

To All Shareholders

June 5, 2018

## Notice of Convocation of the 153rd Annual General Meeting of Shareholders

The 153rd Annual General Meeting of Shareholders will be convened at the time and location listed below. On behalf of the directors of the Company, we cordially invite you to attend this shareholders' meeting. If you are unable to attend, you can exercise your voting rights with the proxy form on the back of this notice. If you wish to vote by using the proxy form, you are kindly requested to take the time to review the reference information provided below and exercise it by 5:00 p.m., Tuesday June 19, 2018.<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., Wednesday, June 20, 2018  
**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 153rd Fiscal Term (year ended March 31, 2018)
2. The Audit Report of the Consolidated Financial Statements for the 153rd Fiscal Term (year ended March 31, 2018) by the Accounting Auditor and the Board of Corporate Auditors

Items for resolution:

- Proposal No. 1: Appropriation of Surplus
- Proposal No. 2: Amendments to the Articles of Incorporation
- Proposal No. 3: Election of Six (6) Directors
- Proposal No. 4: Election of One (1) Corporate Auditor
- Proposal No. 5: Revision of Compensation for Granting of Restricted Stock to Directors (Excluding Outside Directors) and Revision of Amount of Compensation of Directors

### **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., Tuesday, June 19, 2018.
2. Exercise of voting rights by Internet  
You are kindly requested to exercise your voting rights by 5:00 p.m., Tuesday, June 19, 2018, 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.

|                                                                                            |                                                     |                                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1</p>  | <p>If attending the General Meeting</p>             | <p>Hand in your proxy form at the reception desk when you arrive<br/>(no signature or seal necessary)</p> <p>Date &amp; time of the General Meeting: 10:00 a.m., Wednesday, June 20, 2018</p> |
| <p>2</p>  | <p>If exercising your voting rights by mail</p>     | <p>Indicate your consent or refusal, then mail the form<br/>(please mail early)</p> <p>Voting deadline: Form must arrive by 5:00 p.m., Tuesday, June 19, 2018</p>                             |
| <p>3</p>  | <p>If exercising your voting rights by Internet</p> | <p>Please see the instructions below</p> <p>Voting deadline: 5:00 p.m., Tuesday, June 19, 2018</p>                                                                                            |

## Procedures on Exercise of Voting Rights through the Internet etc.

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

### 1. Notice to Voting Service Website

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

Voting Service Website Address <https://www.web54.net>



\*You can also read the QR Code® on the right and connect with the voting service website using a mobile phone with a bar code reading function. Please refer to the operating manual for your mobile phone to find out how.

(QR Code ® is a registered trademark of Denso Wave Incorporated)

### 2. Notice Regarding Handling of Voting Rights

- (1) To exercise your voting rights through the Internet, please register your approval or disapproval of each proposition by using “the voting rights exercise code” and “password” for the exercise of voting rights indicated in the Proxy Card enclosed herewith and following the directions on the screen.
- (2) Although it is acceptable to exercise voting rights through the Internet until 5:00 P.M.\*, Tuesday, June 19, 2018 please exercise your voting rights as early as possible to assist us with compiling the results of the voting.
- (3) If you exercise your voting rights both in writing and through the Internet, we will only accept the exercise of your voting rights through the Internet. If you exercise your voting rights more than once through the Internet etc. or in the personal Computer and mobile phone, we will only accept the last exercise of your voting rights as valid.
- (4) The internet access fee to providers and telecommunications carriers and other fees for the usage of the website for exercising voting rights shall be borne by the shareholder.


### 3. Using the Password and Voting Rights Exercise Code

- (1) Please protect your password because it is crucial for confirming your identity as a voting shareholder.
- (2) Your password becomes invalid if you fail to input it correctly within the set number of times. Follow the instructions on the screen if you need to have a new password issued.
- (3) The Voting Rights Exercise Code on the Proxy Card is only valid for the General Meeting of Shareholders on Wednesday, June 20, 2018.

### 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, 2018 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

¥44 per share of common stock

Total amount of dividends: ¥13,831,670,072

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

June 21, 2018

Including the interim dividend, cash dividends per share for the fiscal year ended March 31, 2018 totaled ¥82.00, an increase of ¥10.00 compared with the previous fiscal year.

## No. 2: Amendments to the Articles of Incorporation

### 1. Reasons for the Amendments:

- ① Necessary amendments will be made to the current Article 8 in order to clarify rights with respect to shares of less than one unit as stipulated in Article 189 of the Companies Act of Japan.
- ② Necessary amendments will be made to the current Article 17 and Article 27 in order to standardize expressions with respect to the number of directors and the number of corporate auditors.
- ③ Necessary amendments will be made to the current Article 20 regarding directors' performance of their duties to provide for greater flexibility in election of the Chairman of the Board of Directors.
- ④ Other necessary amendments will be made, including necessary insertions, deletions and changes of provisions and wording.

### 2. Details of the Amendments:

Details of the amendments are as follows.

(Amended portions are underlined.)

| Before amendment                                                                                                                                                                                                                                                                                                                             | After amendment                                                                                                                                                                                                                                                                                                                                                               |
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| <p>Article 1 (Trade Name)</p> <p>The name of the Company shall be Shionogi Seiyaku Kabushiki Kaisha,” and in English it shall be written as “Shionogi &amp; Co., Ltd.”</p>                                                                                                                                                                   | <p>Article 1 (Trade Name)</p> <p>The name of the Company shall be “Shionogi Seiyaku Kabushiki Kaisha,” and in English it shall be <u>expressed</u> as “Shionogi &amp; Co., Ltd.”</p>                                                                                                                                                                                          |
| <p>Article 4 (Organizations)</p> <p>The Company shall have a board of directors, corporate auditors, a board of corporate auditors and an independent auditor.</p>                                                                                                                                                                           | <p>Article 4 (Organizations)</p> <p><u>In addition to the general meeting of shareholders and directors,</u> the Company shall have a board of directors, corporate auditors, a board of corporate auditors and an independent auditor.</p>                                                                                                                                   |
| <p>Article 5 (Method of Public Notice)</p> <p>Public notices of the Company shall be given by electronic means. However, when an accident or other unavoidable circumstances occur that renders the Company unable to give an electronic public notice, public notices of the Company shall be given in the <i>Nihon Keizai Shimbun</i>.</p> | <p>Article 5 (Method of Public Notice)</p> <p>Public notices of the Company public notice shall be given by electronic means. However, <u>in the event that the Company is unable to give a public notice by electronic means due to</u> an accident or other unavoidable circumstances, public notices of the Company shall be given in the <i>Nihon Keizai Shimbun</i>.</p> |

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| <p>Article 8 (Number of Shares Constituting One Full Unit of Stock)</p> <p>The number of shares constituting one full unit of stock of the Company shall be one hundred (100) shares.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p>Article 8 (Number of Shares Constituting One Full Unit of Stock <u>and Rights Pertaining to Shares of Less than One Full Unit</u>)</p> <p>The number of shares constituting one full unit of stock of the Company shall be one hundred (100) shares.</p> <p>2. <u>A shareholder of the Company may not exercise any rights other than those set forth below with respect to shares of less than one unit held by said shareholder.</u></p> <p>(1) <u>Rights stipulated in Article 189, paragraph 2 of the Companies Act of Japan</u></p> <p>(2) <u>The right to receive allocations of shares and subscription rights to shares in proportion to the number of shares held by the shareholder</u></p> |
| <p>Article 13 (Convener and Chair of the General Meeting of Shareholders)</p> <p>The general meeting of shareholders shall be convened and chaired by the president of the Company.</p> <p>[rest omitted]</p>                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>Article 13 (Convener and Chair of the General Meeting of Shareholders)</p> <p>The general meeting of shareholders shall be convened and chaired by the president of the Company <u>in accordance with a resolution of the Board of Directors, unless otherwise provided by law or ordinance.</u></p> <p>[rest omitted]</p>                                                                                                                                                                                                                                                                                                                                                                            |
| <p>Article 15 (Method of Adopting Resolutions)</p> <p>Unless otherwise provided by laws or ordinances or in these Articles of Incorporation, resolutions of a general meeting of shareholders shall be adopted by a majority of voting rights of the shareholders present at the meeting.</p> <p>2. Resolutions of a general meeting of shareholders pursuant to Article 309, paragraph 2 of the Companies Act of Japan shall be adopted by not less than two-thirds of the voting rights of the shareholders present at the meeting who represent not less than one-third of the voting rights of the shareholders who are entitled to vote.</p> | <p>Article 15 (Method of Adopting Resolutions)</p> <p>Unless otherwise provided by laws or ordinances or in these Articles of Incorporation, resolutions of a general meeting of shareholders shall be adopted by a majority of voting rights of the shareholders present at the meeting <u>who are entitled to vote.</u></p> <p>2. Resolutions of a general meeting of shareholders pursuant to Article 309, paragraph 2 of the Companies Act of Japan shall be adopted by not less than two-thirds of the voting rights of the shareholders present at the meeting who represent not less than one-third of the voting rights of the shareholders who are entitled to vote.</p>                        |

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| <p>Article 17 (Number of Directors)</p> <p>The Company shall have not more than seven (7) directors.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>Article 17 (Number of Directors)</p> <p>The Company shall have <u>not less than three (3) and</u> not more than seven (7) directors.</p>                                                                                                                                                                                                                                                                                                  |
| <p>Article 18 (Election of Directors)</p> <p style="text-align: center;">[omitted]</p> <p>2. Resolutions for the election of directors shall be adopted by a majority of the voting rights held by shareholders present at the meeting who represent not less than one-third of the voting rights of the shareholders who are entitled to exercise their rights to vote.</p> <p style="text-align: center;">[rest omitted]</p>                                                                                                                                                                                                                                                                                                              | <p>Article 18 (Election of Directors)</p> <p style="text-align: center;">[omitted]</p> <p>2. Resolutions for the election of directors shall be adopted by a majority of the voting rights held by shareholders present at the meeting who represent not less than one-third of the voting rights of the shareholders who are entitled to vote.</p> <p style="text-align: center;">[rest omitted]</p>                                        |
| <p>Article 19 (Representative Directors and Directors with Special Titles)</p> <p style="text-align: center;">[omitted]</p> <p>2. The Board of Directors may, by resolution, appoint one Chairman of the Board, one Vice Chairman of the Board, and one President, and several Vice Presidents, Senior Managing Directors, Managing Directors and Advisors.</p>                                                                                                                                                                                                                                                                                                                                                                             | <p>Article 19 (Representative Directors and Directors with Special Titles)</p> <p style="text-align: center;">[omitted]</p> <p>2. The Board of Directors may, by resolution, appoint one President, and, <u>as necessary, appoint one Chairman of the Board and several other directors with special titles.</u></p>                                                                                                                         |
| <p>Article 20 (Division of Duties among Directors with Special Titles)</p> <p>The Chairman of the Board shall preside over meetings of the Board of Directors, and the Vice Chairman of the Board shall assist the Chairman.</p> <p>2. The President shall execute resolutions of the Board of Directors, and shall preside over the business of the Company.</p> <p>3. The Vice President(s), Senior Managing Director(s), Managing Director(s) and Advisor(s) shall assist the President and execute the business of the Company. When the President is unable to act, one of the other Directors, who is designated in accordance with an order of priority determined in advance by the Board of Directors, shall act as President.</p> | <p>Article 20 (Execution of Directors' Duties)</p> <p style="text-align: center;">[deletion]</p> <p>The President shall execute resolutions of the Board of Directors, and shall preside over the business of the Company.</p> <p>2. When the President is unable to act, one of the other Directors, who is designated in accordance with an order of priority determined in advance by the Board of Directors, shall act as President.</p> |

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| <p>Article 26 (Regulations of the Board of Directors)</p> <p>Matters relating to the Board of Directors shall be governed by the regulations of the Board of Directors established by the Board of Directors.</p>                                                                                                                                             | <p>Article 26 (Regulations of the Board of Directors)</p> <p>Matters relating to the Board of Directors shall be governed by the regulations of the Board of Directors established by the Board of Directors, <u>in addition to laws and ordinances and these Articles of Incorporation.</u></p>                                      |
| <p>Article 27 (Number of Corporate Auditors)</p> <p>The Company shall have not less than three (3) corporate auditors.</p>                                                                                                                                                                                                                                    | <p>Article 27 (Number of Corporate Auditors)</p> <p>The Company shall have not less than three (3) <u>and not more than seven (7)</u> corporate auditors.</p>                                                                                                                                                                         |
| <p>Article 28 (Election of Corporate Auditors)</p> <p>[omitted]</p> <p>2. Resolutions for the election of corporate auditors shall be adopted by a majority of the voting rights held by shareholders present at the meeting who represent not less than one-third of the voting rights of shareholders who are entitled to exercise their right to vote.</p> | <p>Article 28 (Election of Corporate Auditors)</p> <p>[omitted]</p> <p>2. Resolutions for the election of corporate auditors shall be adopted by a majority of the voting rights held by shareholders present at the meeting who represent not less than one-third of the voting rights of shareholders who are entitled to vote.</p> |
| <p>Article 29 (Term of Office of Corporate Auditors)</p> <p>[omitted]</p> <p>2. The term of office of a corporate auditor who was appointed to fill a vacancy shall expire at the end of the term of the corporate auditor who retired.</p>                                                                                                                   | <p>Article 29 (Term of Office of Corporate Auditors)</p> <p>[omitted]</p> <p>2. The term of office of a corporate auditor who was appointed to fill a vacancy <u>left by a corporate auditor retiring before the end of his/her term</u> shall expire at the end of the term of the corporate auditor who retired.</p>                |
| <p>Article 33 (Regulations of the Board of Corporate Auditors)</p> <p>Matters relating to the Board of Corporate Auditors shall be governed by the regulations of the Board of Corporate Auditors established by the Board of Corporate Auditors.</p>                                                                                                         | <p>Article 33 (Regulations of the Board of Corporate Auditors)</p> <p>Matters relating to the Board of Corporate Auditors shall be governed by the regulations of the Board of Corporate Auditors established by the Board of Corporate Auditors, <u>in addition to laws and ordinances and these Articles of Incorporation.</u></p>  |
| <p>Article 34 (Business Year)</p> <p>The business year of the Company shall be one year, and shall be from April 1 each year until March 31 in the following year.</p>                                                                                                                                                                                        | <p>Article 34 (Business Year)</p> <p>The business year of the Company shall be <u>the year from</u> April 1 each year until March 31 in the following year.</p>                                                                                                                                                                       |



### No. 3: 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               | Position and responsibility within the Company and major concurrent posts                                                                                                                                            |
|---------------|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1             | ① Motozo Shiono    | Chairman of the Board and Representative Director<br>Chief Director of The Cell Science Research Foundation                                                                                                          |
| 2             | ① Isao Teshirogi   | Representative Director and President                                                                                                                                                                                |
| 3             | ① Takuko Sawada    | Director and Vice President                                                                                                                                                                                          |
| 4             | ① Akio Nomura ② ③  | Director<br>Outside Director of The Royal Hotel, Ltd.                                                                                                                                                                |
| 5             | ① Teppei Mogi ② ③  | Director<br>Partner of Oh-Ebashi LPC & Partners<br>Outside Director (audit & Supervisory Committee member) of NIITAKA Co., Ltd.<br>Outside Director (audit & Supervisory Committee member) of KURABO INDUSTRIES LTD. |
| 6             | ① Keiichi Ando ② ③ | Director<br>Representative Director and President and of GINSEN CO., LTD.<br>Outside Director of Tsubakimoto Chain Co.                                                                                               |

① : Reappointment      ② : Outside Director      ③ : Independent Director

| Candidate No.                               | Name<br>(Date of birth)                                                                                                                                                                                                                                                                                                                | Career summary, position and responsibility within the Company and other major posts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| 1                                           | Reappointment<br><br>Motozo Shiono<br>(November 17, 1946)                                                                                                                                                                                             | January 1972: Joined the Company<br>June 1984: Director of the Company<br>April 1987: General Manager, Accounting Department<br>June 1987: Managing Director of the Company<br>June 1990: Senior Managing Director of the Company<br>March 1996: General Manager, Agro., Vet. & Industrial Chem. Division<br>August 1999: Representative Director and President of the Company<br>August 1999: General Manager, Corporate Planning Division<br>April 2008: Chairman of the Board of the Company (incumbent)<br><br>(Major concurrent posts)<br>Chief Director of The Cell Science Research Foundation           |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                             | <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>34 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended 10/12 Board of Directors meetings</td> <td>83.3%</td> </tr> </table> | Number of the Company's shares owned                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 266,648 shares | Number of years served as Director | 34 years (as at the closing of this Annual General Meeting of Shareholders) | Attended 10/12 Board of Directors meetings  | 83.3% | <b>【Reasons for nominating the candidate for Director】</b><br>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.                                                                                                                                                                                                                                                                                                                       |
|                                             | Number of the Company's shares owned                                                                                                                                                                                                                                                                                                   | 266,648 shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                             | Number of years served as Director                                                                                                                                                                                                                                                                                                     | 34 years (as at the closing of this Annual General Meeting of Shareholders)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Attended 10/12 Board of Directors meetings  | 83.3%                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| 2                                           | Reappointment<br><br>Isao Teshirogi<br>(December 12, 1959)                                                                                                                                                                                          | April 1982: Joined the Company<br>January 1999: General Manager, Secretary Office and General Manager, Corporate Planning Department<br>June 2002: Director of the Company<br>October 2002: General Manager, Corporate Planning Department<br>April 2004: Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division<br>April 2006: Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division<br>April 2007: Senior Executive Officer<br>April 2008: Representative Director and President and CEO of the Company (incumbent) |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                             | <table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>15,150 shares</td> </tr> <tr> <td>Number of years served as Director</td> <td>16 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 15,150 shares  | Number of years served as Director | 16 years (as at the closing of this Annual General Meeting of Shareholders) | Attended all 12 Board of Directors meetings | 100%  | <b>【Reasons for nominating the candidate for Director】</b><br>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. |
|                                             | Number of the Company's shares owned                                                                                                                                                                                                                                                                                                   | 15,150 shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                             | Number of years served as Director                                                                                                                                                                                                                                                                                                     | 16 years (as at the closing of this Annual General Meeting of Shareholders)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Attended all 12 Board of Directors meetings | 100%                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                             |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                             |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                |                                    |                                                                             |                                             |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

| Candidate No.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Name<br>(Date of birth)                                                                                                                                                                         | Career summary, position and responsibility within the Company and other major posts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                               |  |  |
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| 3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Reappointment<br><br>Takuko Sawada<br>(March 11, 1955)                                                         | April 1977: Joined the Company<br>April 2002: Executive General Manager, Pharmaceutical Development Division<br>April 2007: Officer and Executive General Manager, Pharmaceutical Development Division<br>April 2010: Executive Officer and Executive General Manager, Pharmaceutical Development Division<br>April 2011: Senior Executive Officer and Executive General Manager, Global Development Office<br>April 2013: Senior Executive Officer and Senior Vice President, Global Development and, Pharmaceutical Development Division<br>April 2014: Senior Executive Officer and Senior Vice President, Global Pharmaceutical Development Division<br>April 2015: Senior Executive Officer and Senior Vice President, Corporate Strategy Division<br>June 2015: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division<br>October 2015: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division, and General Manager, Corporate Planning Department<br>April 2016: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division<br>April 2017: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division<br>April 2018: Director of the Company and Vice President (incumbent) |                                                                               |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>24,100 shares</td> </tr> </table>                                                                                     | Number of the Company's shares owned                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 24,100 shares                                                                 |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Number of the Company's shares owned                                                                                                                                                            | 24,100 shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                               |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <table border="1"> <tr> <td>Number of years served as Director</td> <td>3 year<br/>(as at the close of this Annual General Meeting of Shareholders)</td> </tr> </table>                         | Number of years served as Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 3 year<br>(as at the close of this Annual General Meeting of Shareholders)    |  |  |
| Number of years served as Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 3 year<br>(as at the close of this Annual General Meeting of Shareholders)                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                               |  |  |
| <table border="1"> <tr> <td>Attended all 12 Board of Directors meetings</td> <td>100%</td> </tr> </table>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Attended all 12 Board of Directors meetings                                                                                                                                                     | 100%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                               |  |  |
| Attended all 12 Board of Directors meetings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 100%                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                               |  |  |
| <p><b>【Reasons for nominating the candidate for Director】</b><br/>           Since her appointment as a Director of the Company in 2015, Ms. Takuko Sawada has been responsible for business execution of the Corporate Strategy Division as Senior Vice President of the Corporate Strategy Division and as a Senior Executive Officer. She has also moved Medium-Term Management Plan Shionogi Growth Strategy 2020 (SGS2020) forward, and played a central role in formulating the update of SGS2020 in October 2016. Starting in fiscal 2018, she will further strengthen management and promote diversity in her capacity as Vice President of the Company, independent from business execution. We therefore recommend that you vote for her reelection as a Director.</p>                                                                                                                                                               |                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                               |  |  |
| 4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Reappointment<br>Outside Director Candidate<br>Independent Director<br><br>Akio Nomura<br>(February 8, 1936) | April 1958: Joined Osaka Gas Co., Ltd.<br>June 1988: Director of Osaka Gas, Ltd.<br>June 1989: Managing Director of Osaka Gas, Ltd.<br>June 1991: Representative Director and Senior Managing Director of Osaka Gas, Ltd.<br>June 1994: Representative Director and Vice President of Osaka Gas, Ltd.<br>June 1998: Representative Director and President of Osaka Gas, Ltd.<br>June 2000: Director of West Japan Railway Company (incumbent)<br>June 2003: Representative Director and Chairman of Osaka Gas, Ltd.<br>June 2008: Director of the Royal Hotel, Ltd. (incumbent)<br>June 2009: Director of the Company (incumbent)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                               |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>0 shares</td> </tr> </table>                                                                                          | Number of the Company's shares owned                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 0 shares                                                                      |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Number of the Company's shares owned                                                                                                                                                            | 0 shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                               |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <table border="1"> <tr> <td>Number of years served as Outside Director</td> <td>9 years<br/>(as at the closing of this Annual General Meeting of Shareholders)</td> </tr> </table>              | Number of years served as Outside Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 9 years<br>(as at the closing of this Annual General Meeting of Shareholders) |  |  |
| Number of years served as Outside Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 9 years<br>(as at the closing of this Annual General Meeting of Shareholders)                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                               |  |  |
| <table border="1"> <tr> <td>Attended all 12 Board of Directors meetings</td> <td>100%</td> </tr> </table>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Attended all 12 Board of Directors meetings                                                                                                                                                     | 100%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                               |  |  |
| Attended all 12 Board of Directors meetings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 100%                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                               |  |  |
| <p><b>【Reasons for nominating the candidate for Outside Director】</b><br/>           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.<br/>           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.<br/>           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>                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                               |  |  |

| Candidate No.                               | Name<br>(Date of birth)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Career summary, position and responsibility within the Company and other major posts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |          |                                            |                                                                               |                                             |      |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------|------|
| 5                                           | <p>Reappointment<br/>Outside Director Candidate<br/>Independent Director</p>  <p>Teppei Mogi<br/>(October 17, 1958)</p>                                                                                                                                                                                                                                                                                                                                                      | <p>April 1989: Registration of Attorney at Law<br/> April 1989: Joined Oh-Ebashi Law Offices<br/> July 1992: Service at Brussels Office of Cleary, Gottlieb, Steen &amp; Hamilton LLP<br/> January 1993: Service at Rotterdam Office of De Brauw Blackstone Westbroek<br/> April 1994: Partner of Oh-Ebashi Law Offices<br/> August 2002: Partner of Oh-Ebashi LPC &amp; Partners (incumbent)<br/> April 2004: Practitioner teacher, Graduate School of Law and Faculty in practical business at The Kwansai Gakuin University Law School (Full-time teacher)<br/> April 2005: Part-time instructor, Graduate School of Law, Kobe University (incumbent)<br/> June 2009: Director of the Company (incumbent)<br/> April 2010: Part-time instructor, Graduate School of Law and Faculty in practical business at The Kwansai Gakuin University Law School (incumbent)<br/> August 2014: Outside Corporate Auditor of NIITAKA Co., Ltd.<br/> June 2015: Outside Corporate Auditor of KURABO INDUSTRIES LTD.<br/> August 2015: Outside Director (Audit &amp; Supervisory Committee member) of NIITAKA Co., Ltd. (incumbent)<br/> June 2016: Outside Director (Audit &amp; Supervisory Committee member) of KURABO INDUSTRIES LTD. (incumbent)</p> <p>(Major concurrent posts)<br/> Partner of Oh-Ebashi LPC &amp; Partners<br/> Outside Director (Audit &amp; Supervisory Committee member) of NIITAKA Co., Ltd<br/> Outside Director (Audit &amp; Supervisory Committee member) of KURABO INDUSTRIES LTD.</p> |          |                                            |                                                                               |                                             |      |
|                                             | <table border="1" data-bbox="316 1120 635 1579"> <tr> <td data-bbox="316 1120 475 1232">Number of the Company's shares owned</td> <td data-bbox="475 1120 635 1232">0 shares</td> </tr> <tr> <td data-bbox="316 1232 475 1429">Number of years served as Outside Director</td> <td data-bbox="475 1232 635 1429">9 years<br/>(as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td data-bbox="316 1429 475 1579">Attended all 12 Board of Directors meetings</td> <td data-bbox="475 1429 635 1579">100%</td> </tr> </table> | Number of the Company's shares owned                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 0 shares | Number of years served as Outside Director | 9 years<br>(as at the closing of this Annual General Meeting of Shareholders) | Attended all 12 Board of Directors meetings | 100% |
| Number of the Company's shares owned        | 0 shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |          |                                            |                                                                               |                                             |      |
| Number of years served as Outside Director  | 9 years<br>(as at the closing of this Annual General Meeting of Shareholders)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |          |                                            |                                                                               |                                             |      |
| Attended all 12 Board of Directors meetings | 100%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |          |                                            |                                                                               |                                             |      |

| Candidate No.                               | Name<br>(Date of birth)                                                                                                                                                                                                                                                                                                                     | Career summary, position and responsibility within the Company and other major posts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |          |                                            |                                                                               |                                             |      |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------|------|
| 6                                           | Reappointment<br>Outside Director Candidate<br>Independent Director<br><br><br><br>Keiichi Ando<br>(November 5, 1951)                                                                                                                                      | April 1976: Joined Sumitomo Bank Limited<br>April 2003: Executive Officer, Sumitomo Mitsui Banking Corporation<br>April 2006: Managing Executive Officer, Sumitomo Mitsui Banking Corporation<br>April 2009: Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation<br>April 2010: Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation<br>March 2012: Retired as Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation<br>April 2012: Representative Director and President, NEW KANSAI INTERNATIONAL AIRPORT COMPANY,LTD<br>July 2012: Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD<br>July 2016: Retired as Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD<br>June 2016: Director of the Company (incumbent)<br>June 2016: Representative Director and President, GINSEN CO.,LTD (incumbent)<br>June 2017: Outside Director of Tsubakimoto Chain Co. (incumbent)<br><br>(Major concurrent posts)<br>Representative Director and President, GINSEN CO.,LTD<br>Outside Director of Tsubakimoto Chain Co. |          |                                            |                                                                               |                                             |      |
|                                             | <table border="1"> <tr> <td>Number of the Company's shares owned</td> <td>0 shares</td> </tr> <tr> <td>Number of years served as Outside Director</td> <td>2 years<br/>(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 | 2 years<br>(as at the closing of this Annual General Meeting of Shareholders) | Attended all 12 Board of Directors meetings | 100% |
| Number of the Company's shares owned        | 0 shares                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |          |                                            |                                                                               |                                             |      |
| Number of years served as Outside Director  | 2 years<br>(as at the closing of this Annual General Meeting of Shareholders)                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |          |                                            |                                                                               |                                             |      |
| Attended all 12 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. 4: Election of One (1) Corporate Auditor

Corporate Auditor Masahide Hirasawa will resign as of the close of this General Meeting of Shareholders. The Company therefore proposes the election of one (1) corporate auditor to fill the vacancy left by his resignation.

The term of office of a corporate auditor elected to fill a vacancy will last until the end of the term of the retiring corporate auditor, as prescribed in the Company's Articles of Incorporation.

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<br>(Date of birth)                                                                                                                                                                                       | Career summary, position within the Company and other major posts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <p>New appointment<br/>Outside Corporate Auditor<br/>Independent Auditor</p>  <p>Takaoki Fujiwara<br/>(February 2, 1952)</p> | <p>April 1975: Joined Hanshin Electric Railway Co., Ltd.<br/> June 2005: Director, Hanshin Electric Railway Co., Ltd.<br/> June 2007: Managing Director, Hanshin Electric Railway Co., Ltd.<br/> April 2011: Representative Director and President, Hanshin Electric Railway Co., Ltd.<br/> June 2011: Director, Hankyu Hanshin Holdings, Inc.<br/> April 2015: Chairman of the Board of Directors and Representative Director, Hanshin Hotel Systems<br/> April 2017: Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd. (incumbent)<br/> June 2017: Representative Director, Hankyu Hanshin Holdings, Inc. (incumbent)<br/> June 2017: Director, Sanyo Electric Railway Co., Ltd. (incumbent)<br/> December 2017: Director, Hanshin Hotel Systems (incumbent)</p> <p>(Major concurrent posts)<br/> Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd.<br/> Representative Director, Hankyu Hanshin Holdings, Inc.<br/> Director, Sanyo Electric Railway Co., Ltd.<br/> Director, Hanshin Hotel Systems</p> |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <table border="1"> <tr> <td data-bbox="209 1093 363 1240">Number of the Company's shares owned</td> <td data-bbox="368 1093 528 1240">0 shares</td> </tr> </table>                                            | Number of the Company's shares owned                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 0 shares | <p><b>【Reasons for nominating the candidate for Outside Corporate Auditor】</b></p> <p>Although in a different industry from that of the Company, Mr. Takaoki Fujiwara has extensive practical experience and a wide range of knowledge as a director of Hankyu Hanshin Holdings, Inc. and a manager of a group company of Hankyu Hanshin Holdings, Inc. In the Company's current situation in which new Group companies have been established in the last several years, we believe that Mr. Fujiwara is well qualified to conduct audits of the Company from the perspective of group management.</p> <p>We expect him to reflect that experience in conducting audits on the management decisions of directors and the appropriateness of business execution from an independent perspective as an outside Corporate Auditor. We therefore recommend that you vote for his election as an outside 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. Takaoki Fujiwara 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. Takaoki Fujiwara will be registered as an independent auditor as defined in the regulations of the Tokyo Stock Exchange.
4. If Mr. Takaoki Fujiwara is appointed as a corporate auditor, the Company plans to conclude a contract with Mr. Takaoki Fujiwara 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.

## **No. 5: Revision of Compensation for Granting of Restricted Stock to Directors (Excluding Outside Directors) and Revision of Amount of Compensation of Directors**

A maximum limit of ¥450 million per annum on the total amount of director compensation (not including employee salaries paid to directors who serve concurrently as employees) was approved at the 142nd General Meeting of Shareholders held on June 28, 2007. In addition, at the 146th General Meeting of Shareholders held on June 24, 2011, shareholders approved the allotment of stock acquisition rights as stock options to directors, excluding outside directors, within the scope mentioned above.

As part of its current revision of the executive compensation plan, the Company has decided to introduce a restricted stock compensation plan (the “Plan”) to further promote shared value with shareholders and provide an incentive to its directors, excluding outside directors, (the “Eligible Directors”) to promote continuous enhancement of the Company’s corporate value by further increasing the linkage between director compensation and the Company’s medium- and long-term business performance. In connection with the introduction of the Plan, the Company requests your approval of the aforementioned revisions to the compensation of directors.

If this proposal is approved, the existing stock option compensation plan will be discontinued, and the Company does not plan to make any further grants of new share subscription rights as stock options to directors.

The Plan will consist of “long-term stock-based compensation” contingent upon continuous service as a director of the Company, or as an executive officer who is not concurrently a director, for a certain period of time, and “medium-term performance-linked stock compensation,” which is contingent upon the attainment of performance goals for increasing the Company’s medium- and long-term corporate value.

Under this proposal, compensation paid for granting restricted stock to Eligible Directors will be in the form of monetary claims (“Monetary Compensation Claims”), the aggregate amount of which, combined with other compensation paid to directors, shall not exceed ¥750 million per year (not including employee salaries of directors who serve concurrently as employees; hereinafter, “Aggregate Compensation”). However, as the long-term stock-based compensation will be introduced in place of the previously existing stock option compensation, the Company plans to make the amount granted approximately the same as under the previously existing stock option plan. Therefore, the increase in the compensation of directors resulting from this revision will mainly come from Monetary Compensation Claims paid based on medium-term performance-linked stock compensation. The Company believes that this will further clarify the linkage with performance in the compensation of Eligible Directors, and that owning the Company’s stock will promote further sharing of value with shareholders. The specific payment timing and allotment to each Eligible Director will be decided by the Board of Directors.

Currently the Company has six directors (including three outside directors), but if Proposal 3, “Election of Six Directors,” is approved as proposed, the number of directors will be six (including three outside directors).

Based on a resolution of the Company’s Board of Directors, the Eligible Directors shall make in-kind contributions of all Monetary Compensation Claims to be provided according to the Plan, and shall, in return, receive shares of common stock to be issued or disposed by the Company. The total number of shares of the Company’s common stock issued or disposed under the Plan for long-term stock-based compensation and medium-term performance-linked stock compensation combined shall not exceed 75,000 shares per year, the same as under the current plan. However, if a stock split (including gratis allotment of the Company’s common stock) or reverse stock split of the Company’s common stock takes place on or after the date this proposal is approved, or if an adjustment of the total number of shares of the Company’s common stock issued or disposed of as restricted stock becomes necessary for any other reason, such total number shall be adjusted to a reasonable extent.

The amount payable per share shall be the closing price of the Company’s common stock on the Tokyo Stock Exchange on the business day preceding the date of the resolution by the Board of Directors (or, if no trading is reported on such business day, the closing price on the most recent trading day prior thereto). A restricted stock award agreement that includes the following details (the “Award Agreement”) will be entered into between the Company and Eligible Directors upon the issuance or disposal of the Company’s common stock in accordance with the Plan.

(1) Transfer Restriction Period

During a period from 3 to 30 years from the date that shares are awarded pursuant to the Award Agreement (the “Restriction Period”), Eligible Directors may not transfer, create security interests on, or otherwise dispose of the shares of common stock allotted pursuant to the Award Agreement (the “Awarded Shares”) (the “Transfer Restrictions”).

(2) Treatment upon Retirement of Directors

If an Eligible Director retires from his or her position as a director of the Company, or as an executive officer who is not a director, before the end of the Restriction Period, the Company shall automatically acquire the Awarded Shares at no cost, except in cases of retirement due to completion of term, death or other reasons deemed reasonable by the Board of Directors.

(3) Removal of Transfer Restrictions

With respect to long-term stock-based compensation, the Company shall remove the Transfer Restrictions on all of the Awarded Shares upon the completion of the Restriction Period, provided that the Eligible Director has continuously remained in the position stipulated in (2) above during the Restriction Period.

With respect to medium-term performance-linked stock compensation, in addition to the conditions in the paragraph above, the Company shall remove the Transfer Restrictions upon the completion of the Restriction Period on the number of Awarded Shares corresponding to the level of achievement of the numerical targets in the Company’s medium-term management plan, such as return on equity, or other performance goals set in advance by the Company’s Board of Directors. However, if an Eligible Director retires from the position stipulated in (2) above before the end of the Restriction Period due to completion of term, death or other reasons deemed reasonable by the Board of Directors, the number of shares on which Transfer Restrictions are to be removed and the timing of the removal of restrictions shall be reasonably adjusted as necessary. In addition, immediately after the Transfer Restrictions are removed, the Company shall automatically acquire at no cost any Awarded Shares on which Transfer Restrictions have not been removed.

(4) Treatment in Reorganizations, Etc.

Notwithstanding the provisions stated in (1) above, in the event that matters relating to a merger agreement in which the Company is the non-surviving company, a stock swap agreement or share transfer plan in which the Company becomes a wholly owned subsidiary, or other reorganization are approved at the Company’s General Meeting of Shareholders (or by the Company’s Board of Directors if the said reorganization does not require approval by the Company’s General Meeting of Shareholders) during the Restriction Period, the Company shall, by resolution of its Board of Directors, remove the Transfer Restrictions prior to the effective date of such reorganization on the number of Awarded Shares reasonably adjusted based on the estimated achievement of performance targets at that time during the period from the start of the Restriction Period until the date of approval of the reorganization. In the cases prescribed above, immediately after the Transfer Restrictions are removed, the Company shall automatically acquire at no cost any Awarded Shares on which Transfer Restrictions have not been removed.

(5) Other Matters

Other matters concerning the Award Agreement will be determined by the Company’s Board of Directors.

In addition, if the proposal pertaining to the Plan is approved at this General Meeting of Shareholders, the Company will also pay restricted stock compensation similar to the long-term stock-based compensation to executive officers of the Company other than the Eligible Directors, by resolution of the Board of Directors, and will newly issue or dispose shares of its common stock.



[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 FY2017 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

We assess that the Board of Directors has currently secured the necessary framework from the standpoint of various attributes, including expertise and experience, and diversity. However, issues for the future include election of directors of foreign nationality and election of female outside directors from the standpoint of further diversity.

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

The status of management development, an issue in the previous fiscal year, was reported at meetings between outside directors and the president to exchange opinions. Issues for the future that were mentioned are enhancement of discussions on the medium-term management plan and enhancement of explanations and discussions of the selection process and development progression with respect to management development.

Reports regarding further enhancement of reports on compliance and the operation of internal controls are to be made regularly every year, and a report on the status of compliance activities was presented at the Board of Directors meeting in September 2017.

The Board of Directors will take further improvement measures, including increasing the number of reports on compliance to two per year.

The Board of Directors will continue to consider ways to improve its roles and responsibilities.

### 3. Operation

To further stimulate discussion at Board of Directors meetings, the Board of Directors enhanced advance briefings and secured time for deliberation on important and highly specialized matters, which was an issue in the previous fiscal year.

Opinions submitted as issues for the future included flexible scheduling of Board of Directors meetings, efficient and effective advance briefing methods, and holding of observation tours of research laboratories and factories to further deepen directors’ understanding of the pharmaceutical industry.

The Board of Directors will continue to consider ways to improve its operation.

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.

## 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).

## 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.

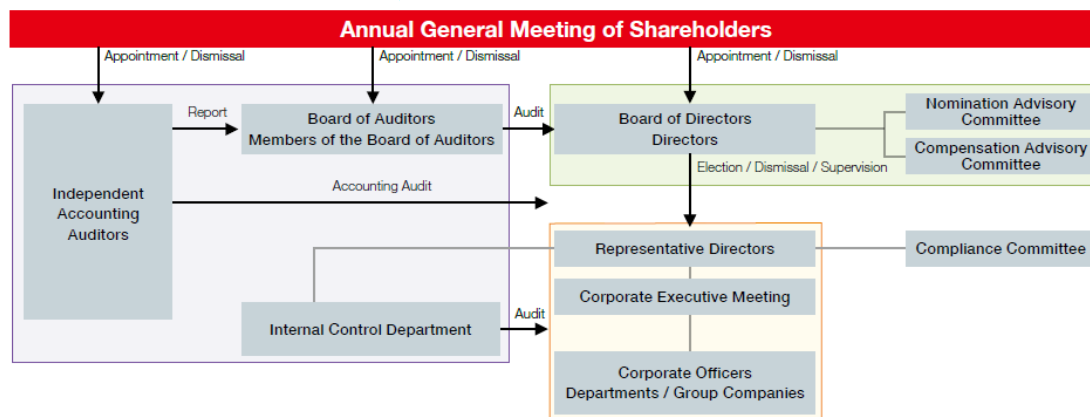
The Board of Directors is composed of six directors, three of whom are outside directors to further enhance management transparency and accountability to stakeholders. In addition, the Company has established a Nominating Advisory Committee and a Compensation Advisory Committee as advisory bodies to 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, 2018)

### (Corporate Governance System)

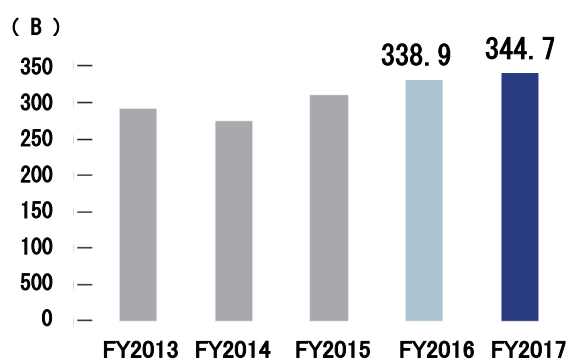


Financial Highlights of the Shionogi Group

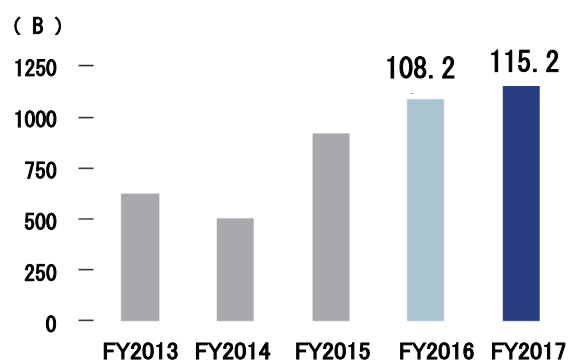
Performance

- Net sales: 344.7 B yen, increased for 3 consecutive years
  - Growth in royalty income on the back of rising global sales of HIV franchise products
  - Receive payments from Roche in connection with progress in development of anti-flu drug Xofluza™
  - Net sales growth in Japan, centered on strategic products (Cymbalta®, Intuniv®, Symproic® and Xofluza™)
- Record-high ordinary income, operating income and profit attributable to owners of parent

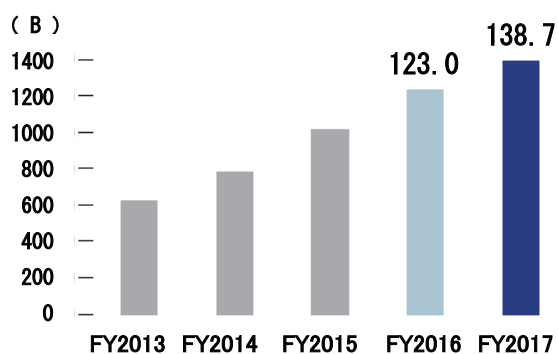
Net sales



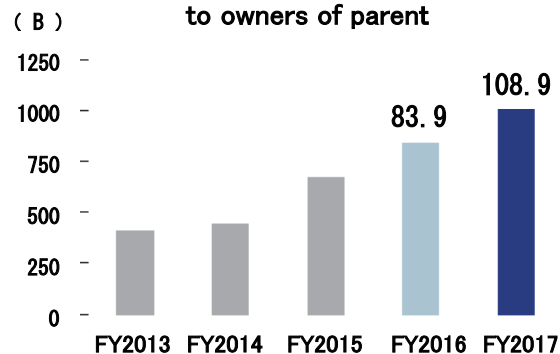
Operating incomes



Ordinary income

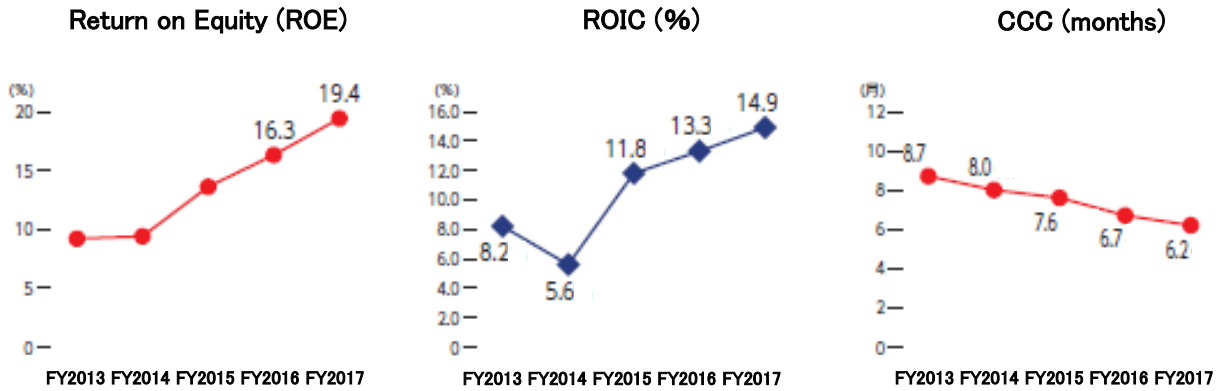


Profit attributable to owners of parent



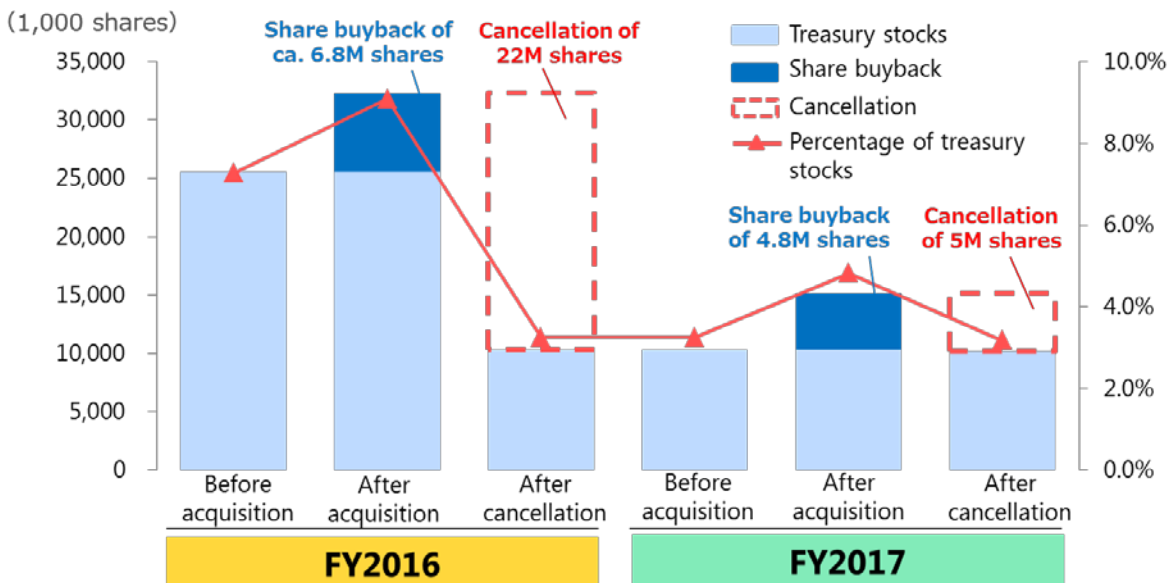
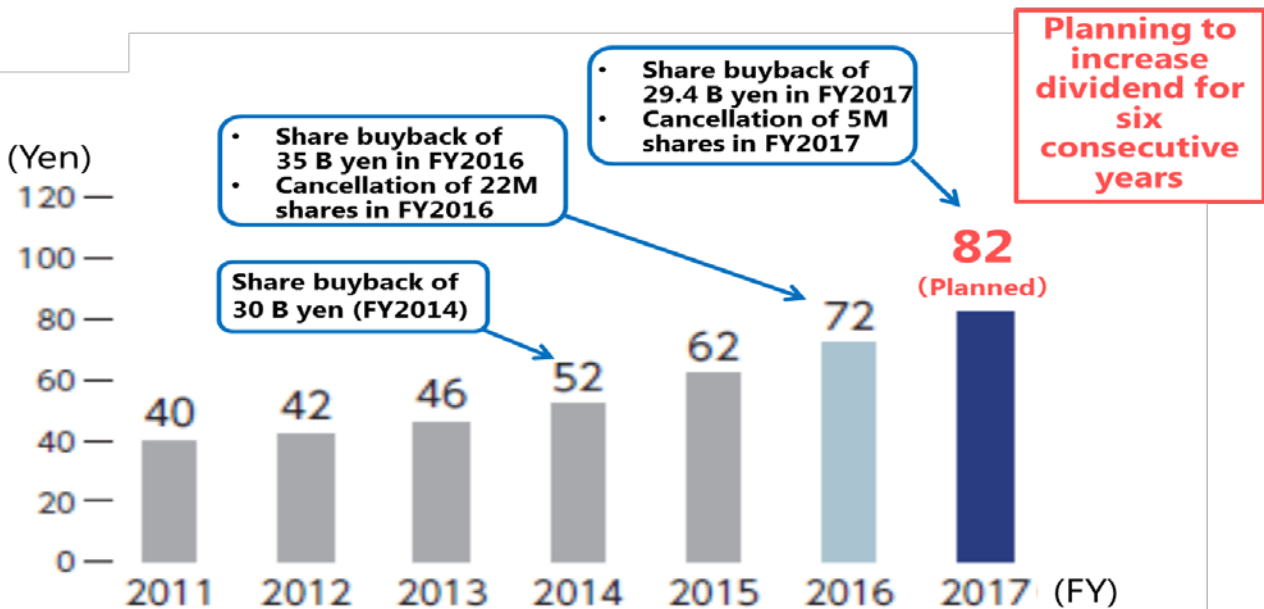
## Capital Efficiency KPI

- Steady improved ROE, ROIC and CCC



## Shareholder return policy

- Continuous dividend increases, flexible share buybacks and cancellation of treasury stocks



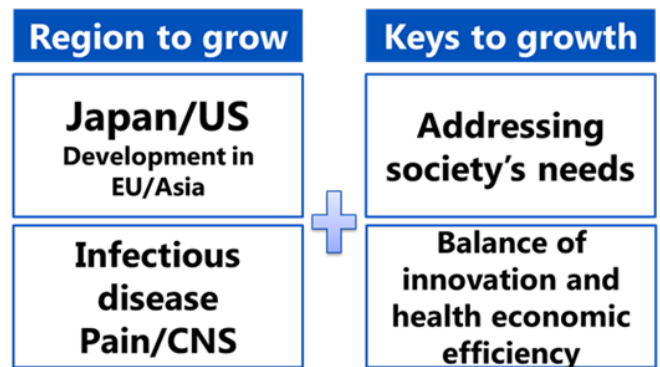
# 1. Current State of the Shionogi Group

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 October 2016, Shionogi updated the plan to aim even higher.

The updated SGS2020 sets out a new vision, which is to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare.” Shionogi has defined infectious diseases and pain/CNS disorders as its core therapeutic areas, and has been working to address various challenges facing society.

In the fiscal year ended March 31, 2018, Shionogi launched Methapain<sup>®</sup>, a cancer pain treatment, Intuniv<sup>®</sup>, a treatment for attention deficit/hyperactivity disorder (ADHD), Symproic<sup>®</sup>, a treatment for opioid-induced constipation, and Xofluza<sup>™</sup>, an anti-flu drug, in Japan. In the United States, the Shionogi Group also launched Symproic<sup>®</sup> as a treatment for opioid-induced constipation.

We will remain focused on achieving the objectives of SGS2020 to actualize our corporate mission globally: “To strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.”



## 【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 “Award for Excellence in Corporate Disclosure” (October 12, 2017)

ディスクロージャー  
2017年度 優良企業



The Securities Analysts Association of Japan sponsors this program to promote and enhance corporate disclosure. Shionogi ranked first in the pharmaceutical sector, receiving high marks for its proactive disclosure efforts. Shionogi received a high evaluation in the category of “Management’s attitude toward IR” for the IR stance of its management, which stresses the importance of dialogue with the market. In the “Corporate governance” category, Shionogi was highly rated for updating its medium-term management plan as necessary and for showing performance indicators relating to growth, efficiency and shareholder returns.

### Named “IR Grand Prix” (November 14, 2017)



After having won the Special Prize in 2014 and Best IR Company in 2015 and 2016, Shionogi won the Grand Prize for the first time in 2017.

### Named “Grand Prix in Corporate Value Improvement Awards” (February 15, 2018)



Shionogi won the Grand Prize out of 3,500 listed companies in the 6th Corporate Value Improvement Awards presented by the Tokyo Stock Exchange.

### Named a “Health and Productivity Stock” for Third Consecutive Year and Recognized as “Health and Productivity Enterprise” for Second Consecutive Year (February 20, 2018)



“Health and Productivity Stocks” are listed companies that strategically carry out employee health and productivity initiatives 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.



The “Health and Productivity Enterprise” recognizes corporations that practice excellent health and productivity management in cooperation with insurers. A total of 235 companies were selected by METI and Nippon Kenko Kaigi.

## (1) Business Operations and Results

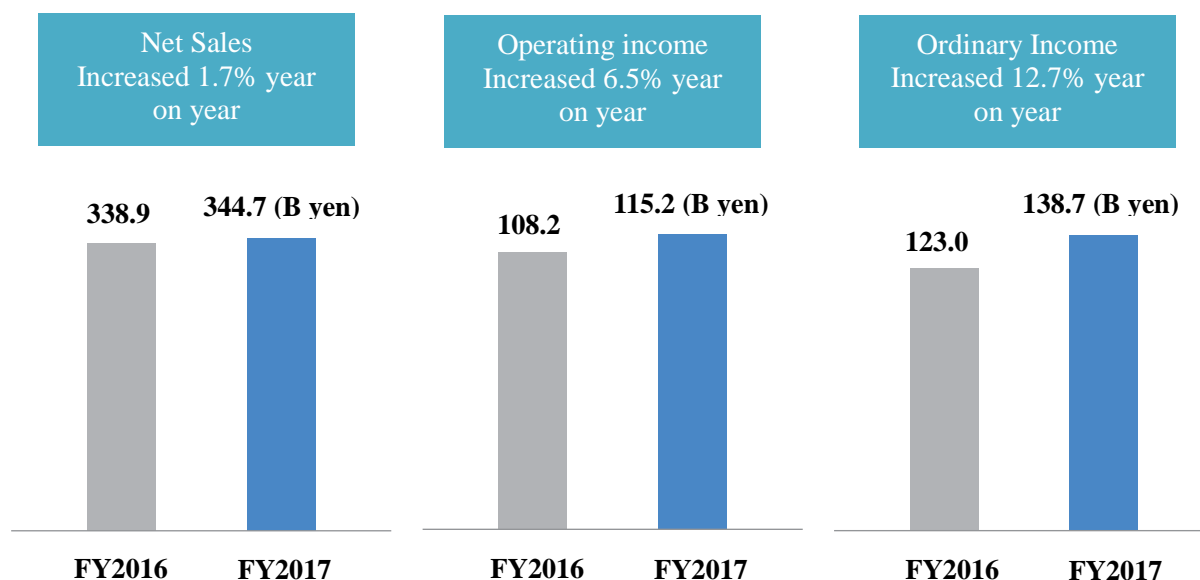
### Summary of Business Operation for Fiscal 2017

|                                                |                         |                               |
|------------------------------------------------|-------------------------|-------------------------------|
| <b>Net Sales</b>                               | <b>Operating Income</b> | <b>Ordinary Income</b>        |
| ¥344.7 billion                                 | ¥115.2 billion          | ¥138.7billion                 |
| <b>Profit Attributable to Owners of Parent</b> |                         | <b>Return on Equity (ROE)</b> |
| ¥108.9 billion                                 |                         | 19.4%                         |

Net sales were ¥344.7 billion (1.7 percent increase year on year). The main contributor to sales was domestic prescription drug sales, which were ¥139.2 billion (11.9 percent decrease), but royalty income of ¥155.0 billion (34.0 percent increase) contributed to sales growth.

Operating income increased 6.5 percent to ¥115.2 billion, setting a new record for the third consecutive year.

Ordinary income was ¥138.7 billion (12.7 percent increase), setting a new record for the sixth consecutive year.





Profit attributable to owners of parent increased 29.8 percent to ¥108.9 billion, exceeding ¥100.0 billion for the first time and setting a record for the second consecutive year, reflecting the increases in operating income and ordinary 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 19.4 percent.

### Positioning for FY2017

First year toward achieving SGS2020 (updated Oct. 2016)

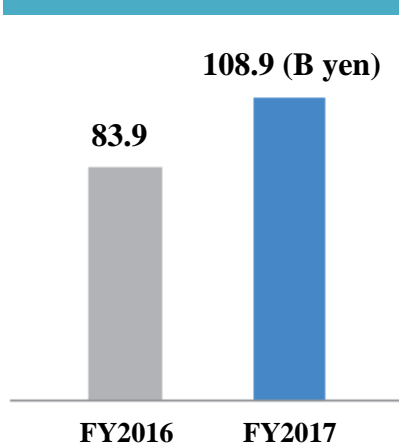
### Basic Strategy in FY2017

Address changes in the business environment and achieve increase in income and profit by **strengthening and expanding new products**

Ensure solid business foundation for sustainable growth by **further promoting the global development of growth drivers**

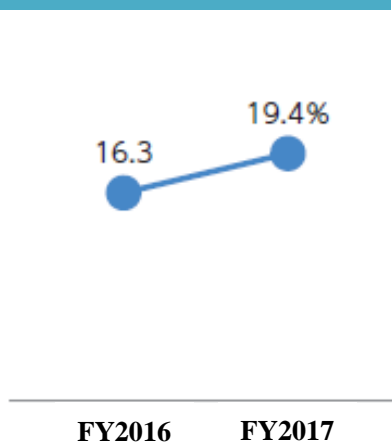
#### Profit attributable to owners of parent

Increased 29.8% year on year



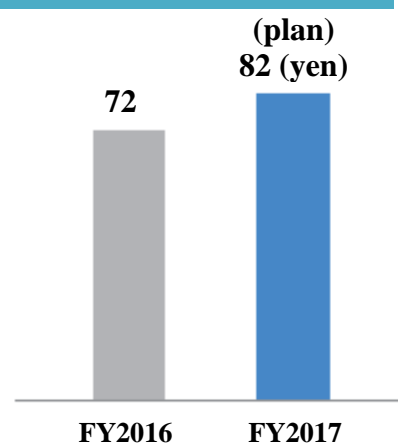
#### ROE (Return on Equity)

Improved 3.1% year on year



#### Dividend per share

Increasing JPY 10 year on year (plan)



## ① Royalty Income and Dividend Income from ViiV

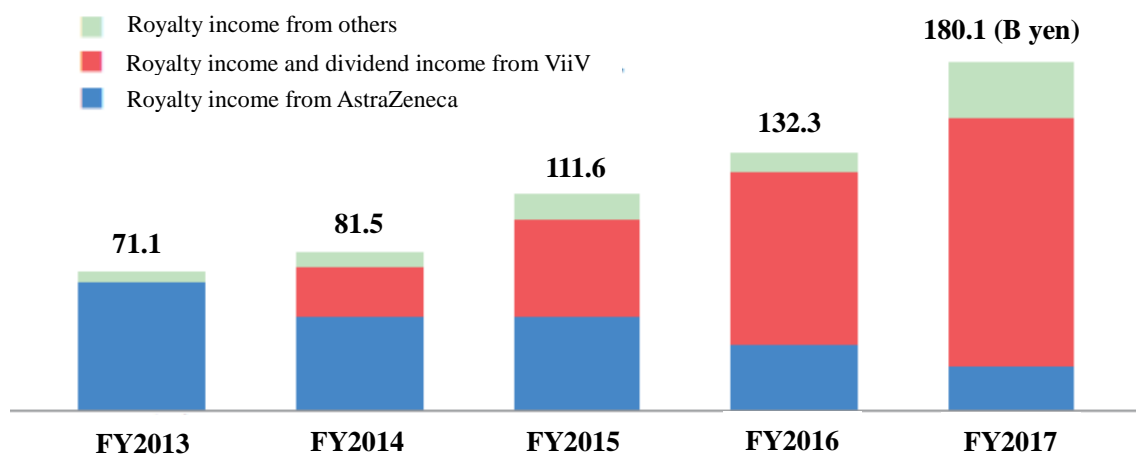
- Royalties for Tivicay<sup>®</sup> and Triumeq<sup>®</sup> increased ¥30.2 billion year on year
- Dividends from ViiV increased
- Received payments for Xofluza<sup>™</sup>

Global sales of the anti-HIV drug Tivicay<sup>®</sup> and the combination drug Triumeq<sup>®</sup>, which Shionogi licensed to ViiV, expanded steadily, and royalties from ViiV increased 41.2 percent to ¥103.5 billion. As was the case in the previous fiscal year, dividend income from ViiV increased during the fiscal year ended March 31, 2018, due to strong global sales of anti-HIV drugs.

During the fiscal year ended March 31, 2018, Shionogi also received payments from Switzerland-based Roche in connection with progress in development of anti-flu drug Xofluza<sup>™</sup>.

Royalties on Crestor<sup>®</sup> sales from UK-based AstraZeneca decreased 31.6 percent to ¥22.6 billion, but total royalties and dividend income increased 36.2 percent to ¥180.1 billion.

### ■ Royalty income and dividend income from ViiV



## ② Domestic Business/Overseas Business

- Launched Intuniv<sup>®</sup>, Symproic<sup>®</sup>, OxyContin<sup>®</sup> TR tablets\* and Xofluza<sup>TM</sup>
- Sales growth of the new products by focused its management resources
- Launched Symproic<sup>®</sup> in the U.S.

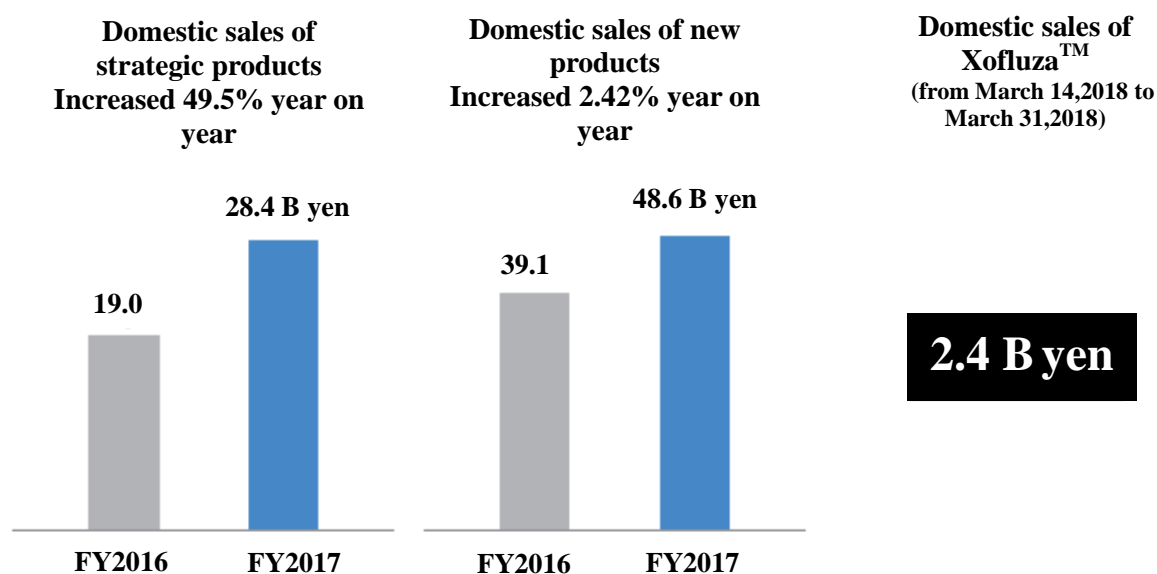
Domestic sales of prescription drugs decreased 11.9 percent to ¥139.2 billion as a result of the launch of generic versions of Crestor and Irbetan (launched in September 2017 and December 2017, respectively). Shionogi defined Cymbalta<sup>®</sup>, Intuniv<sup>®</sup>, Symproic<sup>®</sup> and Xofluza<sup>TM</sup> as new strategic products beginning in the fiscal year under review, and focused its management resources on strategic products and new products\*\*. As a result, sales of strategic products totaled ¥28.4 billion (49.5 percent increase) and sales of new products amounted to ¥48.6 billion (24.2 percent increase).

In addition, Shionogi began marketing the anti-flu drug Xofluza<sup>TM</sup> in fiscal 2017 as the result of Company-wide efforts, quickly bringing this innovative drug to patients.

In overseas business, Symproic<sup>®</sup>, the first drug that Shionogi developed simultaneously in Japan, the United States and Europe, was launched in the United States. By taking full advantage of cooperation with Purdue Pharma L.P. in the United States, Shionogi has established an efficient marketing system using fewer of its own management resources.

Furthermore, the Shionogi Group completed filing of applications in the United States and Europe for Mulpleta<sup>®</sup>, a treatment for thrombocytopenia in patients with chronic liver disease, which has already been launched in Japan. In the United States, Mulpleta<sup>®</sup> received priority review designation

In addition, a new anti-tuberculosis drug candidate S-004992 was discovered in C&O, our subsidiary in China.



\* Abuse-deterrent OxyContin<sup>®</sup> TR tablets: A time-release formulation designed to prevent drug abuse

\*\* New Products: OxyContin<sup>®</sup> franchise, Actair<sup>®</sup>, Pirespa<sup>®</sup>, Rapiacta<sup>®</sup>, Mulpleta<sup>®</sup>, Brightpoc<sup>®</sup>Flu, Glashvista<sup>®</sup>

### ③ Research and Development

#### ▪Results of Discovery Research and CMC Research

During the fiscal year ended March 31, 2018, Shionogi worked to continuously create development candidates and products under development mainly in its two core therapeutic areas of infectious diseases and pain/CNS. As a result, in the area of infectious diseases, Shionogi created an anti-HIV drug candidate with a novel mechanism of action and S-004992, a drug candidate for tuberculosis. In the pain/CNS area, Shionogi discovered S-637880, a drug candidate for neuropathic pain.

Shionogi has also initiated numerous peptide discovery programs in the area of medium-sized molecules in addition to small molecules, and created an adjuvant for vaccines from its nucleic acid drug discovery platform.

Shionogi also moved S-770108 (pirfenidone inhalant), a drug candidate for idiopathic pulmonary fibrosis, into the clinical trial stage by utilizing its proprietary formulation technology for inhalation drug delivery systems.

In small-molecule API manufacturing technologies, Shionogi succeeded in reducing raw material costs by approximately half by incorporating an oxidation and reduction reaction using visible light into synthetic pathways. For manufacturing technology for medium-sized molecule APIs, Shionogi successfully shortened the reaction time in the manufacturing process of cancer peptide vaccine S-288301 to approximately 1/40 using microwave irradiation.

#### Creation of Development Candidates

Novel HIV Drug  
Nucleic acid adjuvant for Vaccine

#### Creation of Development Projects

S-004992 (Tuberculosis)  
S-637880 (Neuropathic pain)  
S-770108 (Idiopathic pulmonary fibrosis)  
S-005151 (Peptide for acute ischemic stroke)

Began multiple programs to discover future growth drivers using technology licensed from PeptiDream Inc.

Established business partnership with UMN Pharma (infectious disease prevention vaccine expertise)

Initiated collaborative research with PharmaIN to apply their peptide modification and drug delivery technology

Expanded collaboration with Nissan Chemical Industries, for creation of anti-fungus drugs

## Results of Development

In the fiscal year ended March 31, 2018, by prioritizing investment of management resources in Xofluza™, a new anti-flu drug, Shionogi filed for approval under the Sakigake designation system\* on October 25, 2017, and obtained approval on February 23, 2018. Shionogi launched Xofluza™ on March 14, 2018, contributing to quickly bringing this innovative drug to patients.

For cefiderocol, a drug candidate for multidrug-resistant gram-negative bacterial infection, Shionogi has been conducting a study on gram-negative carbapenem-resistant bacterial infections to maximize the value of cefiderocol amid the increasingly serious worldwide problem of antimicrobial resistance (AMR).

Shionogi obtained approval for abuse-deterrent OxyContin® TR tablets\*\* in August 2017, and began sales in December 2017. Shionogi filed applications in the United States and Europe for approval of Mulpleta®, a treatment for thrombocytopenia, which has already been launched in Japan.

Shionogi began phase III clinical trials of Xofluza™ in a granular formulation to maximize its value. For Cymbalta®, Shionogi began phase III clinical trials for the indication of pediatric depression.

|                                                                       |                                                                                                                                        |
|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Xofluza™<br>Influenza virus infection                                 | Tablet: Adult・Pediatric NDA Submission~Approval (February, 2018) ~ Launch (March, 2018)<br>Granule: Phase III clinical trial under way |
| Cefiderocol<br>Multidrug-resistant gram-negative bacterial infections | Global phase III Gram-negative carbapenem –resistant study under way                                                                   |
| OxyContin® TR tablets                                                 | Approval (August, 2017) ~ Launch (December, 2017)                                                                                      |
| Mulpleta®<br>Thrombocytopenia                                         | NDA Submission : US (December, 2017), EU (January, 2018)                                                                               |
| Cymbalta®<br>Depression                                               | Phase III clinical trial (pediatric) under way                                                                                         |

\* Sakigake designation system: A part of Japan's Revitalization Strategy, this system designates pharmaceutical products that are being developed ahead of other countries and have shown exceptional efficacy in the early clinical trial stage. It is aimed at facilitating their early commercialization through various kinds of support.

\*\* Abuse-deterrent OxyContin® TR tablets: A time-release formulation designed to prevent drug abuse

Pipeline (as of March 2018)

| Preclinical                                 | Phase I                                                                                              | Phase II                                                                                                                                                                                                                                                         | Phase III                                                                    | Filed                                                                        |                                                     |
|---------------------------------------------|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------|
| Influenza virus infection                   | <b>Global</b><br><b>S-004992</b> Tuberculosis<br><b>S-117957</b> Insomnia<br><b>S-237648</b> Obesity | <b>Cefiderocol</b><br>Multidrug-resistant Gram-negative bacterial infections                                                                                                                                                                                     | <b>Baloxavir marboxil</b><br>Influenza virus infection                       | <b>Rizmoic® (EU)</b><br>Opioid-induced constipation                          |                                                     |
| <b>HIV virus infection</b>                  |                                                                                                      | <b>S-120083</b> Inflammatory pain                                                                                                                                                                                                                                | <b>Cefiderocol</b><br>Multidrug-resistant Gram-negative bacterial infections | <b>Mulpleta® (US)</b><br>Thrombocytopenia                                    |                                                     |
| Bacterial infection                         |                                                                                                      | <b>S-707106</b> Type2 diabetes                                                                                                                                                                                                                                   |                                                                              | <b>Mulpleta® (EU)</b><br>Thrombocytopenia                                    |                                                     |
| Antibody drug candidate against pseudomonas |                                                                                                      | <b>S-488210</b><br>Head and neck squamous cell carcinoma                                                                                                                                                                                                         |                                                                              |                                                                              |                                                     |
| Fungus infection                            |                                                                                                      | <b>epertinib</b> Malignant tumor                                                                                                                                                                                                                                 |                                                                              |                                                                              |                                                     |
| Fungus infection                            |                                                                                                      | <b>S-588410</b> Bladder cancer                                                                                                                                                                                                                                   |                                                                              |                                                                              |                                                     |
| <b>Peptide</b>                              |                                                                                                      | <b>In Japan</b><br><b>S-637880</b><br>Neuropathic pain<br><b>S-600918</b><br>Neuropathic pain<br>Refractory chronic cough<br><b>S-010887</b><br>Neuropathic pain<br><b>S-770108</b><br>Idiopathic pulmonary fibrosis<br><b>S-005151</b><br>Acute ischemic stroke | <b>Cefiderocol</b><br>Multidrug-resistant Gram-negative bacterial infections | <b>Cefiderocol</b><br>Multidrug-resistant Gram-negative bacterial infections | <b>Oxycodone</b><br>Moderate to severe chronic pain |
| Vaccine for prevention                      |                                                                                                      |                                                                                                                                                                                                                                                                  | <b>S-237648</b> Obesity                                                      | <b>Intuniv®</b><br>ADHD (adult)                                              | <b>Lisdexamfetamine</b><br>ADHD (pediatric)         |
| ADHD                                        |                                                                                                      |                                                                                                                                                                                                                                                                  | <b>S-525606</b><br>Allergic rhinitis caused by Japanese cedar allergen       | <b>Cymbalta®</b><br>Depression (pediatric)                                   |                                                     |
| Opioid                                      |                                                                                                      |                                                                                                                                                                                                                                                                  | <b>S-588410</b> Bladder cancer                                               | <b>S-588410</b><br>Esophageal cancer                                         |                                                     |
| <b>Peptide</b>                              |                                                                                                      |                                                                                                                                                                                                                                                                  | <b>Xofluza™</b><br>Influenza virus infection (oral, granule)                 |                                                                              |                                                     |
| Alzheimer's disease                         |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |
| Diabetes                                    |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |
| Obesity                                     |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |
| Hypertrophic scars                          |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |
| Cancer metastasis                           |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |
| <b>Adjuvant</b>                             |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |
| <b>Peptide</b>                              |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |
| <b>Out-licensed</b>                         | <b>GSK3342830</b><br>Multidrug-resistant Gram-negative bacterial infections                          |                                                                                                                                                                                                                                                                  | <b>DTG+3TC</b><br>Treatment for HIV infection                                | <b>Osphena®</b><br>Vaginal dryness associated with postmenopausal VVA        |                                                     |
|                                             |                                                                                                      |                                                                                                                                                                                                                                                                  | <b>CAB LAP</b><br>Prevention for HIV infection                               | • Infectious diseases                                                        |                                                     |
|                                             |                                                                                                      |                                                                                                                                                                                                                                                                  | <b>CAB+RPV LAP</b><br>Treatment for HIV infection                            | • Pain/CNS                                                                   |                                                     |
|                                             |                                                                                                      |                                                                                                                                                                                                                                                                  | <b>Janssen/Shionogi BACE inhibitor</b><br>Alzheimer's disease                | • Metabolic disorder<br>• Frontier                                           |                                                     |
|                                             |                                                                                                      |                                                                                                                                                                                                                                                                  |                                                                              |                                                                              |                                                     |

Rizmoic®: Product name of Symproic® in Europe  
 DTG: Dolutegravir, RPV: Rilpivirine, 3TC: Lamivudine  
 S-004992 and S-005151: In preparation for Phase I

## (2) Significant Subsidiaries

| Company Name                                     | Paid-in Capital                | Percentage of Ownership | Main Areas of Business                                                         |
|--------------------------------------------------|--------------------------------|-------------------------|--------------------------------------------------------------------------------|
| Shionogi Inc.                                    | US dollars<br>12.00            | 100.0                   | Pharmaceutical clinical development and Pharmaceutical manufacturing and sales |
| Shionogi Ltd.                                    | Thousand UK Pounds<br>700      | 100.0                   | Pharmaceutical clinical development and Pharmaceutical manufacturing and sales |
| Taiwan Shionogi & Co., Ltd.                      | Million NT dollars<br>92       | 100.0                   | Pharmaceutical manufacturing and sales                                         |
| C&O Pharmaceutical Technology (Holdings) Limited | Thousand HK dollars<br>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, 2018 totaled ¥5.7 billion. The Group's primary investments were construction of a manufacturing facility at the Settsu Plant and a manufacturing facility at Kanegasaki Plant.

## (4) Fund-raising

The Shionogi Group conducted no fund-raising of note during the fiscal year ended March 31, 2018.

## (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 set a target for DOE to 4.0 percent or more as policy for allocation of its business results, and we continue to return profits to shareholders.

## [Reference] Domestic Group Companies

In the fiscal year ended March 31, 2018, Shionogi established and began operating the new Group companies indicated in red frames in the diagram below in April. Through close communication with the management of these Group companies, Shionogi has been establishing the foundation for increasing productivity and accumulating expertise throughout the Shionogi Group.

On April 23, 2018, Shionogi announced the establishment of a new Group company in production, with the aim of further enhancing quality and increasing productivity by strengthening technology development. The Shionogi Group overall will make concerted efforts to further increase productivity and accumulate expertise.

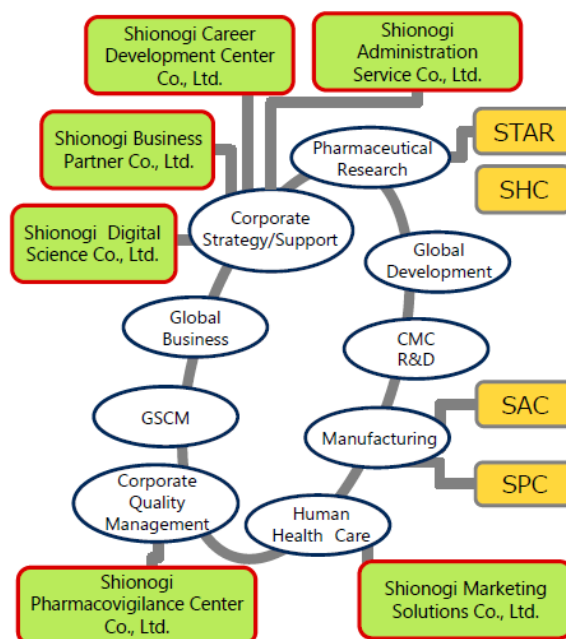
- **Improvement of business operations**
- **Respond to requests from society (e.g. employment extension, equal pay for equal work)**

Close communication between senior management of group companies

Refine infrastructure to enhance productivity and build expertise

For further growth

Release on Apr. 23, 2018  
'Construction of a New Manufacturing Subsidiary'



Red frame: Japanese group companies established in Apr. 2017

STAR: Shionogi Techno Advance Research Co., Ltd. SPC: Shionogi Pharma Chemicals Co., Ltd

SAC: Shionogi Analysis Center Co., Ltd. SHC: Shionogi Healthcare Co., Ltd. GSCM: Global Supply-chain Management



【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 2018, we extended the agreement of a business collaboration partnership with the Osaka Prefectural Government to promote programs that will support the future of children in Osaka Prefecture. To promote further initiatives, we also concluded new business collaboration partnerships in Shiga, Kagawa and Hiroshima prefectures.

【Social Contribution Activities】 Mother to Mother SHIONOGI Project  
Establish obstetric facility



(Source of photo : World Vision Japan)

Promote medical services  
in the clinic



Vaccination

Medical examination of  
malnourished children

(Source of photo : World Vision Japan)

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 January 2018, the third year of the program, an obstetrics ward was completed, and the number of births at the clinic increased 3.8 times from six in 2015 to 23 in 2017.

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.



## 【Social Contribution Activities】 CBF-PJ

The Communication Barrier Free (CBF) Project started from a gathering of Shionogi Group employee volunteers who are hearing-impaired.

Patients with disabilities, especially those with hearing and visual impairments, sometimes take medicine improperly because information about the medicine was not correctly conveyed when the medicine was prescribed.

The health of patients is our number-one priority, and we seek to make communication barrier-free when patients take medicine.



A Shionogi employee speaking at a seminar at Yodogawa Christian Hospital



This is the logo of the Communication Barrier Free (CBF) Project. Representing the project's slogan, "Turning awareness into reality, and negatives into positives," the plus and minus signs are hidden between the C and B in the logo.

### Main Activities in the Past Fiscal Year

- April: Start of subtitled TV commercials for Shionogi Healthcare products
- June: Lecture at Yodogawa Christian Hospital
- August: Lecture at the 2017 Annual Conference of OD Network Japan
- Sept. to Nov.: Conducted course on working styles at three schools for the deaf in Osaka Prefecture
- March: Participated in Certified Nurse education at Hyogo College of Medicine

## (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.

##### Expanding Moves to Curb Medical and Drug Costs

Pursuit of cost-effectiveness and price pressure on pharmaceuticals accompanying the worsening finances of health insurance systems in each country

##### Increasing Need for Healthy Life Expectancy

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

##### Hurdles to Innovation

Expansion of the R&D pipeline, promotion of open innovation, creation of innovation through cross-industry partnerships, balance of innovation and affordability

##### Diversification 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.

#### ▪ Toward a Sustainable World

The need for action on social issues globally to achieve a sustainable world has been increasing every year.

Accordingly, the Sustainable Development Goals (SDGs) were adopted at a UN Summit as international targets to be met by 2030. Corporations are being called on to contribute to these goals as members of society.

In Japan, two of the priority areas in the SDG implementation principles are “Achievement of Good Health and Longevity” and “Empowerment of All People.” Initiatives for solving these challenges are being strongly promoted under the Abe government. Pharmaceutical companies play a key role in the healthcare industry, and the Shionogi Group is committed to doing its part to resolve these issues.



## ▪Social Challenges That Shionogi Strives to Address

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

#### Protecting people from the threat of 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 launched anti-influenza drug Xofluza<sup>™</sup> in fiscal 2017.

We intend to further increase our contribution to the area of infectious diseases.

### Pain/CNS

#### Creating a more vigorous society

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 depression, and help patients and society to manage the negative aspects of opioids with Symproic<sup>®</sup> and abuse-deterrent OxyContin TR tablets.

In addition, we will contribute to a more vigorous society with treatments for ADHD, including Intuniv<sup>®</sup>, various activities through the Office for Children's Bright Future, work on treatments for Alzheimer's disease with Janssen Pharmaceuticals, Inc. in the United States, and other initiatives.

▪The new anti-influenza drug Xofluza™ tablet

Shionogi launched the new anti-flu drug Xofluza™ in Japan on March 14, 2018.

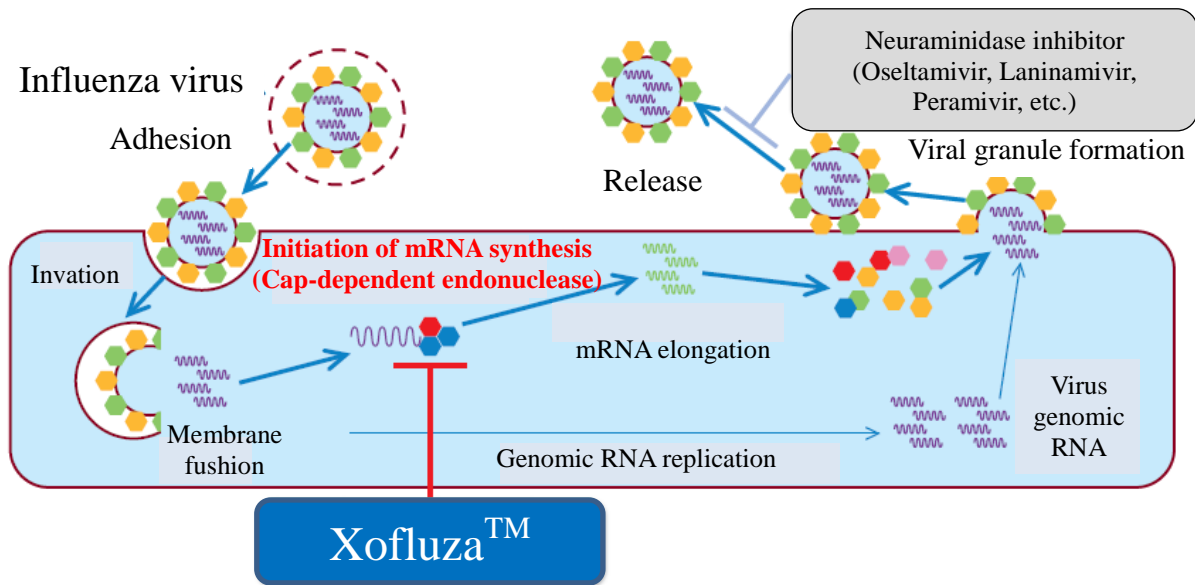
Xofluza™ is a cap-dependent endonuclease inhibitor discovered by Shionogi. It suppresses the replication of influenza viruses with a novel mechanism of action different from existing anti-flu drugs.

Xofluza™ was designated for Sakigake\* priority review in October 2015 by the Ministry of Health, Labour and Welfare.

In Japan, Shionogi filed an application for approval on October 25, 2017, and obtained approval four months later, on February 23, 2018. Xofluza™ was added to the NHI drug price list on March 14, 2018, becoming available less than half a year after the application was filed.

Roche plans to take a leading role in developing and marketing the drug globally, except for Japan and Taiwan.

We believe that partnering with Roche will enable Xofluza™ to quickly be brought to patients around the world.



\* Sakigake designation system: A part of Japan's Revitalization Strategy, this system designates pharmaceutical products that are being developed ahead of other countries and have shown exceptional efficacy in the early clinical trial stage. It is aimed at facilitating their early commercialization through various kinds of support.

## ▪The antimicrobial resistance (AMR) problem

Antimicrobial drugs have made a significant contribution to medical practice. Without them, many infectious diseases would be fatal, and surgeries and chemotherapy that are now commonly performed would be extremely risky. The flip side of this contribution is that improper use of antimicrobials has led to the emergence of the antimicrobial resistance (AMR) problem globally.

Even in G7 and G20 nations, AMR is a serious issue that can have a major impact on the global economy, and requires a global response.

The World Health Organization (WHO) is also sounding the alarm about the AMR problem, and has warned of the threat posed by carbapenem-resistant *Acinetobacter*, carbapenem-resistant *Pseudomonas aeruginosa*, and carbapenem-resistant enterobacteriaceae in particular.

Cefiderocol, which Shionogi is currently developing in Phase III for the treatment of multidrug-resistant gram-negative bacterial infections, has an antimicrobial action on these three types of carbapenem-resistant microbes. It is thus seen as a promising drug for combatting the AMR problem globally.

Shionogi is also participating in a number of international initiatives related to the AMR problem, and our efforts regarding infectious diseases have been recognized by the Netherlands-based Access to Medicine Foundation. The foundation surveyed 30 companies around the world, but Shionogi was the only Japanese company surveyed. We received a particularly high evaluation for the relative size of our investment in antimicrobial research and development, and for our domestic and international surveillance programs to monitor drug resistance.

■Remaining Challenges ~ Mid- to Long-term Plan ~

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

Japan  
Business

Strengthen and re-construct foundation, and build greater strength  
in Japan

Strengthen domestic business foundation and build strengths through further concentration of resources to expand sales of new products, particularly Cymbalta<sup>®</sup>, Intuniv<sup>®</sup>, Symproic<sup>®</sup> and Xofluza<sup>™</sup>.

Overseas  
Business

Strengthen global presence

Strengthen global presence through contribution to sales and profits globally, including the U.S., the largest market, and China, a growth market, and contribution to addressing the AMR problem and appropriate use of anti-infective drugs.

Productivity

Further enhance productivity

Maximize output on invested capital through continued improvement of productivity per employee, and continue to improve the operating margin, excluding royalties

In fiscal 2018, based on results in fiscal 2017 and changes in the environment and key tasks, we will continue our efforts to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare” over the medium and long term.



## Expansion of R&D pipeline for future generation

Shionogi continued to build and expand its early-stage R&D pipeline of future growth drivers.

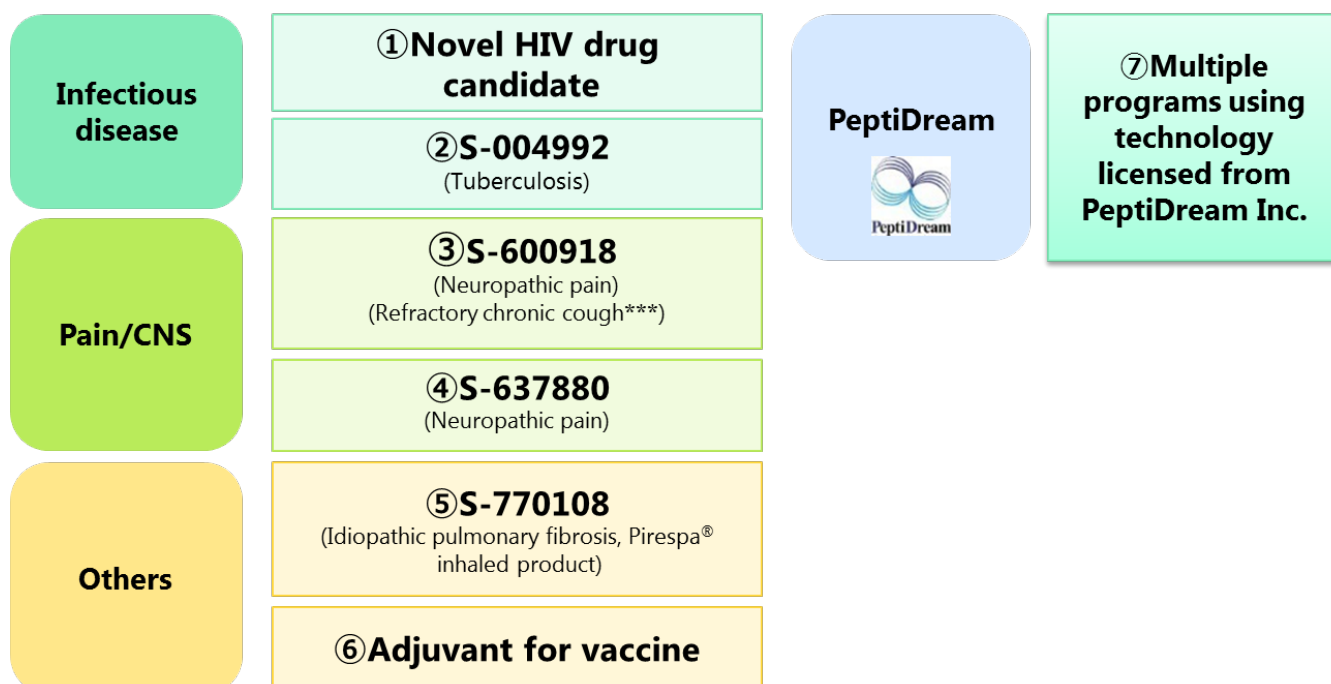
In fiscal 2018, we will prioritize investment of resources and carry out research and development for the seven products shown below.

We are aiming for the start of clinical trials in fiscal 2019 for two development candidates (① novel HIV drug candidate, ⑥ novel adjuvant\* as a development candidate for vaccines).

In addition, after creating peptide therapeutics using the PDPS technology\*\* of PeptiDream, we will select a development candidate in fiscal 2020 with the goal of moving it into clinical trials in fiscal 2021.

We will steadily cultivate these seven products in fiscal 2018 to quickly deliver innovative drugs that meet the needs of society to patients and healthcare providers.

## Focus on 7 Projects in FY2018



\* : A substance that enhances the effect of drugs with a non-specific immunostimulatory action

\*\* : Peptide Discovery Platform System (PDPS). Technology for exploring peptides with high activity and high selectivity to the target efficiently

\*\*\* : Cough lasting  $\geq 8$  weeks. Underlying causes are asthma and gastroesophageal reflux disease etc.

## ▪Launching a Steady Stream of New Products

In Japan, Shionogi plans to launch lisdexamfetamine, its second treatment for attention deficit/hyperactivity disorder (ADHD), in fiscal 2018. Along with Intuniv<sup>®</sup>, which was already launched in fiscal 2017, Shionogi will have two drugs in the ADHD category with different mechanisms of action, and is thus expected to contribute even more to treatment in this area. We will also promote information sharing activities for Xofluza<sup>™</sup>, which was launched on March 13, 2018, to handle the peak flu season.

In global business, Mulpleta<sup>®</sup>, for which NDAs have been submitted in the United States and Europe, is expected to contribute to sales. In the area of thrombocytopenia associated with chronic liver disease, we will provide new treatment options, and thereby globally 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 will continue working to deliver innovative medicines by continuously launching new products, as well as by cultivating the next-generation R&D pipeline shown on previous page.

### Target Milestones for Launch of New Products

| FY2017 (Achieved)                                                                                                                               | FY2018                                                                                                                      | FY2019                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| <b>In Japan</b>                                                                                                                                 |                                                                                                                             |                                                                |
| Symproic <sup>®</sup><br>Intuniv <sup>®</sup><br>OxyContin <sup>®</sup> TR<br>Actair <sup>®</sup><br>Xofluza <sup>™</sup> (adult,<br>pediatric) | Lisdexamfetamine                                                                                                            | Intuniv <sup>®</sup> (adult)<br>Xofluza <sup>™</sup> (granule) |
| <b>Global</b>                                                                                                                                   |                                                                                                                             |                                                                |
| Symproic <sup>®</sup> (US)                                                                                                                      | Mulpleta <sup>®</sup> (US)<br>Rizmoic <sup>®</sup> (EU)                                                                     | Cefiderocol(US)<br>Mulpleta <sup>®</sup> (EU)                  |
| <b>Out-licensed</b>                                                                                                                             |                                                                                                                             |                                                                |
| Juluca <sup>®</sup> (DTG/RPV)(US)                                                                                                               | Juluca <sup>®</sup> (DTG/RPV)<br>(EU)<br>Osphena <sup>®</sup> (US)<br>Vaginal dryness associated with<br>postmenopausal VVA | DTG + 3TC                                                      |

Rizmoic<sup>®</sup>: Product name of Symproic<sup>®</sup> in Europe

DTG: Dolutegravir, RPV: Rilpivirine, 3TC: Lamivudine

## ② Challenges Ahead in Fiscal 2018

In April this year, the biennial NHI drug price revisions were implemented, with an average reduction of approximately 7.5 percent on a drug price basis for the industry as a whole (in the 6 percent range for the Shionogi Group). In the premium pricing system to promote new drug development and eliminate off-label use, eligibility for the new drug premium was limited to drugs that are genuinely innovative and useful. We recognize that pharmaceutical companies will be requested to create further innovation, and will face strong demand to balance health economics and innovation.

In Japan, we will provide new treatment options to influenza patients by promoting the rapid market uptake of Xofluza™.

We will further concentrate resources on strategic products\* and new products\*\* including Cymbalta®, Intuniv®, Symproic® and Xofluza™, to reinforce our earnings foundation in Japan.

In global business, we will make full use of our own, more limited, management resources to maximize the value of Symproic® and Osphena®, and will further promote efficient management.

In addition, we will carry out highly productive business operations while promoting sales of products specifically for the hospital market in the United States by launching Mulpleta®, a treatment for thrombocytopenia associated with chronic liver disease, which received priority review designation in the United States.

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 2018 so that shareholders feel they have a stake in Shionogi's growth.

\* Strategic products : Cymbalta®, Intuniv®, Rapiacta®, Brightpoc®Flu, Xofluza™, OxyContin® franchise and Symproic®

\*\* New products : Strategic products, Actair®, Pirespa® and Mulpleta®

## 2. Stock Data

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

2) Number of shares issued: 324,136,165 (including 9,780,027 shares of treasury stock)

Note: The number of shares decreased by 5,000,000 shares compared to the end of the previous year due to the cancellation of treasury stock on March 12, 2018.

3) Number of shareholders: 42,245

4) Major shareholders (Top 10)

| Name of Shareholder                                                                              | Number of Shares Held<br>(Thousands of shares) | % of Total |
|--------------------------------------------------------------------------------------------------|------------------------------------------------|------------|
| The Master Trust Bank of Japan, Ltd. (as a trustee)                                              | 32,435                                         | 10.31%     |
| Japan Trustee Services Bank, Ltd. (as a trustee)                                                 | 20,290                                         | 6.45%      |
| Sumitomo Life Insurance Company                                                                  | 18,604                                         | 5.91%      |
| JP MORGAN CHASE BANK 385147                                                                      | 13,215                                         | 4.20%      |
| SMBC Trust Bank Ltd.(as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation) | 9,485                                          | 3.01%      |
| Nippon Life Insurance Company                                                                    | 8,409                                          | 2.67%      |
| STATE STREET BANK WEST CLIENT - TREATY 505234                                                    | 5,757                                          | 1.83%      |
| Japan Trustee Services Bank, Ltd. (as a trustee <sup>9</sup> )                                   | 5,549                                          | 1.76%      |
| Japan Trustee Services Bank, Ltd. (as a trustee <sup>5</sup> )                                   | 5,467                                          | 1.73%      |
| Japan Trustee Services Bank, Ltd. (as a trustee <sup>7</sup> )                                   | 5,016                                          | 1.59%      |

Notes:

1. The Company owns 9,780,027 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 314,356,138 shares of total issued stock (excluding 9,780,027 shares of treasury stock).

### 3. 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     | Senior Executive Officer and Senior Vice President, Corporate Strategy Division                                                                                                                          |
| Director                                          | Akio Nomura       | Outside Director of The Royal Hotel, Ltd.                                                                                                                                                                |
| Director                                          | Teppei Mogi       | Partner of Oh-Ebashi LPC & Partners<br>Outside Director (audit & Supervisory Committee member) of NIITAKA Co., Ltd.<br>Outside Director (audit & Supervisory Committee member) of KURABO INDUSTRIES LTD. |
| Director                                          | Keiichi Ando      | Representative Director and President and of GINSEN CO., LTD.<br>Outside Director of Tsubakimoto Chain Co.                                                                                               |
| Standing Corporate Auditor                        | Akira Okamoto     |                                                                                                                                                                                                          |
| Standing Corporate Auditor                        | Ikuo Kato         |                                                                                                                                                                                                          |
| Corporate Auditor                                 | Shinichi Yokoyama | Outside Corporate Auditor of Sumitomo Chemical Co., Ltd.<br>Outside Corporate Auditor of Rengo Co., Ltd.                                                                                                 |
| Corporate Auditor                                 | Kenji Fukuda      | Partner of DOJIMA Law Office                                                                                                                                                                             |
| Corporate Auditor                                 | Masahide Hirasawa | Representative Director and Chairman of the Board, Royal Hotel, Ltd.<br>Outside Corporate Auditor, Mazda Motor Corporation<br>Outside Corporate Auditor, Asahi Broadcasting Corporation                  |

Notes:

1. Directors Akio Nomura, Teppei Mogi and Keiichi Ando are Outside Directors stipulated in Section 15, Article 2 of the Companies Act.
2. Auditors Shinichi Yokoyama, Kenji Fukuda and Masahide Hirasawa are Outside Corporate Auditors stipulated in Section 16, Article 2 of the Companies Act.
3. Directors Akio Nomura, Teppei Mogi and Keiichi Ando have each submitted notification as independent directors as stipulated by Tokyo Stock Exchange Group, Inc.
4. Auditors Shinichi Yokoyama, Kenji Fukuda and Masahide Hirasawa have each submitted notification as independent auditors as stipulated by Tokyo Stock Exchange Group, Inc.
5. Summary of Contracts to Limit Liability  
The Company has concluded contracts with all outside directors and outside corporate auditors to limit their liability as stipulated in Section 1, Article 423 of the Companies Act to the amount stipulated in the relevant laws and ordinances under the condition that the requirements stipulated therein are fulfilled.
6. Directors and Corporate Auditors who retired during the Period  
Outside Corporate Auditor: Koichi Tsukihara (retired June 22, 2017)

## (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 compensation programs using different mechanisms such as trust-based stock compensation and restricted stock have been introduced at some other companies. Shionogi has also considered its approach to stock-based compensation, including the current stock option plan.

We have decided to shift to a stock-based compensation plan suited to Shionogi in order to provide incentives to continuously enhance corporate value by further increasing the linkage between director compensation and the Company's medium- and long-term business performance, and to further promote shared value with shareholders. The share of basic compensation in total compensation, which was approximately 75 percent in fiscal 2013, was reduced to about 55 percent in the last fiscal year. By changing to a stock-based compensation plan, we aim to further reduce the proportion of basic compensation to 50 percent or lower.

(Millions of yen, except for persons)

| Category                                                | Persons remunerated | Amount of remuneration paid |           |               |             | Note                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------|---------------------|-----------------------------|-----------|---------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                         |                     | Base remuneration           | Bonus     | Stock options | Total       |                                                                                                                                                                                                                                                                                                                                                                                                               |
| Directors<br>(outside directors among directors)        | 6<br>(3)            | 236<br>(43)                 | 96<br>(-) | 47<br>(-)     | 379<br>(43) | 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<br>(outside auditors among auditors) | 6<br>(4)            | 102<br>(43)                 | -<br>(-)  | -<br>(-)      | 102<br>(43) |                                                                                                                                                                                                                                                                                                                                                                                                               |
| Total                                                   | 12                  | 338                         | 96        | 47            | 481         |                                                                                                                                                                                                                                                                                                                                                                                                               |

#### Notes:

1. Includes the amount of remuneration paid to one corporate auditor who retired as of the close of the 152<sup>nd</sup> Annual General Meeting of Shareholders held on June 22, 2017.
2. "Bonus" above is the relevant allowance for directors' bonuses for fiscal 2017.
3. "Stock options" above is the relevant expense recognized for fiscal 2017.

### (3) Outside Board Members

#### 1) Major Activities

| Office            | Name                                                                                                                                                | Major Activities                                                                                                                                                                                                                                                                                                                 |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Director          | Akio Nomura<br>Attendance at Board of Directors meetings<br>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          | Teppeji Mogi<br>Attendance at Board of Directors meetings<br>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<br>Attendance at Board of Directors meetings<br>12/12 (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<br>Attendance at Board of Directors meetings<br>11/12 (91.6%)<br>Attendance at Board of Corporate Auditors meetings<br>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<br>Attendance at Board of Directors meetings<br>12/12 (100%)<br>Attendance at Board of Corporate Auditors meetings<br>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 | Masahide Hirasawa<br>Attendance at Board of Directors meetings<br>9/10 (90.0%)<br>Attendance at Board of Corporate Auditors meetings<br>6/6(100%)   | At meetings of the Board of Directors, Mr. Hirasawa 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: Corporate Auditor Masahide Hirasawa's attendance rates at Board of Directors meetings and at Board of Corporate Auditors meetings are his attendance after being appointed on June 22, 2017.

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

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

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

In addition, The Company does not have any relationship that should be indicated with NIITAKA Co., Ltd., 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.

In addition, The Company does not have any relationship that should be indicated with Tsubakimoto Chain Co., where Mr. Keiichi Ando serves as an outside director.

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 Royal Hotel, Ltd., where Mr. Masahide Hirasawa serves as Representative director and chairman of the Board.

In addition, The Company does not have any relationship that should be indicated with Mazda Motor Corporation and Asahi Broadcasting Corporation where Mr. Masahide Hirasawa serves as an outside corporate auditor.



## 4. Other Material Matters

### Legal Actions

- Shionogi is engaged in a patent dispute with MSD Sharp & Dohme GmbH, which sells Isentress® in Germany, and its European group companies, and with MSD K.K., which sells Isentress® in Japan (hereinafter referred to collectively as “MSD”), in Germany, the United Kingdom, the Netherlands and France regarding the patent for Shionogi’s HIV integrase inhibitor.

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. The European Patent Office ruled in favor of MSD on October 11, 2017 with its decision that Shionogi’s European patent is invalid.

In the patent infringement cases and patent invalidation cases in Germany, the United Kingdom, the Netherlands and France, where Shionogi had used the patent, judgments against Shionogi have already been issued or are expected to be issued soon.

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. On January 26, 2017, the Company filed a complaint against the decision to approve the preliminary injunction for the compulsory licensing action. On July 11, 2017, the Company’s complaint against the decision to approve the preliminary injunction for the compulsory licensing action was dismissed. On November 21, 2017, in the initial decision on the compulsory licensing action, a decision was issued that MSD had an obligation to pay royalties of 4 percent of sales of Isentress® in Germany from date the preliminary injunction took effect until the date the European was invalidated.

In the patent dispute in Japan, the Company filed a patent infringement action against MSD on August 17, 2015. On December 17, 2015, MSD requested a trial for invalidation of the Japanese patent. On August 17, 2017, in the patent invalidation judgment, a decision was issued that the patent was invalid. On September 8, 2017, the Company filed a lawsuit to rescind the invalidation decision. On December 6, 2017, in the patent infringement action, an initial decision was issued that the Company’s patent was invalid and the Company’s claim was dismissed. On December 19, 2017, the Company appealed that decision. Currently, a trial is still pending in these cases.

- 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.
- In November 2017, the Company, ViiV Healthcare Company and ViiV Healthcare UK (No.3) Limited filed a patent infringement action in the U.S. District Court for the District of Delaware and in other district courts against companies (Lupin Limited, Cipla Limited, Dr. Reddy’s Laboratories, Inc., Mylan Pharmaceuticals Inc., Apotex Inc., and others) that have filed an Abbreviated New Drug Application (ANDA) to market a generic version of a compound containing dolutegravir, abacavir and lamivudine (brand name in Japan: Triumeq) in the United States. The patent infringement action seeks, among other relief, an order that the effective date of any FDA approval based on the aforementioned ANDA shall not be earlier than the expiration date of the patent for the crystalline form of dolutegravir, which is held by the Company.
- From November to December 2017, the Company, ViiV Healthcare Company and ViiV Healthcare UK (No.3) Limited filed a patent infringement action in the U.S. District Court for the District of Delaware and in other district courts against companies (Cipla Limited, Dr. Reddy’s Laboratories, Inc., Sandoz Inc., LEK Pharmaceuticals D.D., Apotex Inc., and others) that have filed an Abbreviated New Drug Application (ANDA) to market a generic version of dolutegravir (brand name in Japan: Tivicay) in the United States. The patent infringement action seeks, among other relief, an order that any FDA approval based on the aforementioned ANDA shall not be earlier than the expiration date of the patent for the crystalline form of dolutegravir, which is held by the Company.

- On February 7, 2018, the Company and ViiV Healthcare filed a patent infringement action in the United States District Court for the District of Delaware against Gilead Sciences, Inc., which has obtained approval to market certain compounds containing bicitegravir in the United States (U.S. brand name: Biktarvy), over the patent for dolutegravir held by the Company.

On February 7, 2018, the Company and ViiV Healthcare filed a patent infringement action in the Canadian Federal Court against Gilead Sciences, Inc., which is seeking to obtain regulatory approval to market certain compounds containing bicitegravir in Canada, over the patent for dolutegravir held by the Company.

## Consolidated Balance Sheets

(As of March 31, 2018)

(Millions of yen)

| Accounts                               | FY2017  | (Reference)<br>FY2016 | Accounts                                              | FY2017   | (Reference)<br>FY2016 |
|----------------------------------------|---------|-----------------------|-------------------------------------------------------|----------|-----------------------|
| <b>Assets</b>                          | 722,500 | 670,271               | <b>Liabilities</b>                                    | 117,659  | 144,059               |
| <b>Current Assets</b>                  | 391,266 | 343,384               | <b>Current Liabilities</b>                            | 72,566   | 90,595                |
| Cash and deposits                      | 140,106 | 107,847               | Notes and accounts payable-trade                      | 8,016    | 11,943                |
| Notes and accounts receivable-trade    | 53,240  | 59,336                | Current portion of long-term loans payable            | 10,000   | —                     |
| Short-term investment securities       | 124,300 | 98,800                | Income taxes payable                                  | 19,513   | 28,746                |
| Merchandise and finished goods         | 14,617  | 19,152                | Provision                                             | 10,207   | 10,859                |
| Work in process                        | 6,993   | 8,294                 | Provision for bonuses                                 | 8,741    | 9,182                 |
| Raw materials and supplies             | 12,926  | 13,940                | Provision for sales returns                           | 1,360    | 1,565                 |
| Deferred tax assets                    | 11,761  | 11,347                | Other provisions                                      | 105      | 110                   |
| Other                                  | 27,257  | 24,700                | Other                                                 | 24,829   | 39,046                |
| Allowance for doubtful accounts        | (36)    | (34)                  | <b>Non-current liabilities</b>                        | 45,092   | 53,464                |
| <b>Non-current assets</b>              | 331,233 | 326,886               | Bonds payable                                         | 18,491   | 20,054                |
| <b>Property, plant and equipment</b>   | 75,956  | 78,788                | Long-term loans payable                               | —        | 10,000                |
| Buildings and structures, net          | 48,725  | 50,302                | Deferred tax liability                                | 14,159   | 9,372                 |
| Machinery, equipment and vehicles, net | 12,595  | 11,717                | Net defined benefit liability                         | 8,096    | 9,581                 |
| Land                                   | 8,352   | 8,410                 | Other                                                 | 4,344    | 4,456                 |
| Construction in progress               | 1,057   | 2,873                 | <b>Net assets</b>                                     | 604,840  | 526,211               |
| Other, net                             | 5,224   | 5,484                 | <b>Shareholders' equity</b>                           | 579,257  | 522,445               |
| <b>Intangible assets</b>               | 75,060  | 91,125                | Capital stock                                         | 21,279   | 21,279                |
| Goodwill                               | 32,852  | 37,630                | Capital surplus                                       | 20,227   | 20,227                |
| Sales rights                           | 38,073  | 49,969                | Retained earnings                                     | 574,392  | 508,049               |
| Other                                  | 4,134   | 3,525                 | Treasury stock                                        | (36,641) | (27,110)              |
| <b>Investments and other assets</b>    | 180,216 | 156,972               | <b>Accumulated other comprehensive income</b>         | 21,589   | (125)                 |
| Investment securities                  | 155,675 | 135,970               | Valuation difference on available-for-sale securities | 35,856   | 25,041                |
| Net defined benefit asset              | 21,735  | 18,407                | Deferred gains or losses on hedges                    | 1,174    | 122                   |
| Other                                  | 2,848   | 2,637                 | Foreign currency translation adjustment               | (15,330) | (20,026)              |
| Allowance for doubtful accounts        | (42)    | (42)                  | Remeasurements of defined benefit plans               | (111)    | (5,262)               |
| <b>Total assets</b>                    | 722,500 | 670,271               | <b>Subscription rights to shares</b>                  | 527      | 416                   |
|                                        |         |                       | <b>Non-controlling interests</b>                      | 3,466    | 3,474                 |
|                                        |         |                       | <b>Total liabilities and net assets</b>               | 722,500  | 670,271               |

## Consolidated Statements of Income

(Year ended March 31, 2018)

(Millions of yen)

| Accounts                                               | FY2017         | (Reference)<br>FY2016 |
|--------------------------------------------------------|----------------|-----------------------|
| Net sales                                              | 344,667        | 338,890               |
| Cost of sales                                          | 73,911         | 77,777                |
| <b>Gross profit</b>                                    | <b>270,756</b> | <b>261,113</b>        |
| Selling, general and administrative expenses           | 155,537        | 152,934               |
| [R&D expenses]                                         | [59,945]       | [59,907]              |
| <b>Operating income</b>                                | <b>115,219</b> | <b>108,178</b>        |
| <b>Non-operating income</b>                            | <b>28,326</b>  | <b>19,312</b>         |
| Interest and dividends income                          | 27,702         | 18,840                |
| Other                                                  | 623            | 472                   |
| <b>Non-operating expenses</b>                          | <b>4,852</b>   | <b>4,459</b>          |
| Interest expenses                                      | 557            | 220                   |
| Other                                                  | 4,294          | 4,239                 |
| <b>Ordinary income</b>                                 | <b>138,692</b> | <b>123,031</b>        |
| <b>Extraordinary income</b>                            | —              | 2,182                 |
| Gain on sales of investment securities                 | —              | 2,182                 |
| <b>Extraordinary loss</b>                              | <b>1,314</b>   | <b>2,517</b>          |
| Loss on valuation of investment securities             | 794            | —                     |
| Impairment loss                                        | 519            | 359                   |
| Business structure improvement expenses                | —              | 2,158                 |
| <b>Income before income taxes</b>                      | <b>137,378</b> | <b>122,695</b>        |
| Income taxes-current                                   | 30,152         | 35,745                |
| Income taxes-deferred                                  | (1,562)        | 3,339                 |
| <b>Profit</b>                                          | <b>108,788</b> | <b>83,610</b>         |
| Profit(loss) attributable to non-controlling interests | (78)           | (268)                 |
| <b>Profit attributable to owners of parent</b>         | <b>108,866</b> | <b>83,879</b>         |

## Non-consolidated Balance Sheets

(As of March 31, 2018)

(Millions of yen)

| Accounts                                              | FY2017  | (Reference)<br>FY2016 | Accounts                                               | FY2017   | (Reference)<br>FY2016 |
|-------------------------------------------------------|---------|-----------------------|--------------------------------------------------------|----------|-----------------------|
| <b>Assets</b>                                         | 596,028 | 570,731               | <b>Liabilities</b>                                     | 95,518   | 119,159               |
| <b>Current assets</b>                                 | 309,674 | 296,628               | <b>Current liabilities</b>                             | 53,400   | 68,317                |
| Cash and deposits                                     | 38,136  | 38,304                | Accounts payable-trade                                 | 5,450    | 10,070                |
| Accounts receivable-trade                             | 47,759  | 56,477                | Current portion of long-term loans payable             | 10,000   | —                     |
| Short-term investment securities                      | 124,300 | 98,800                | Accounts payable-other                                 | 12,273   | 20,459                |
| Merchandise and finished goods                        | 10,835  | 14,399                | Accrued expenses                                       | 3,145    | 3,624                 |
| Work in process                                       | 5,744   | 7,533                 | Income taxes payable                                   | 12,057   | 22,322                |
| Raw materials and supplies                            | 11,981  | 11,033                | Deposits received                                      | 3,395    | 4,147                 |
| Advance payments-trade                                | 3,617   | 3,167                 | Provision for bonuses                                  | 6,661    | 7,019                 |
| Deferred tax assets                                   | 11,063  | 11,181                | Provision for directors' bonuses                       | 96       | 104                   |
| Short-term loans receivable                           | 44,925  | 47,419                | Provision for sales returns                            | 21       | 40                    |
| Other                                                 | 11,311  | 8,311                 | Other                                                  | 299      | 529                   |
| <b>Non-current assets</b>                             | 286,353 | 274,103               | <b>Non-current liabilities</b>                         | 42,117   | 50,841                |
| <b>Property, plant and equipment</b>                  | 68,201  | 70,710                | Bonds payable                                          | 18,491   | 20,054                |
| Buildings, net                                        | 40,199  | 41,480                | Long-term loans payable                                | —        | 10,000                |
| Structures, net                                       | 1,919   | 2,016                 | Deferred tax liabilities                               | 14,080   | 11,017                |
| Machinery and equipment, net                          | 12,420  | 11,521                | Provision for retirement benefits                      | 8,760    | 8,920                 |
| Vehicles, net                                         | 30      | 25                    | Other                                                  | 785      | 849                   |
| Tools, furniture and fixtures, net                    | 4,228   | 4,374                 | <b>Net assets</b>                                      | 500,510  | 451,572               |
| Land                                                  | 8,352   | 8,410                 | <b>Shareholders' equity</b>                            | 462,951  | 425,871               |
| Lease assets, net                                     | 140     | 397                   | <b>Capital stock</b>                                   | 21,279   | 21,279                |
| Construction in progress                              | 909     | 2,482                 | <b>Capital surpluses</b>                               | 16,392   | 16,392                |
| <b>Intangible assets</b>                              | 26,577  | 30,530                | Legal capital surplus                                  | 16,392   | 16,392                |
| Software                                              | 2,187   | 1,386                 | <b>Retained earnings</b>                               | 461,920  | 415,309               |
| Sales rights                                          | 24,245  | 28,935                | Legal retained earnings                                | 5,388    | 5,388                 |
| Other                                                 | 144     | 208                   | Other retained earnings                                | 456,532  | 409,921               |
| <b>Investments and other assets</b>                   | 191,574 | 172,862               | Reserve for advanced depreciation of noncurrent assets | 3,948    | 4,078                 |
| Investment securities                                 | 98,329  | 81,386                | General reserve                                        | 368,645  | 368,645               |
| Stocks of subsidiaries and affiliates                 | 68,321  | 63,701                | Retained earnings brought forward                      | 83,938   | 37,197                |
| Investments in capital of subsidiaries and associates | 603     | 603                   | <b>Treasury stock</b>                                  | (36,641) | (27,110)              |
| Long-term prepaid expense                             | 539     | 561                   | <b>Valuation and translation adjustments</b>           | 37,031   | 25,284                |
| Prepaid pension cost                                  | 22,598  | 25,367                | Valuation difference on available-for-sale securities  | 35,856   | 25,162                |
| Other                                                 | 1,224   | 1,283                 | Deferred gains or losses on hedges                     | 1,174    | 122                   |
| Allowance for doubtful accounts                       | (42)    | (42)                  | <b>Subscription rights to shares</b>                   | 527      | 416                   |
| <b>Total assets</b>                                   | 596,028 | 570,731               | <b>Total liabilities and net assets</b>                | 596,028  | 570,731               |

## Non-consolidated Statements of Income

(Year ended March 31, 2018)

(Millions of yen)

| Accounts                                                   | FY2017   | (Reference)<br>FY2016 |
|------------------------------------------------------------|----------|-----------------------|
| Net sales                                                  | 315,941  | 305,256               |
| Cost of sales                                              | 66,856   | 70,886                |
| Gross profit, net                                          | 249,084  | 234,370               |
| Selling, general and administrative expenses               | 132,177  | 125,857               |
| [R&D expenses]                                             | [59,304] | [57,817]              |
| Operating income                                           | 116,907  | 108,513               |
| Non-operating income                                       | 4,831    | 4,398                 |
| Interest and dividends income                              | 3,296    | 2,799                 |
| Other                                                      | 1,535    | 1,598                 |
| Non-operating expenses                                     | 4,205    | 4,797                 |
| Interest expenses                                          | 210      | 210                   |
| Other                                                      | 3,995    | 4,586                 |
| Ordinary income                                            | 117,534  | 108,113               |
| Extraordinary income                                       | —        | 2,182                 |
| Gain on sales of investment securities                     | —        | 2,182                 |
| Extraordinary loss                                         | 519      | 53,332                |
| Impairment loss                                            | 519      | 359                   |
| Loss on valuation of stocks of subsidiaries and affiliates | —        | 52,973                |
| Income before income taxes                                 | 117,014  | 56,962                |
| Income taxes-current                                       | 28,615   | 35,013                |
| Income taxes-deferred                                      | (736)    | (6,817)               |
| Profit                                                     | 89,135   | 28,767                |

**Accounting Auditor's Audit Report**

May 7, 2018

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, 2017 to March 31, 2018.

**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 7, 2018

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 153rd fiscal term from April 1, 2017 to March 31, 2018.

**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 153rd fiscal period from April 1, 2017 to March 31, 2018 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 8, 2018

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 :Masahide Hirasawa