> Bladder cancer	<b>S-033188</b> Influenza virus infection <b>Cefiderocol</b> Multidrug-resistant Gram-negative bacterial infections <b>Lusutrombopag</b> Thrombocytopenia	<b>Naldemedine (EU)</b> Opioid-induced constipation
<b>Antibody drug candidate against pseudomonas</b> <b>Central neuropathic pain</b> <b>Obesity</b> <b>LCM inhalation</b>	<b>S-117957</b> Insomnia <b>S-237648</b> Obesity			
	<b>In Japan</b>	<b>Cefiderocol</b> Multidrug-resistant Gram-negative bacterial infections <b>S-237648</b> Obesity <b>S-525606</b> Allergic rhinitis caused by Japanese cedar allergen <b>S-588410</b> Bladder cancer	<b>S-033188</b> Influenza virus infection <b>S-033188</b> Influenza virus infection (pediatric) <b>Cefiderocol</b> Multidrug-resistant Gram-negative bacterial infections <b>Guanfacine</b> ADHD (adult) <b>S-588410</b> Esophageal cancer	<b>Oxycodone</b> Moderate to severe chronic pain <b>Oxycodone</b> Tamper resistant formulation <b>Lisdexamfetamine</b> ADHD (pediatric) <b>Actair®</b> Pediatric patients with perennial allergic rhinitis
<b>Out-licensed</b> <b>Janssen/Shionogi Project compound</b> Alzheimer's disease	<b>GSK3342830</b> Multidrug-resistant Gram-negative bacterial infections		<b>DTG+RPV</b> Treatment for HIV infection <b>DTG+3TC</b> Treatment for HIV infection <b>CAB LAP</b> Prevention for HIV infection <b>CAB + RPV LAP</b> Treatment for HIV infection <b>Janssen/Shionogi BACE inhibitor</b> Alzheimer's disease <b>Osphena®</b> Vaginal dryness associated with postmenopausal VVA	<b>Infectious diseases</b> <b>Pain/CNS</b> <b>Metabolic disorder</b> <b>Frontier</b>

(2) 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

(3) Capital Investment

The Shionogi Group's capital investment for the fiscal year ended March 31, 2017 totaled ¥9.7 billion. The Group's primary investments were construction of the CMC Development Laboratories Tokushima Site and a manufacturing facility at the Kanegasaki Plant.

(4) Fund-raising

The Shionogi Group conducted no fund-raising of note during the fiscal year ended March 31, 2017.

(5) Fundamental policy on the appropriation of retained earnings

The Shionogi Group's fundamental policy is to steadily increase dividends in line with growth, using dividends on equity (DOE) as the benchmark. In the update of SGS2020 in October 2016, we raised the target for DOE for fiscal 2016 to 4.0 percent or more from the previous target of 3.5 percent or more.

【Social Contribution Activities】 Partnership with Osaka Prefectural Government to Support Our Children's Future



Shionogi's vision is to "grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare." In line with this vision, we are aiming to contribute to the creation of a society by providing patients with attention deficit/hyperactivity disorder (ADHD) and other diseases with life-improving support.

In support of that goal, in July 2016 Shionogi established the Preparatory Office for Children's Bright Future, later renamed the Office for Children's Bright Future.

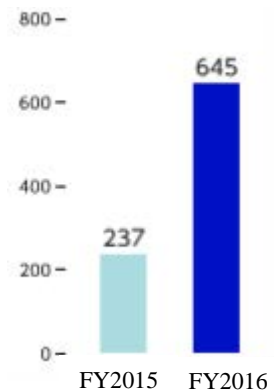
In January 2017, we concluded a business collaboration partnership with the Osaka Prefectural Government to promote programs that will support the future of children in Osaka Prefecture.



【Social Contribution Activities】 Mother to Mother SHIONOGI Project Clinic Opened



Number of expectant mothers receiving health exams



The “Mother to Mother SHIONOGI Project,” is an initiative started in October 2015 to support the health of children and expectant mothers in Kenya by contributing a portion of sales proceeds from the Popon® S series of multivitamins, along with donations from employees, in cooperation with the international NGO World Vision Japan.

In November 2016, two years after the start of activities, a clinic built in the area supported by the project was completed. The number of expectant mothers receiving health exams increased by 2.7 times to 645, up from 237 in 2015.

Continued improvement in the infant mortality rate is expected as a result of the rising percentage of women receiving prenatal care in the area and safer conditions for childbirth established through the project.



## (6) Challenges Ahead

### ① Medium-to-Long-Term Challenges and Actions

#### ▪ Changes in the Environment of the Pharmaceutical Industry

The operating environment of the pharmaceutical industry has been changing rapidly in recent years. The changes in the environment can largely be grouped into the four changes below.

##### ① Patients' active participation in healthcare

Expansion and segmentation of medical needs; increased expectations for efficacy, safety and economic efficiency of new drugs; growing expectation for longer healthy life expectancy; increasing trend toward self-medication

##### ② Trends in global pharmaceutical market

Financial pressure on health insurance and pursuit of cost-effectiveness in developed countries; rapidly increasing healthcare needs and greater voice commensurate with economic growth in emerging countries

##### ③ Changes in R&D environment

Application of innovative technologies such as iPS to regenerative medicine and drug discovery; efforts to address unmet medical needs with drug discovery; rising tide of drug-resistant bacteria and viruses

##### ④ Transformation of healthcare business

Increase in healthcare data and establishment of structures supporting utilization of that data; increasingly borderless healthcare business due to new entrants from other industries

Responding flexibly to these changes is becoming increasingly necessary.

#### ▪ Remaining Key Tasks

The Shionogi Group currently recognizes the following as key tasks in domestic business, global business and productivity.

##### 【Domestic business】

Expand sales of new products, particularly Cymbalta<sup>®</sup>, Mulpleta<sup>®</sup> and Actair<sup>®</sup> sublingual tablets

##### 【Global business】

Contribute to sales and profits globally, including the U.S., the largest market, and China, a growth market

##### 【Productivity】

Improve operating margin per employee, excluding royalties

In fiscal 2017, we will undertake efforts to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare,” which we defined as our growth strategy in the update of SGS2020 based on results in fiscal 2016 and the actions and environmental changes described above.

## «Growth Strategy for 2020

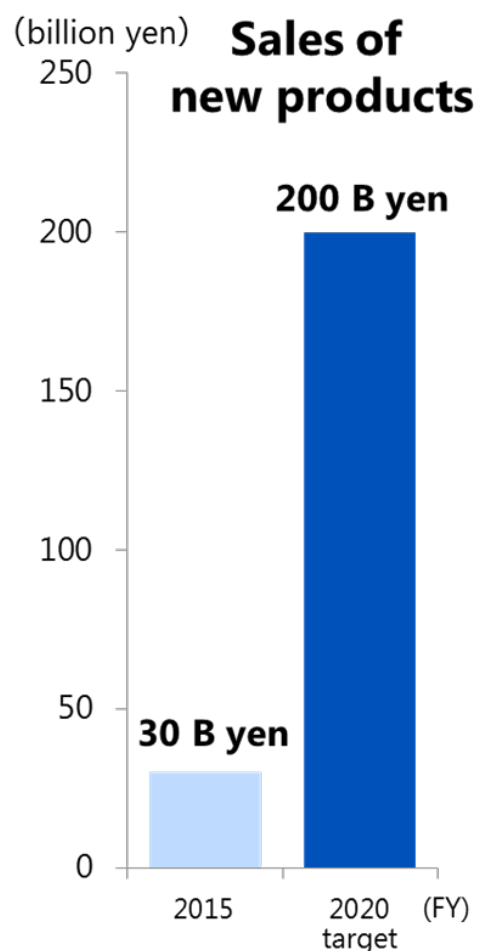
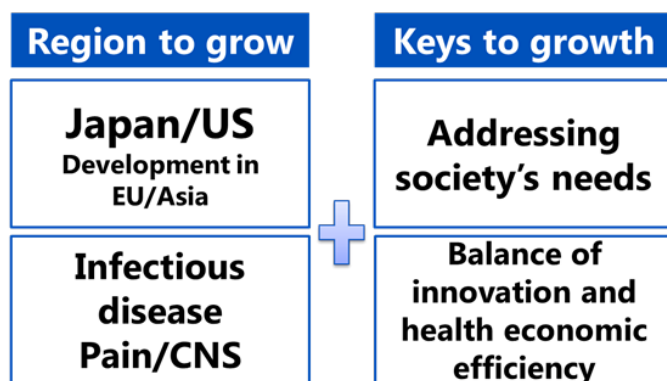
In October 2016, we updated the Medium-Term Management Plan SGS2020. The purpose of the update was to resolve remaining issues while responding flexibly to changes in the operating environment, and to fulfill the main objective of our Company Policy, which is “to supply the best possible medicine to protect the health and wellbeing of the patients we serve.”

We set new targets in the three frameworks of “growth,” “efficiency” and “shareholder returns.” In our growth targets, we newly defined “new products.” We will aim to quickly maximize product value and offer new value to society by concentrating resources on new products in our core therapeutic areas of infectious diseases and pain/CNS.

As a result, our quantitative growth targets for fiscal 2020 are net sales of ¥200 billion and ordinary income of ¥150 billion.

# Update of SGS2020

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



<b>Growth</b>	<ul style="list-style-type: none"> <li>• Sales of new products: 200 B yen</li> <li>• Ordinary income: 150 B yen</li> </ul>
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>• ROIC: Over 13.5%</li> <li>• CCC: 5.5 months</li> <li>• Original pipeline ratio: Over 50%</li> </ul>
<b>Shareholder return</b>	<ul style="list-style-type: none"> <li>• ROE: Over 15.0%</li> <li>• DOE: Over 4.0%</li> </ul>

## • Social Challenges That Shionogi Strives to Address

Our goals for efficiency are to increase efficiency in operations through improved accounting systems and increased ability to generate cash flow, and to pursue effective and efficient development of original drugs. As a result, our quantitative targets are return on invested capital (ROIC) of 13.5 percent or higher, a cash conversion cycle (CCC) of 5.5 months, and a pipeline ratio of 50 percent or higher.

In shareholder return targets, we will continue to set targets for ROE and DOE, and will seek to maximize corporate value by balancing returns to shareholders with investment in strategic opportunities and investment for future growth.

We have positioned infectious diseases and pain/CNS as our core therapeutic areas. In the infectious diseases area, we will focus on protecting people from the threat of infectious diseases, and in the pain/CNS area, we seek to contribute to creating a more vigorous society.

### Infectious Diseases

To protect people from the threat of infectious diseases, we will have to develop new drugs against infectious diseases that lack effective medical treatments and reduce outbreaks of bacterial and viral resistance by promoting the proper use of anti-infective drugs.

To address these needs, the Shionogi Group will advance the development of cefiderocol for the treatment of multidrug-resistant gram-negative bacterial infections, expand its HIV franchise, which includes Tivicay<sup>®</sup> and Triumeq<sup>®</sup>, and launch anti-influenza drug candidate S-033188 as soon as possible.

### Pain/CNS

To contribute to creating a more vigorous society, we will help people who are isolated due to pain and suffering to re-enter society, provide relief from uncertainty allowing fulfillment of one's innate ability, and help to maintain the dignity of the individual through all the stages of life.

We will help to alleviate patients' pain by expanding the indication of Cymbalta<sup>®</sup> to pain and help patients and society to manage the negative aspects of opioids with naldemedine and oxycodone abuse-deterrent tablets.

In the CNS area, we will contribute to a more vigorous society with treatments for ADHD, including INTUNIV<sup>®</sup>.

<b>Infectious diseases</b>	<ul style="list-style-type: none"><li>• S-033188</li><li>• Cefiderocol</li><li>• Rapiacta<sup>®</sup>, flu diagnosis kit</li></ul>
<b>Pain/CNS</b>	<ul style="list-style-type: none"><li>• Cymbalta<sup>®</sup></li><li>• Oxycodone tamper resistant formulation, OxiNorm<sup>®</sup>, OxiFast<sup>®</sup></li><li>• Naldemedine</li><li>• Guanfacine, lisdexamfetamine</li></ul>
<b>Others</b>	<ul style="list-style-type: none"><li>• Pirespa<sup>®</sup></li><li>• Mulpleta<sup>®</sup></li><li>• Actair<sup>®</sup></li><li>• Glashvista<sup>®</sup></li><li>• Osphena<sup>®</sup> (Senshio<sup>®</sup>)</li></ul>

▪ **Balancing Innovation and Health Economics**

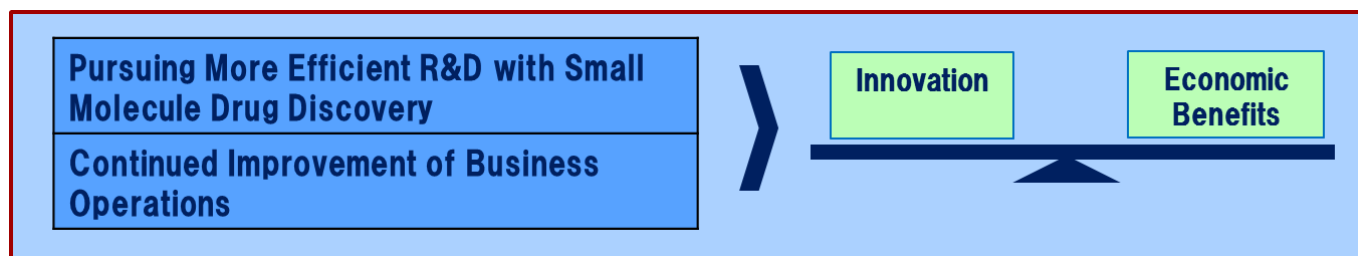
We believe it is important to balance innovation with health economics in order to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare.” To that end, pursuing more efficient R&D with small molecule drug discovery and continuous improvement of business operations are both necessary.

We contribute to efficiency throughout the healthcare value chain by leveraging our capabilities in small molecule drug discovery, creating original drugs while cooperating with outside partners to drive continuous innovation from synergy with our drug discovery capabilities.

We then optimize drug development and design of the resulting development candidates to enable effective and efficient launches and post-marketing product development and maximize product value.

In addition, by continuously improving business operations in terms of manufacturing, procurement, logistics, inventory management, quality, pharmaceutical affairs and safety, we will continue to provide stable supplies of innovative, high-quality products in a cost-competitive manner.

We will improve business operations throughout the Shionogi Group, including the six newly established domestic group companies. At the same time, we will implement workplace reforms, promote diversity and respond to demands from society (extension of employment, equal pay for equal work) in order to raise productivity. In this way, we will seek to balance innovation and health economics.



▪ **Launching a Steady Stream of New Products**

In Japan, we are planning a succession of new product launches and additional indications that will support future growth, including Symproic® for the treatment of opioid-induced constipation, INTUNIV® for ADHD, oxycodone abuse-deterrent tablets for the additional indication of chronic pain, and Actair® sublingual tablets for use in pediatric patients in addition to adults. We will concentrate resources on these products as we work to generate sales of ¥200 billion from new products in SGS2020.

In global business operations, we will make the most of strategic business alliances with partners in the United States so that we can quickly maximize the value of Symproic® and Ospheña® with our own more limited resources.

In addition, we will prepare to shift to highly productive business operations with products specifically for the hospital market, such as cefiderocol and lusutrombopag.

Target Milestones for Launch of New Products

FY2017	FY2018	FY2019
<b>Japanese business</b>		
<b>Symproic®</b> <b>Intuniv®</b> ADHD (pediatric) <b>Oxycodone</b> Tamper resistant formulation Moderate to severe chronic pain <b>Actair®</b> Pediatric patients with perennial allergic rhinitis	<b>S-033188</b> <b>Lisdexamfetamine</b>	<b>Guanfacine</b> ADHD (adult)
<b>Overseas business</b>		
<b>Symproic®(US)</b>	<b>Cefiderocol</b> <b>Ospheña®</b> Vaginal dryness associated with postmenopausal VVA <b>Lusutrombopag</b> <b>Naldemedine (EU)</b>	

▪ **Development of Human Resources to Support Sustainable Growth**

We believe that our people are a vital foundation for maintaining our sustainable growth as a company. Therefore, we will make efforts to groom new leaders through the use of various human resource development programs for all levels, from younger employees to mid-level employees and executives.



## ② Challenges Ahead in Fiscal 2017

In fiscal 2017, we expect a decrease in domestic prescription drug sales reflecting the transfer of rights to long-listed products in the previous year, the presumed entry of generic versions of core domestic products near the end of fiscal 2017, a decrease in Crestor royalties due to changes to the agreement in fiscal 2013, and an increase in marketing expenses with the launch of multiple new products.

As we aim to achieve the goals of SGS2020, we have positioned fiscal 2017 as the year we start to make rapid strides toward global competitiveness as a company.

In domestic business, we will concentrate resources on new products including Cymbalta<sup>®</sup>, Symproic<sup>®</sup>, a treatment for opioid-induced constipation, INTUNIB<sup>®</sup>, a treatment for ADHD, oxycodone abuse-deterrent tablets, and Actair<sup>®</sup> dust mite sublingual tablets.

In global business, we will maximize the value of Symproic<sup>®</sup> and Osphena<sup>®</sup> through strategic business alliances with Purdue and Duchesnay, and will efficiently manage our own business resources, which are fewer.

Furthermore, we will make preparations for highly productive business operations with the planned launches of cefiderocol and lusutrombopag specifically in the hospital market, while building a highly efficient business base.

Through the evolution of sustainable business operations in both our domestic and global business, we will aim to raise productivity and raise the operating margin per employee, excluding royalties, and will continue to take measures in fiscal 2017 so that shareholders feel they have a stake in Shionogi's growth.



## 2. Stock Data

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

2) Number of shares issued: 329,136,165 (including 10,347,876 shares of treasury stock)

Note: The number of shares decreased by 22,000,000 shares compared to the end of the previous year due to the cancellation of treasury stock on January 10, 2017.

3) Number of shareholders: 28,273

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)	30,279	9.49%
Japan Trustee Services Bank, Ltd. (as a trustee)	20,646	6.47%
Sumitomo Life Insurance Company	18,604	5.83%
JP MORGAN CHASE BANK 385147	14,932	4.68%
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	2.97%
Nippon Life Insurance Company	8,409	2.63%
Japan Trustee Services Bank, Ltd. (as a trustee <sup>5</sup> )	4,880	1.53%
STATE STREET BANK WEST CLIENT - TREATY 505234	4,774	1.49%
Sumitomo Mitsui Banking Corporation	4,595	1.44%
Japan Trustee Services Bank, Ltd. (as a trustee <sup>9</sup> )	4,320	1.35%

Notes:

1. The Company owns 10,347,876 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 318,788,289 shares of total issued stock (excluding 10,347,876 shares of treasury stock).

## 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	Teppei Mogi	Partner of Oh-Ebashi LPC & Partners Outside Director (audit & Supervisory Committee member) of NIITAKA Co., Ltd. Outside Director (audit & Supervisory Committee member) of KURABO INDUSTRIES LTD.
Director	Keiichi Ando	Representative Director and President and of GINSEN CO., LTD.
Standing Corporate Auditor	Akira Okamoto	
Standing Corporate Auditor	Ikuo Kato	
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:

- Directors Akio Nomura, Teppei Mogi and Keiichi Ando are Outside Directors stipulated in Section 15, Article 2 of the Companies Act.
- Auditors Shinichi Yokoyama, Kenji Fukuda and Koichi Tsukihara are Outside Corporate Auditors stipulated in Section 16, Article 2 of the Companies Act.
- Directors Akio Nomura, Teppei Mogi and Keiichi Ando have each submitted notification as independent directors as stipulated by Tokyo Stock Exchange Group, Inc.
- Auditors Shinichi Yokoyama, Kenji Fukuda and Koichi Tsukihara have each submitted notification as independent auditors as stipulated by Tokyo Stock Exchange Group, Inc.
- 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.
- Directors and Corporate Auditors who retired during the Period  
Director: Katsuhiko Machida (retired June 23, 2016)  
Standing Corporate Auditor: Mitsuaki Ohtani (retired June 23, 2016)

## (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.

### Future Policy

Recently, based on revisions to the tax system, stock-based remuneration programs using different mechanisms such as trust-based stock remuneration and restricted stock have been introduced at some other companies. Shionogi is also considering its approach to stock-based remuneration, including the current stock option plan. We are emphasizing stock-based remuneration plans as a remuneration system to contribute to improvement of shareholder value. We intend to change to a stock-based remuneration plan suited to Shionogi at an early date, including improvement of the existing plan in which stock price increases and the number of shares granted are inversely proportional because the number of shares granted are calculated backward from the amount granted.

As a result of our measures to date, the performance-linked portion of directors' remuneration has increased as a share of total remuneration. The ratio of base remuneration to bonuses and stock options, which was 0.75 : 0.25 in fiscal 2013, was 0.6 : 0.4 in fiscal 2015. Going forward, we aim to reduce the proportion of base remuneration to 0.5 or lower.

(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)	7 (4)	234 (41)	104 (-)	44 (-)	383 (41)	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)	99 (41)	- (-)	- (-)	99 (41)	
Total	13	333	104	44	482	

#### Notes:

1. Includes the amount of remuneration paid to one director and one corporate auditor who retired as of the close of the 151<sup>st</sup> Annual General Meeting of Shareholders held on June 23, 2016.
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 Attendance at Board of Directors meetings 12/12 (100%)	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.
Director	Teppei Mogi Attendance at Board of Directors meetings 12/12 (100%)	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.
Director	Keiichi Ando Attendance at Board of Directors meetings 10/10 (100%)	At meetings of the Board of Directors, Mr. Ando made statements on the execution of duties by the directors from the perspective of his long and successful career, placing importance on the objectivity and impartiality of management.
Corporate Auditor	Shinichi Yokoyama Attendance at Board of Directors meetings 12/12 (100%) Attendance at Board of Corporate Auditors meetings 8/8 (100%)	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.
Corporate Auditor	Kenji Fukuda Attendance at Board of Directors meetings 12/12 (100%) Attendance at Board of Corporate Auditors meetings 8/8 (100%)	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.
Corporate Auditor	Koichi Tsukihara Attendance at Board of Directors meetings 12/12 (100%) Attendance at Board of Corporate Auditors meetings 8/8 (100%)	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.

Note: Director Keiichi Ando's attendance at Board of Directors meetings is his attendance after being appointed on June 23, 2016.

## **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 NITAKA Co., Ltd., and KURABO INDUSTRIES LTD. where Teppei Mogi serves as an outside director (audit & supervisory committee member).

The Company pays insurance premiums in connection with the non-life insurance agency business to GINSEN CO., LTD., where Mr. Keiichi Ando is representative director and president, but the transaction amounts are considered insignificant as they are less than 1% of that company's net sales.

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.

## 4. 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<sup>®</sup> (brand name in Japan: Finibax<sup>®</sup>). 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.

The Company filed a patent infringement action in April 2013 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 sought to make the effective date of FDA approval of the above generic drug ANDA no earlier than the expiration date of the patent. The action against Aurobindo Pharma Ltd. ended in February 2016 and the action against Apotex Inc. ended in April 2016 when settlements were reached. The action against Hospira Inc. ended in July 2016 when the Company withdrew its claim.

- The Company has the following patent disputes based on the patent for an HIV integrase inhibitor owned by the Company with MSD Sharp & Dohme GmbH and its European affiliates, which sell Isentress<sup>®</sup> in Germany, and MSD K.K., which sells Isentress<sup>®</sup> in Japan (collectively, “MSD”).

Regarding the European patent, the Opposition Division of the European Patent Office issued a decision to maintain the patent on March 13, 2015, but MSD appealed that decision on June 10, 2015.

In Germany, the Company filed a patent infringement action on August 17, 2015 for the German patent against MSD, which sells Isentress<sup>®</sup> in Germany. On January 5, 2016, MSD filed a compulsory licensing action for the German patent, and on June 7, 2016, MSD requested a preliminary injunction for the compulsory licensing action. The preliminary injunction was approved on August 31, 2016. In the patent infringement action, on October 6, 2016, a decision was issued to discontinue the examination until the decision of the European Patent Office Opposition Division. On October 24, 2016, the Company filed a complaint against the decision to discontinue the examination. On January 26, 2017, the Company filed a complaint against the decision to approve the preliminary injunction for the compulsory licensing action.

In the United Kingdom, MSD filed a patent invalidation action on the UK patent on August 24, 2015. On May 23, 2016, the Company filed a counterclaim to the patent infringement action based on the UK patent against MSD, which sells Isentress<sup>®</sup> in the UK. On November 25, 2016, although the High Court of England and Wales recognized patent infringement on both claims, it handed down an initial decision with patent invalidation. The Company appealed this decision to the UK Court of Appeals on January 4, 2017.

In the Netherlands, MSD filed a patent invalidation action on the Netherlands patent on October 8, 2015. The Company filed a patent infringement counterclaim on July 6, 2016 based on the Netherlands patent against MSD, which sells Isentress<sup>®</sup> in the Netherlands.

In Japan, the Company filed a patent infringement action on August 17, 2015. On December 17, 2015, MSD requested a trial for patent invalidation of the Japanese patent.

- On September 12, 2014, the Company received a tax reassessment notification and a notification of assessment and determination of additional tax for the year ended March 31, 2013 from the Osaka Regional Taxation Bureau. The Company filed a written opposition with the Osaka Regional Taxation Bureau on November 10, 2014, since the Company could not accept the reassessment and resulting additional taxation; however, the Osaka Regional Taxation Bureau dismissed the Company’s opposition. Therefore, the Company filed a further request for reconsideration of the assessment with the Osaka Regional Tax Tribunal on March 9, 2015. However, on March 7, 2016, the Company received a written decision from the Osaka Regional Tax Tribunal that it had dismissed the Company’s request. The Company filed a complaint with the Tokyo District Court on September 2, 2016 for the rescission of the tax reassessment.

## Consolidated Balance Sheets

(As of March 31, 2017)

(Millions of yen)

Accounts	FY2016	(Reference) FY2015	Accounts	FY2016	(Reference) FY2015
<b>Assets</b>	<b>670,271</b>	<b>639,638</b>	<b>Liabilities</b>	<b>144,059</b>	<b>125,761</b>
<b>Current Assets</b>	<b>343,384</b>	<b>315,611</b>	<b>Current Liabilities</b>	<b>90,595</b>	<b>71,982</b>
Cash and deposits	107,847	80,230	Notes and accounts payable-trade	11,943	11,050
Notes and accounts receivable-trade	59,336	65,207	Income taxes payable	28,746	20,294
Short-term investment securities	98,800	97,200	Provision	10,859	12,621
Merchandise and finished goods	19,152	21,263	Provision for bonuses	9,182	10,118
Work in process	8,294	8,839	Provision for sales returns	1,565	2,414
Raw materials and supplies	13,940	12,080	Other provisions	110	88
Deferred tax assets	11,347	13,301	Other	39,046	28,016
Other	24,700	17,532	<b>Non-current liabilities</b>	<b>53,464</b>	<b>53,778</b>
Allowance for doubtful accounts	(34)	(45)	Bonds payable	20,054	20,074
<b>Non-current assets</b>	<b>326,886</b>	<b>324,027</b>	Long-term loans payable	10,000	10,000
<b>Property, plant and equipment</b>	<b>78,788</b>	<b>78,673</b>	Deferred tax liability	9,372	12,856
Buildings and structures, net	50,302	46,985	Net defined benefit liability	9,581	9,447
Machinery, equipment and vehicles, net	11,717	9,933	Other	4,456	1,400
Land	8,410	8,408	<b>Net assets</b>	<b>526,211</b>	<b>513,877</b>
Construction in progress	2,873	7,871	<b>Shareholders' equity</b>	<b>522,445</b>	<b>495,693</b>
Other, net	5,484	5,474	Capital stock	21,279	21,279
<b>Intangible assets</b>	<b>91,125</b>	<b>71,626</b>	Capital surplus	20,227	20,227
Goodwill	37,630	41,208	Retained earnings	508,049	503,946
Sales rights	49,969	26,282	Treasury stock	(27,110)	(49,759)
Other	3,525	4,135	<b>Accumulated other comprehensive income</b>	<b>(125)</b>	<b>13,745</b>
<b>Investments and other assets</b>	<b>156,972</b>	<b>173,727</b>	Valuation difference on available-for-sale securities	25,041	26,748
Investment securities	135,970	146,451	Deferred gains or losses on hedges	122	—
Net defined benefit asset	18,407	19,663	Foreign currency translation adjustment	(20,026)	(7,333)
Other	2,637	2,491	Remeasurements of defined benefit plans	(5,262)	(5,669)
Allowance for doubtful accounts	(42)	(44)	<b>Subscription rights to shares</b>	<b>416</b>	<b>352</b>
<b>Total assets</b>	<b>670,271</b>	<b>639,638</b>	<b>Non-controlling interests</b>	<b>3,474</b>	<b>4,085</b>
			<b>Total liabilities and net assets</b>	<b>670,271</b>	<b>639,638</b>

## Consolidated Statements of Income

(Year ended March 31, 2017)

(Millions of yen)

Accounts	FY2016	(Reference) FY2015
Net sales	338,890	309,973
Cost of sales	77,777	74,758
<b>Gross profit</b>	<b>261,113</b>	<b>235,214</b>
Selling, general and administrative expenses [R&D expenses]	152,934 [59,907]	143,808 [49,787]
<b>Operating income</b>	<b>108,178</b>	<b>91,406</b>
<b>Non-operating income</b>	<b>19,312</b>	<b>12,663</b>
Interest and dividends income	18,840	11,911
Other	472	752
<b>Non-operating expenses</b>	<b>4,459</b>	<b>3,200</b>
Interest expenses	220	207
Other	4,239	2,992
<b>Ordinary income</b>	<b>123,031</b>	<b>100,869</b>
<b>Extraordinary income</b>	<b>2,182</b>	<b>3,066</b>
Gain on sales of investment securities	2,182	3,066
<b>Extraordinary loss</b>	<b>2,517</b>	<b>6,483</b>
Business structure improvement expenses	2,158	—
Impairment loss	359	2,583
Settlement package	—	1,900
Special retirement expenses	—	1,295
Loss on valuation of investment securities	—	704
<b>Income before income taxes</b>	<b>122,695</b>	<b>97,452</b>
Income taxes-current	35,745	28,724
Income taxes-deferred	3,339	2,100
<b>Profit</b>	<b>83,610</b>	<b>66,628</b>
Profit(loss) attributable to non-controlling interests	[268]	[58]
<b>Profit attributable to owners of parent</b>	<b>83,879</b>	<b>66,687</b>



## Non-consolidated Balance Sheets

(As of March 31, 2017)

(Millions of yen)

Accounts	FY2016	(Reference) FY2015	Accounts	FY2016	(Reference) FY2015
<b>Assets</b>	570,731	597,753	<b>Liabilities</b>	119,159	112,586
<b>Current assets</b>	296,628	285,994	<b>Current liabilities</b>	68,317	57,744
Cash and deposits	38,304	30,208	Accounts payable-trade	10,070	10,057
Accounts receivable-trade	56,477	61,084	Accounts payable-other	20,459	12,167
Short-term investment securities	98,800	97,200	Accrued expenses	3,624	4,103
Merchandise and finished goods	14,399	17,586	Income taxes payable	22,322	19,320
Work in process	7,533	8,346	Deposits received	4,147	3,193
Raw materials and supplies	11,033	9,585	Provision for bonuses	7,019	8,411
Advance payments-trade	3,167	328	Provision for directors' bonuses	104	88
Deferred tax assets	11,181	7,987	Provision for sales returns	40	73
Short-term loans receivable	47,419	47,600	Other	529	329
Other	8,311	6,065	<b>Non-current liabilities</b>	50,841	54,841
<b>Non-current assets</b>	274,103	311,759	Bonds payable	20,054	20,074
<b>Property, plant and equipment</b>	70,710	69,923	Long-term loans payable	10,000	10,000
Buildings, net	41,480	39,898	Deferred tax liabilities	11,017	14,969
Structures, net	2,016	1,998	Provision for retirement benefits	8,920	8,818
Machinery and equipment, net	11,521	9,722	Other	849	979
Vehicles, net	25	40	<b>Net assets</b>	451,572	485,167
Tools, furniture and fixtures, net	4,374	4,268	<b>Shareholders' equity</b>	425,871	458,066
Land	8,410	8,408	<b>Capital stock</b>	21,279	21,279
Lease assets, net	397	533	<b>Capital surpluses</b>	16,392	20,227
Construction in progress	2,482	5,051	Legal capital surplus	16,392	20,227
<b>Intangible assets</b>	30,530	12,479	<b>Retained earnings</b>	415,309	466,319
Software	1,386	1,757	Legal retained earnings	5,388	5,388
Sales rights	28,935	10,331	Other retained earnings	409,921	460,931
Other	208	389	Reserve for special depreciation	—	2
<b>Investments and other assets</b>	172,862	229,357	Reserve for advanced depreciation of noncurrent assets	4,078	5,599
Investment securities	81,386	83,499	General reserve	368,645	368,645
Stocks of subsidiaries and affiliates	63,701	116,300	Retained earnings brought forward	37,197	86,684
Investments in capital of subsidiaries and associates	603	603	<b>Treasury stock</b>	(27,110)	(49,759)
Long-term prepaid expense	561	391	<b>Valuation and translation adjustments</b>	25,284	26,748
Prepaid pension cost	25,367	27,245	Valuation difference on available-for-sale securities	25,162	26,748
Other	1,283	1,359	Deferred gains or losses on hedges	122	—
Allowance for doubtful accounts	(42)	(43)	<b>Subscription rights to shares</b>	416	352
<b>Total assets</b>	570,731	597,753	<b>Total liabilities and net assets</b>	570,731	597,753

## Non-consolidated Statements of Income

(Year ended March 31, 2017)

(Millions of yen)

Accounts	FY2016	(Reference) FY2015
Net sales	305,256	283,428
Cost of sales	70,886	70,435
Gross profit, net	234,370	212,992
Selling, general and administrative expenses	125,857	110,780
[R&D expenses]	[57,817]	[48,111]
Operating income	108,513	102,212
Non-operating income	4,398	4,543
Interest and dividends income	2,799	2,941
Other	1,598	1,601
Non-operating expenses	4,797	3,112
Interest expenses	210	213
Other	4,586	2,899
Ordinary income	108,113	103,642
Extraordinary income	2,182	3,066
Gain on sales of investment securities	2,182	3,066
Extraordinary loss	53,332	3,105
Loss on valuation of stocks of subsidiaries and affiliates	52,973	202
Impairment loss	359	—
Settlement package	—	1,900
Special retirement expenses	—	1,003
Income before income taxes	56,962	103,603
Income taxes-current	35,013	28,158
Income taxes-deferred	(6,817)	469
Profit	28,767	74,975

**Accounting Auditor's Audit Report**

May 9, 2017

The Board of Directors  
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

Takashi Umehara  
Designated and Engagement Partner with  
limited liability (C.P.A.)

Yasuhiro Kozaki  
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, 2016 to March 31, 2017.

**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 9, 2017

The Board of Directors  
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

Takashi Umehara  
Designated and Engagement Partner with  
limited liability (C.P.A.)

Yasuhiro Kozaki  
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 152nd fiscal term from April 1, 2016 to March 31, 2017.

**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 152nd fiscal period from April 1, 2016 to March 31, 2017 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.

We received a report and requested an explanation concerning the implementation of the business improvement plan submitted 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.

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 9, 2017

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

Standing Corporate Auditor :Akira Okamoto

Standing Corporate Auditor :Ikuo Kato

Outside Corporate Auditor :Shinichi Yokoyama

Outside Corporate Auditor :Kenji Fukuda

Outside Corporate Auditor :Koichi Tsukihara