

To All Shareholders

May 29, 2019

Notice of Convocation of the 154th Annual General Meeting of Shareholders

The 154th 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 using the proxy form, you are kindly requested to take the time to review the reference information provided below and exercise your vote by 5:00 p.m., Monday, June 17, 2019.¹

Yours faithfully,

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

Annual General Meeting of Shareholders

- 1. Date and time:** 10:00 a.m., Tuesday, June 18, 2019
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 154th Fiscal Term (year ended March 31, 2019)
2. The Audit Report of the Consolidated Financial Statements for the 154th Fiscal Term (year ended March 31, 2019) by the Accounting Auditor and the Board of Corporate Auditors

Items for resolution:

- Proposal No. 1: Appropriation of Surplus
- Proposal No. 2: Election of Six (6) Directors
- Proposal No. 3: Election of Two (2) Corporate Auditors
- Proposal No. 4: Revision of Compensation of Corporate Auditors

4. Exercise of voting rights:

You are kindly requested to review "How to Exercise Your Voting Rights" on pages 2 and 3 before exercising your voting rights.

1. Exercise of voting rights by mail
If you wish to vote by mail, you are kindly requested to indicate your consent or refusal on the proxy form and return it by 5:00 p.m., Monday, June 17, 2019.
2. Exercise of voting rights by Internet
You are kindly requested to exercise your voting rights by 5:00 p.m., Monday, June 17, 2019, after reviewing the instructions and cautionary statements.

* [The reception desk opens at 9:00 A.M.](#)

* If you intend to exercise your voting rights in person, you are kindly requested to hand in your proxy form at the reception desk when you arrive at the Annual General Meeting of Shareholders







* Pursuant to the Companies Act and Article 14 of Shionogi's Articles of Incorporation, "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/>).

¹ Japan Standard Time

How to Exercise Your Voting Rights

There are three ways to exercise your voting rights.

<p>1</p> 	<p>If attending the General Meeting</p>		<p>Hand in your proxy form at the reception desk when you arrive (no signature or seal necessary)</p>
<p>Date & time of the General Meeting: 10:00 a.m., Tuesday, June 18, 2019</p>			
<p>2</p> 	<p>If exercising your voting rights by mail</p>		<p>Indicate your consent or refusal, then mail the form (please mail early)</p>
<p>Voting deadline: Form must arrive by 5:00 p.m., Monday, June 17, 2019</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., Monday, June 17, 2019</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 scan 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.*, Monday, June 17, 2019 please exercise your voting rights as early as possible to assist us with compiling the results of the voting.
- (3) If you exercise your voting rights both in writing and through the Internet, we will only accept the exercise of your voting rights through the Internet. If you exercise your voting rights more than once through the Internet, etc. or in the personal Computer and mobile phone, we will only accept the last exercise of your voting rights as valid.
- (4) The internet access fee to providers and telecommunications carriers and other fees for the usage of the website for exercising voting rights shall be borne by the shareholder.


3. Using the Password and Voting Rights Exercise Code

- (1) Please protect your password because it is crucial for confirming your identity as a voting shareholder.
- (2) Your password becomes invalid if you fail to input it correctly within the set number of times. Follow the instructions on the screen if you need to have a new password issued.
- (3) The Voting Rights Exercise Code on the Proxy Card is only valid for the General Meeting of Shareholders on Thursday, June 18, 2019.

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 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 the DOE (dividend on equity) ratio 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, 2019 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

¥50 per share of common stock

Total amount of dividends: ¥15,564,370,700

(3) Effective date of dividends

June 19, 2019

Including the interim dividend, cash dividends per share for the fiscal year ended March 31, 2019 totaled ¥94.00, an increase of ¥12.00 compared with the previous fiscal year.



No. 2: Election of Six (6) Directors


The term of office of all six (6) Directors expires at the end of this Annual General Meeting of Shareholders. Candidates for Director are deliberated fairly, transparently and rigorously by the Nomination Advisory Committee, which is chaired by an outside director, and decided by the Board of Directors after obtaining the recommendation of the Nomination Advisory Committee.


Candidates for Director are as follows:


Candidate No.	Name	Position and responsibility within the Company and major concurrent posts
1	① Motozo Shiono	Chairman of the Board and Representative Director 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 Teppei Mogi ② ③	Director Partner of Oh-Ebashi LPC & Partners Outside Director (audit & Supervisory Committee member) of NIITAKA Co., Ltd. Outside Director (audit & Supervisory Committee member) of KURABO INDUSTRIES LTD.
5	① Keiichi Ando ② ③	Director Representative Director and President and of GINSEN CO., LTD. Outside Director of Tsubakimoto Chain Co.
6	④ Hiroshi Ozaki ② ③	Representative Director and Chairman, Osaka Gas Co., Ltd. Outside Director, Asahi Broadcasting Corporation


① : Reappointment ② : Outside Director ③ : Independent Director ④ : New Appointment

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts						
1	<p>Reappointment</p>  <p>Motozo Shiono (November 17, 1946)</p> <table border="1" data-bbox="311 584 627 943"> <tr> <td data-bbox="311 584 472 674">Number of the Company's shares owned</td> <td data-bbox="472 584 627 674">993,348 shares</td> </tr> <tr> <td data-bbox="311 674 472 831">Number of years served as Director</td> <td data-bbox="472 674 627 831">35 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td data-bbox="311 831 472 943">Attended all 13 Board of Directors meetings</td> <td data-bbox="472 831 627 943">100%</td> </tr> </table>	Number of the Company's shares owned	993,348 shares	Number of years served as Director	35 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 13 Board of Directors meetings	100%	<p>January 1972: Joined the Company June 1984: Director of the Company April 1987: General Manager, Accounting Department June 1987: Managing Director of the Company June 1990: Senior Managing Director of the Company March 1996: General Manager, Agro., Vet. & Industrial Chem. Division August 1999: Representative Director and President of the Company August 1999: General Manager, Corporate Planning Division April 2008: Chairman of the Board of the Company (incumbent)</p> <p>(Major concurrent posts) Chief Director of The Cell Science Research Foundation</p> <p>【Reasons for nominating the candidate for Director】 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 and contributed substantially to energizing the Board of Directors as Chairman of the Board, such as by fostering an environment that enables outside directors to actively express their opinions and requests, and by enhancing the quality and quantity of information provided. He has also appropriately supervised management's business execution. Therefore, we recommend that you vote for his reelection as a Director.</p>
Number of the Company's shares owned	993,348 shares							
Number of years served as Director	35 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 13 Board of Directors meetings	100%							
2	<p>Reappointment</p>  <p>Isao Teshirogi (December 12, 1959)</p> <table border="1" data-bbox="311 1384 627 1742"> <tr> <td data-bbox="311 1384 472 1473">Number of the Company's shares owned</td> <td data-bbox="472 1384 627 1473">25,950 shares</td> </tr> <tr> <td data-bbox="311 1473 472 1630">Number of years served as Director</td> <td data-bbox="472 1473 627 1630">17 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td data-bbox="311 1630 472 1742">Attended all 13 Board of Directors meetings</td> <td data-bbox="472 1630 627 1742">100%</td> </tr> </table>	Number of the Company's shares owned	25,950 shares	Number of years served as Director	17 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 13 Board of Directors meetings	100%	<p>April 1982: Joined the Company January 1999: General Manager, Secretary Office and General Manager, Corporate Planning Department June 2002: Director of the Company October 2002: General Manager, Corporate Planning Department April 2004: Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division April 2006: Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division April 2007: Senior Executive Officer April 2008: Representative Director and President and CEO of the Company (incumbent)</p> <p>【Reasons for nominating the candidate for Director】 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. Given the steady achievement of the quantitative targets in the Medium-Term Management Plan, Shionogi Growth Strategy 2020 (SGS2020), which was formulated in FY2014, 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. These targets were achieved ahead of schedule, particularly profit targets. Based on these results, we believe that he can make the Company "grow as a drug-discovery based pharmaceutical company," and therefore we recommend that you vote for his reelection as a Director.</p>
Number of the Company's shares owned	25,950 shares							
Number of years served as Director	17 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 13 Board of Directors meetings	100%							

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts		
3	<p>Reappointment</p>  <p>Takuko Sawada (March 11, 1955)</p>	<p>April 1977: Joined the Company</p> <p>April 2002: Executive General Manager, Pharmaceutical Development Division</p> <p>April 2007: Officer and Executive General Manager, Pharmaceutical Development Division</p> <p>April 2010: Executive Officer and Executive General Manager, Pharmaceutical Development Division</p> <p>April 2011: Senior Executive Officer and Executive General Manager, Global Development Office</p> <p>April 2013: Senior Executive Officer and Senior Vice President, Global Development and, Pharmaceutical Development Division</p> <p>April 2014: Senior Executive Officer and Senior Vice President, Global Pharmaceutical Development Division</p> <p>April 2015: Senior Executive Officer and Senior Vice President, Corporate Strategy Division</p> <p>June 2015: Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division</p> <p>October 2015: Senior Executive Officer and Senior Vice President, Corporate Strategy Division, and General Manager, Corporate Planning Department</p> <p>April 2016: Senior Executive Officer and Senior Vice President, Corporate Strategy Division</p> <p>April 2017: Senior Executive Officer and Senior Vice President, Corporate Strategy Division</p> <p>April 2018: Director of the Company and Vice President (incumbent)</p>		
	<table border="1"> <tr> <td data-bbox="309 680 464 757">Number of the Company's shares owned</td> <td data-bbox="464 680 627 757">28,600 shares</td> </tr> </table>	Number of the Company's shares owned	28,600 shares	
	Number of the Company's shares owned	28,600 shares		
	<table border="1"> <tr> <td data-bbox="309 770 464 909">Number of years served as Director</td> <td data-bbox="464 770 627 909">4 years (as at the close of this Annual General Meeting of Shareholders)</td> </tr> </table>	Number of years served as Director	4 years (as at the close of this Annual General Meeting of Shareholders)	
Number of years served as Director	4 years (as at the close of this Annual General Meeting of Shareholders)			
<table border="1"> <tr> <td data-bbox="309 927 464 1025">Attended all 13 Board of Directors meetings</td> <td data-bbox="464 927 627 1025">100%</td> </tr> </table>	Attended all 13 Board of Directors meetings	100%	<p>【Reasons for nominating the candidate for Director】</p> <p>Since her appointment as a Director of the Company in 2015, 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 FY2018, she supervises the Pharmaceutical Research Division, Global Development Division, Corporate Quality Management Division, Digital Intelligence Department and other operations 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>	
Attended all 13 Board of Directors meetings	100%			

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts						
4	<p style="text-align: center;">Reappointment Outside Director Candidate Independent Director</p> <div style="text-align: center;">  </div> <p style="text-align: center;">Teppei Mogi (October 17, 1958)</p> <table border="1" data-bbox="312 864 628 1218" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Number of the Company's shares owned</td> <td style="width: 50%; text-align: center;">0 shares</td> </tr> <tr> <td>Number of years served as Outside Director</td> <td style="text-align: center;">10 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td>Attended all 13 Board of Directors meetings</td> <td style="text-align: center;">100%</td> </tr> </table>	Number of the Company's shares owned	0 shares	Number of years served as Outside Director	10 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 13 Board of Directors meetings	100%	<p>April 1989: Registration of Attorney at Law April 1989: Joined Oh-Ebashi Law Offices July 1992: Service at Brussels Office of Cleary, Gottlieb, Steen & Hamilton LLP January 1993: Service at Rotterdam Office of De Brauw Blackstone Westbroek April 1994: Partner of Oh-Ebashi Law Offices August 2002: Partner of Oh-Ebashi LPC & Partners (incumbent) April 2004: Practitioner teacher, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (Full-time teacher) April 2005: Part-time instructor, Graduate School of Law, Kobe University (incumbent) June 2009: Director of the Company (incumbent) April 2010: Part-time instructor, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (incumbent) August 2014: Outside Corporate Auditor of NIITAKA Co., Ltd. June 2015: Outside Corporate Auditor of KURABO INDUSTRIES LTD. August 2015: Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd. (incumbent) June 2016: Outside Director (Audit & Supervisory Committee member) of KURABO INDUSTRIES LTD. (incumbent)</p> <p>(Major concurrent posts) Partner of Oh-Ebashi LPC & Partners Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd Outside Director (Audit & Supervisory Committee member) of KURABO INDUSTRIES LTD.</p> <p>【Reasons for nominating the candidate for Outside Director】 Teppei Mogi has not been involved in company management in any way other than serving as outside director or corporate auditor in the past, but recognizes the corporate responsibility the Company should fulfill and makes fair management decisions, giving priority to legal compliance and social norms from a global perspective from his position as an attorney in international corporate law. We therefore recommend that you vote for his reelection as Outside Director. At Board of Directors meetings, he provided legal points and suggestions on protection of intellectual property, raised concerns about business tie-ups, and offered advice on corporate governance, risk management and compliance systems, including those of overseas subsidiaries. As Chairman of the Compensation Advisory Committee, he also made fair decisions based on an independent and objective viewpoint.</p> <p>【Notes】</p> <ul style="list-style-type: none"> • Teppei Mogi is a candidate of outside director stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act. • Teppei Mogi is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange. If this proposal is approved and this candidate is reelected as outside director, he plans to continue as independent director. • The Company has paid attorney fees to Oh-Ebashi LPC & Partners, where he is a partner, for certain specific cases involving international corporate legal affairs, an area in which this law firm has expertise. However, that compensation amounts to less than 1% of the total fees received by Oh-Ebashi LPC & Partners, and the Company has no advisory contract or other ongoing contractual relationship with Oh-Ebashi LPC & Partners. • At KURABO INDUSTRIES LTD., where he became an outside corporate auditor in August 2015, inappropriate transactions, including round-trip transactions, by a former employee have come to light. As Chairman of the Special Investigation Committee of KURABO INDUSTRIES, he was involved in an investigation to determine the details of the inappropriate transactions by the employee and whether there were any similar transactions by other employees. As a result of the investigation, similar transactions by multiple other employees were revealed, and the accounting treatment based on these transactions did not properly present KURABO INDUSTRIES' financial condition; consequently, corrections were made for prior fiscal years in the company's annual securities report and quarterly financial reports. Most of the problems took place in periods before he was appointed. Based on the investigation, he proposed various measures to prevent a recurrence, and has continued to monitor the implementation of those measures as a corporate auditor and outside director (audit & supervisory committee member).
Number of the Company's shares owned	0 shares							
Number of years served as Outside Director	10 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 13 Board of Directors meetings	100%							

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts						
5	<p style="text-align: center;">Reappointment Outside Director Candidate Independent Director</p> <div style="text-align: center;">  </div> <p style="text-align: center;">Keiichi Ando (November 5, 1951)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 2px;">Number of the Company's shares owned</td> <td style="width: 50%; text-align: center; padding: 2px;">0 shares</td> </tr> <tr> <td style="padding: 2px;">Number of years served as Outside Director</td> <td style="text-align: center; padding: 2px;">3 years (as at the closing of this Annual General Meeting of Shareholders)</td> </tr> <tr> <td style="padding: 2px;">Attended all 13 Board of Directors meetings</td> <td style="text-align: center; padding: 2px;">100%</td> </tr> </table>	Number of the Company's shares owned	0 shares	Number of years served as Outside Director	3 years (as at the closing of this Annual General Meeting of Shareholders)	Attended all 13 Board of Directors meetings	100%	<p>April 1976: Joined Sumitomo Bank Limited April 2003: Executive Officer, Sumitomo Mitsui Banking Corporation April 2006: Managing Executive Officer, Sumitomo Mitsui Banking Corporation April 2009: Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation April 2010: Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation April 2012: Representative Director and President, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD July 2012: Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD June 2016: Director of the Company (incumbent) June 2016: Representative Director and President, GINSEN CO., LTD (incumbent) June 2017: Outside Director of Tsubakimoto Chain Co. (incumbent) (Major concurrent posts) Representative Director and President, GINSEN CO., LTD Outside Director, Tsubakimoto Chain Co.</p> <p>【Reasons for nominating the candidate for Outside Director】 Keiichi Ando has practical experience as a corporate executive at a financial institution and broad insight on finance. He also coordinated the extremely difficult adjustments between the national government and the governments of Osaka Prefecture and Osaka City for the airport management business of Kansai, which was then at a crossroads, and his experience and insight built the foundation of Kansai Airports, which plays a leading role in the current Kansai economy. Thus, he recognizes the corporate responsibility we should fulfill and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. We therefore recommend that you vote for his reelection as an outside director. At Board of Directors meetings, he presents many questions and opinions from the perspective of human resources and the use of assets that are important management resources, and provides appropriate advice about budget planning and management and capital policies, including investments.</p> <p>【Notes】 .</p> <ul style="list-style-type: none"> • Keiichi Ando is a candidate for outside director stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act. • Keiichi Ando is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange. If this proposal is approved and this candidate is reelected as outside director, he plans to continue as independent director. • The Company pays insurance premiums in connection with the non-life insurance agency business to GINSEN CO., LTD., where he is representative director and president, but the transaction amounts are considered insignificant as they are less than 1% of that company's net sales.
Number of the Company's shares owned	0 shares							
Number of years served as Outside Director	3 years (as at the closing of this Annual General Meeting of Shareholders)							
Attended all 13 Board of Directors meetings	100%							

Candidate No.	Name (Date of birth)	Career summary, position and responsibility within the Company and other major posts
6	<p data-bbox="316 521 555 589">New appointment Outside Director Candidate Independent Director</p>  <p data-bbox="316 857 467 902">Hiroshi Ozaki (March 11, 1950)</p>	<p data-bbox="655 253 1390 667"> May 1972: Joined Osaka Gas Co., Ltd. June 2000: Director, Osaka Gas Co., Ltd. June 2002: Director and Tokyo Representative, Osaka Gas Co., Ltd., on loan to the Japan Gas Association June 2005: Managing Director and General Manager of LNG Terminal and Power Generation Business Unit, Osaka Gas Co., Ltd. June 2007: Managing Director and General Manager of Commercial & Industrial Energy Business Unit, Osaka Gas Co., Ltd. April 2008: Representative Director and President, Osaka Gas Co., Ltd. June 2008: Director, Osaka Gas Chemicals Co., Ltd. (incumbent) June 2009: Representative Director and President, Operating Executive Officer, Osaka Gas Co., Ltd. June 2009: Director of OGIS-RI Co., Ltd. (incumbent) June 2011: Outside Director of Asahi Broadcasting Corporation (incumbent) June 2015: Representative Director and Chairman, Osaka Gas Co., Ltd. (incumbent) </p> <p data-bbox="655 696 1174 763">(Major concurrent posts) Representative Director and Chairman, Osaka Gas Co., Ltd. Outside Director, Asahi Broadcasting Corporation </p> <p data-bbox="655 775 1366 1043"> 【Reasons for nominating the candidate for Outside Director】 Hiroshi Ozaki has abundant practical experience and wide-ranging knowledge in corporate management and organizational management as a manager of a company based in Kansai. He also serves as chairman of the Osaka Chamber of Commerce and Industry, and developed and implemented a medium-term plan from FY 2017 aimed at promoting the economic growth of Osaka and Kansai. In the Medium-Term Management Plan, he is focusing on promoting the life science industry. We expect him to draw on this wealth of experience and knowledge to make management judgments with an emphasis on objectivity and neutrality. We therefore recommend that you vote for his election as an outside director. </p> <p data-bbox="655 1055 1366 1245"> 【Notes】 <ul style="list-style-type: none"> • Hiroshi Ozaki is a candidate for outside director stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act. • Hiroshi Ozaki is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange. If this proposal is approved and this candidate is elected as outside director, he plans to be an independent director. </p>


Notes:


1. There are no special interests between the candidates and the Company.
2. The Company has concluded contracts with 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, 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. If Hiroshi Ozaki is elected, the Company plans to conclude the aforementioned limited liability contract with him

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

The terms of office of Corporate Auditors Akira Okamoto and Kenji Fukuda will end as of the close of this General Meeting of Shareholders. Accordingly, the Company proposes the election of two (2) corporate auditors newly.

The consent of the Board of Corporate Auditors has been obtained for submission of this proposal. Candidates for corporate auditor are as follows:

Candidate No.	Name (Date of birth)	Career summary, position within the Company and other major posts
1	Reappointment  Akira Okamoto (April 3, 1955)	<p>April 1978: Joined the Company</p> <p>April 2006: General Manager, Business Support Center</p> <p>April 2007: General Manager, General Affairs & Personnel Department</p> <p>April 2008: General Manager, Human Resources Department</p> <p>April 2011: General Manager, Internal Control Department</p> <p>June 2015: Standing Member of the Board of Auditors of the Company (incumbent)</p>
		<p>【Reasons for nominating the candidate for Corporate Auditor】</p> <p>Akira Okamoto has served as General Manager of administrative units including the Business Support Center and the Personnel Department, and is well-versed in corporate management. He has been involved in enhancement of the Company's corporate governance and upgrading and operation of the internal control system as General Manager of the Internal Control Department. He provides appropriate recommendations and advice on management decisions and execution of duties from a neutral point of view as a corporate auditor.</p> <p>Accordingly, we judge that he has the appropriate character and insight to perform the duties of a Corporate Auditor, and recommend that you vote for his re-election as Corporate Auditor</p>
	Number of the Company's shares owned	6,657 shares
	Number of years served as Outside Corporate Auditor	4 years (as at the closing of this Annual General Meeting of Shareholders)
	Attended all 13 Board of Directors meetings	100%
Attended all 8 Board of Corporate Auditors meetings	100%	

Candidate No.	Name (Date of birth)	Career summary, position within the Company and other major posts
2	<p>New appointment Outside Corporate Auditor</p>  <p>Tsuguoki Fujinuma (November 21, 1944)</p>	<p>April 1969: Joined Horie Morita Accounting Firm June 1970: Joined Arthur & Young Accounting Firm May 1986: Partner and Representative Partner of Asahi Shinwa Accounting Firm (now KPMG AZSA LLC) July 1993: Managing Partner of Ota Showa & Co. (now Ernst & Young ShinNihon LLC) (Resignation in June 2007) May 2000: President of the International Federation of Accountants July 2004: Chairman and President of the Japanese Institute of Certified Public Accountants Feb. 2005: Trustee and Vice Chairman of the IFRS Foundation Trustee July 2007: Advisor of the Japanese Institute of Certified Public Accountants (incumbent) Aug. 2007: Outside Director of Tokyo Stock Exchange Group, Inc. Oct. 2007: Governor of Tokyo Stock Exchange Regulation Apr. 2008: Specially appointed Professor of Chuo Graduate School of Strategic Management June 2008: Outside Corporate Auditor of Sumitomo Corporation June 2008: External/Outside Corporate Auditor of Takeda Pharmaceutical Company Limited June 2008: Outside Director of Nomura Holdings, Inc. Outside Director of Nomura Securities Co., Ltd. July 2008: Outside Director of Sumitomo Life Insurance Company Apr. 2010: Visiting Professor at Kansai University May 2010: Outside Corporate Auditor of Seven & i Holdings Co., Ltd. (incumbent) Apr. 2015: Fellow and Advisory Board Member at Chuo University Business School (incumbent) July 2017: Auditor, Chiba Gakuen (incumbent)</p> <p>(Major concurrent posts) Auditor, Chiba Gakuen</p>
		<p>Number of the Company's shares owned</p> <p>1,000 shares</p>
		<p>【Reasons for nominating the candidate for Outside Corporate Auditor】</p> <p>Tsuguoki Fujinuma has professional expertise in finance and accounting. He has held the important post of Chairman and Advisor of the Japanese Institute of Certified Public Accountants, as well as a number of public offices, and has extensive experience and broad insight as an outside director and outside corporate auditor. In the past, he has not been involved in company management in any capacity other than as an outside director or outside corporate auditor, but based on his experience as a certified public accountant, we believe that he will be able to carry out audits of the Company with higher quality from the viewpoint of finance and accounting.</p> <p>For these reasons, we expect that he will reflect his experience in audits of the Company with respect to the appropriateness of the management decisions and execution of duties of the Directors from an independent point of view as an outside corporate auditor. We therefore recommend that you vote for his election as outside corporate auditor.</p>
		<p>【Notes】</p> <ul style="list-style-type: none"> Tsuguoki Fujinuma is a candidate for outside corporate auditor stipulated in Article 2, Paragraph 3, Sub-paragraph 8 of the Enforcement Regulations of the Companies Act. If this proposal is approved and this candidate is elected as outside corporate auditor, Mr. Tsuguoki Fujinuma plans to be registered as an independent auditor as defined in the regulations of the Tokyo Stock Exchange. Tsuguoki Fujinuma was involved in the execution of operations at Ernst & Young ShinNihon LLC, but since his resignation in June 2007, he has not been involved in the execution of operations for Ernst & Young ShinNihon LLC,

Notes:

- There are no special interests between the candidates and the Company.
- The Company has concluded a contract with Akira Okamoto 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. The Company plans to continue the aforementioned limited liability contract with Akira Okamoto if he is re-elected. In addition, if Tsuguoki Fujinuma is appointed as a corporate auditor, the Company will conclude the aforementioned limited liability contract with him.

No. 4: Revision of Amount of Compensation of Corporate Auditors

The 146th Annual General Meeting of Shareholders held on June 24, 2011 set compensation to be paid to corporate auditors within an approved scope, with a maximum limit set at ¥120 million per annum. This limit remains in effect today.

However, the responsibilities and workload of the Company's corporate auditors have increased due to the significant changes in economic conditions and management climate since June 2011. Accordingly, the Company proposes that the maximum limit of corporate auditor compensation be increased to ¥170 million per annum.

At present, there are five (5) corporate auditors, and if proposal number 3 is approved without modification, the number of corporate auditors will not change.

[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 FY2018 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

Supervision of the status of further enhancement of reports on management development, an issue in the previous fiscal year, was reported at meetings between outside directors and the president to exchange opinions.

For further enhancement of reports on compliance and the operation of internal controls, reports on the status of compliance activities are presented on a regular basis twice annually since 2018.

Issues for the future include the enhancement of discussions on the medium-term business plan, the enhancement of explanations and discussions of the selection process and development progression with respect to management development, and establishment of frameworks and further enhancement of the contents of reports related to compliance.

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

3. Operation

An observation tour of the Shionogi Pharmaceutical Research Center (SPRC) was held to further stimulate discussion at Board of Directors meetings, which was an issue in the previous fiscal year. In addition, with respect to advance briefings on important and highly specialized matters, the Board of Directors conducted timely advance briefings and considered changing its advance briefing methods.

Opinions submitted as issues for the future included consideration of on-site observation tours of facilities other than the SPRC and enhancement of methods of providing basic information for understanding pharmaceutical companies.

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 consolidated 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 corporate auditor shall not exceed 12 years (3 terms).

[Reference]

Basic Views and Guidelines on Corporate Governance and Corporate Governance Structure

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.

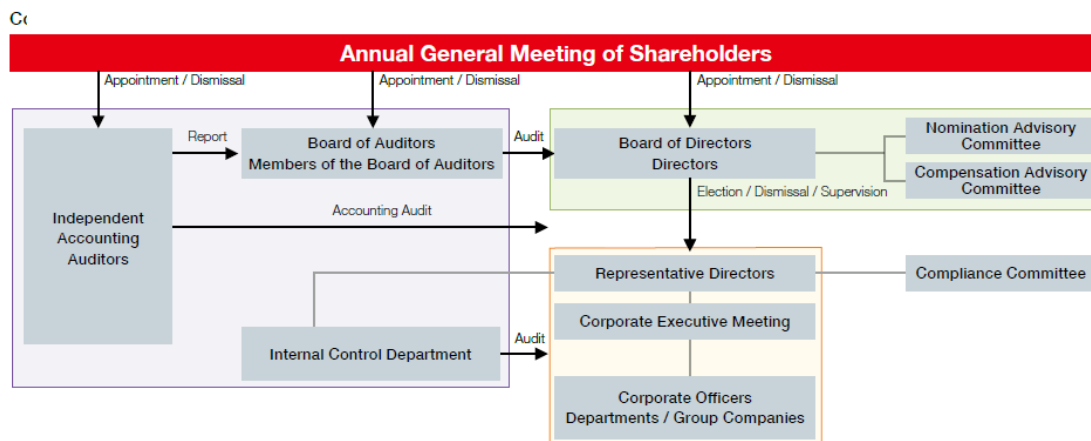
The Board of Directors is composed of six directors, three of whom are outside directors to further enhance management transparency and accountability to stakeholders. In addition, the Company has established a Nominating Advisory Committee and a Compensation Advisory Committee as advisory bodies to 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, 2019)

(Corporate Governance Structure)



(Appended documents)
Business Report

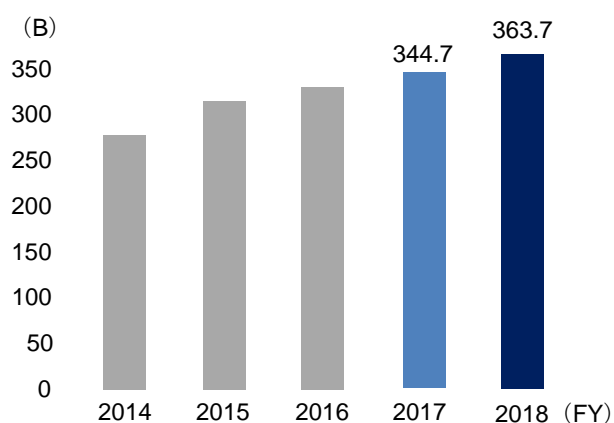
FY2018 (Year ended March 31, 2019)

Financial Highlights of the Shionogi Group

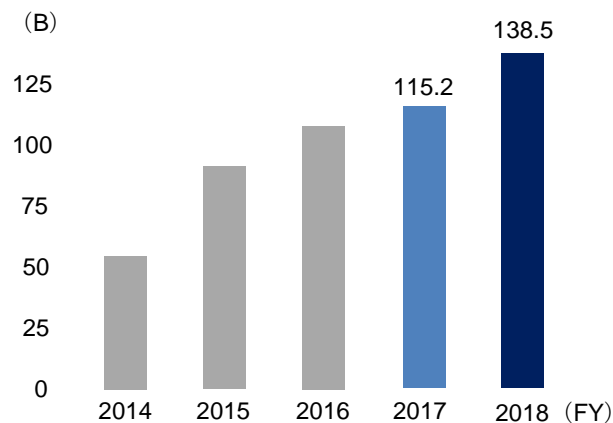
Performance

- Net sales: 363.7 B yen, increased for 4 consecutive years
 - Growth in royalty income on the back of rising global sales of HIV franchise products
 - Received milestone payments from Roche in connection with progress in global development of Xofluza™
 - Net sales growth in Japan, centered on strategic products (Cymbalta®, Intuniv®, Symproic® and Xofluza™)
- Record-high operating income (4 consecutive year), ordinary income (7 consecutive year) and profit attributable to owners of parent (3 consecutive year)

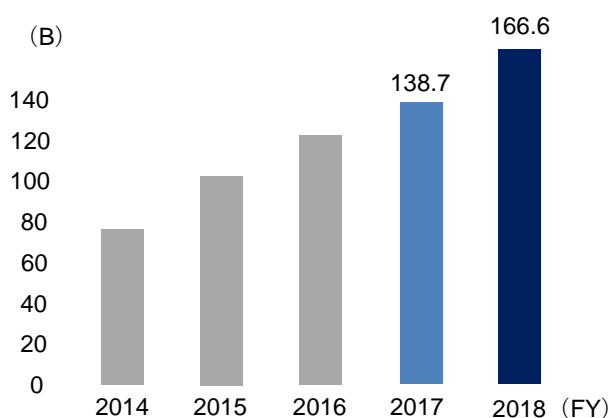
Net



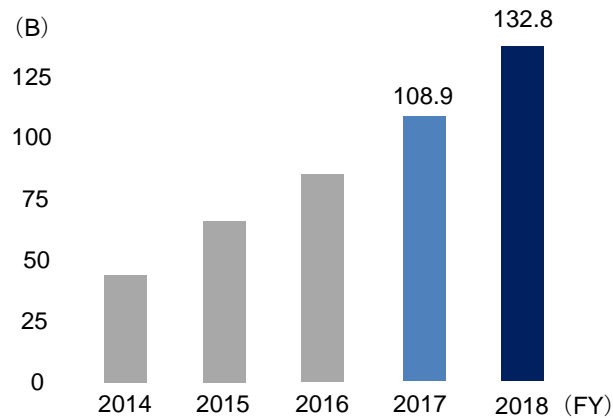
Operating



Ordinary

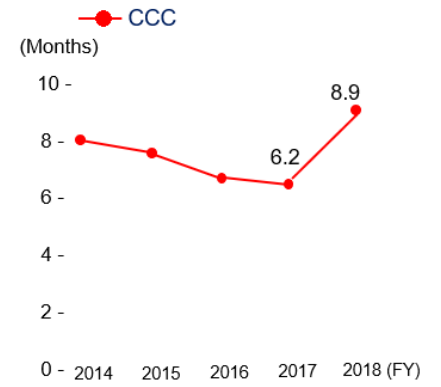
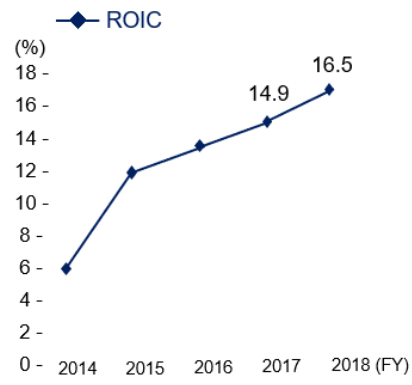
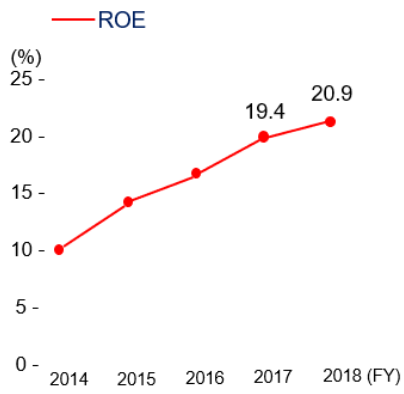


Profit attributable to owners of



Capital Efficiency KPI

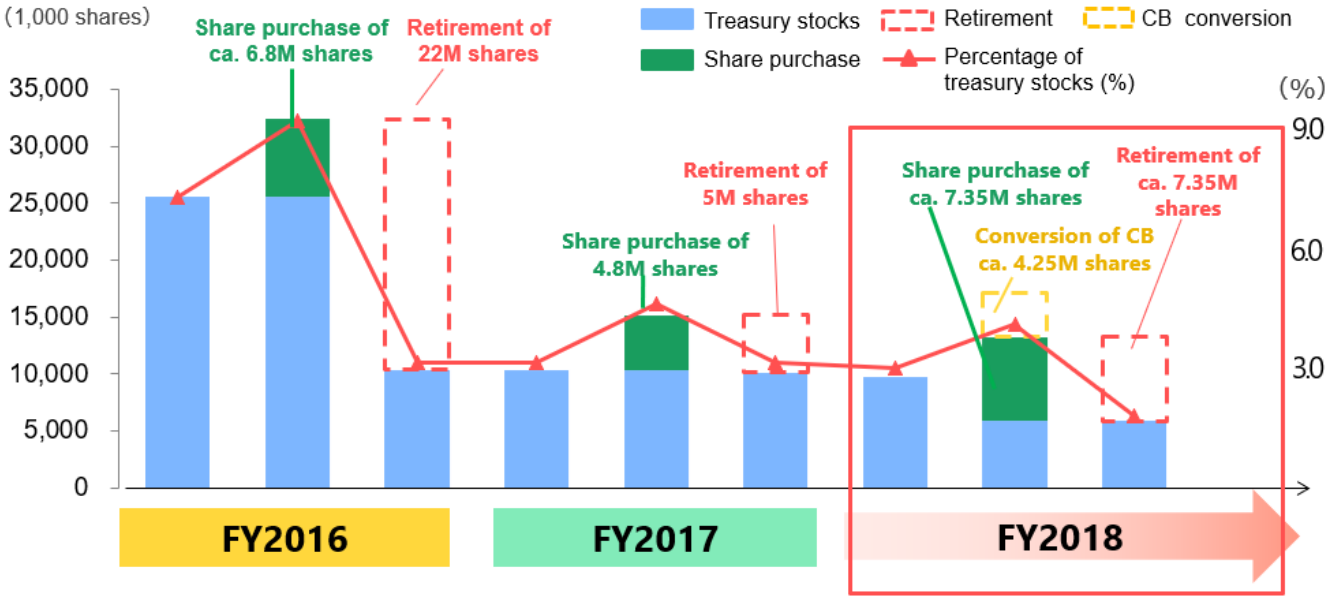
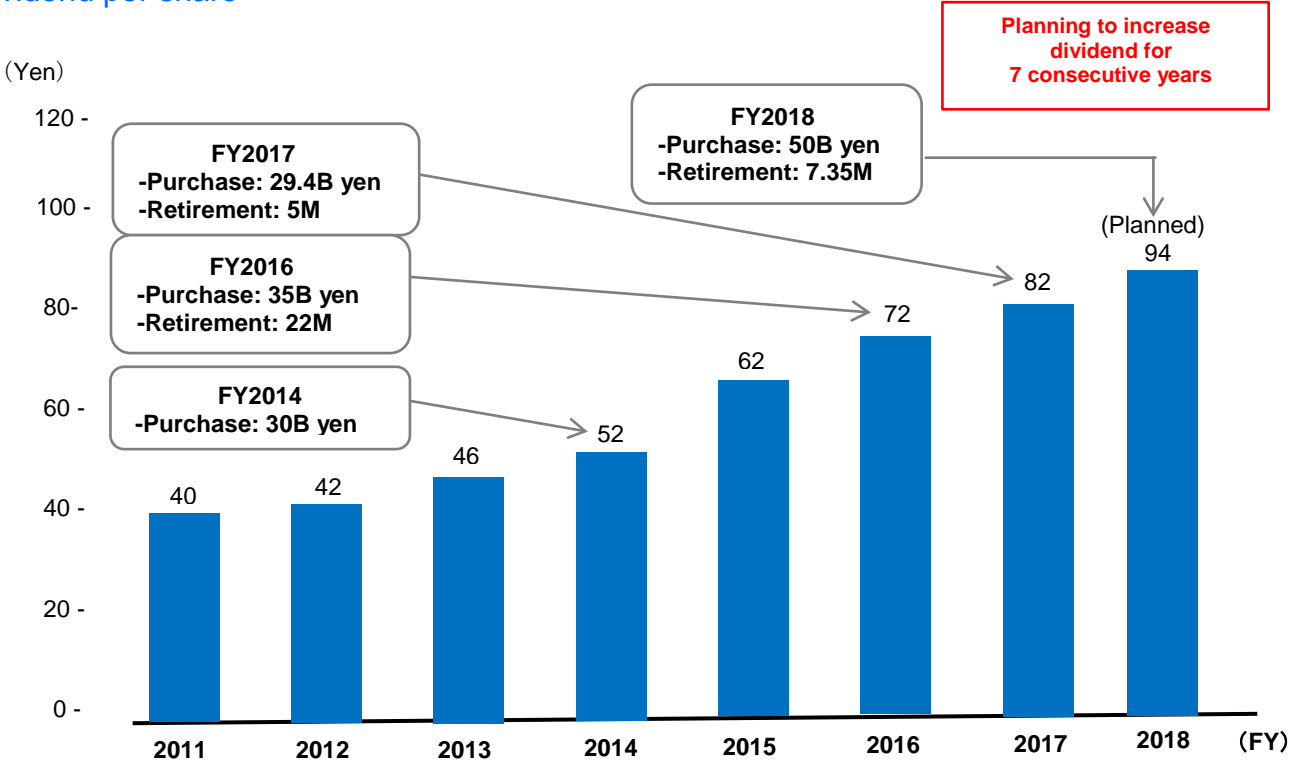
- Steady improved ROE, ROIC and CCC



Shareholder return policy

- Continuous dividend increases, flexible share purchase and retirement of treasury stocks

Dividend per share



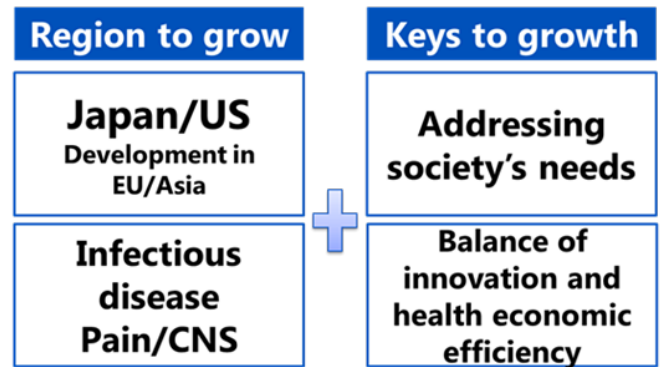
1. Current State of the Shionogi Group

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, 2019, in Japan, Shionogi provided new options for flu treatment with the launch of Brightpoc[®] Flu Neo, a flu diagnosis kit, and the rapid market penetration of Xofluza[®], an anti-flu drug launched in March 2018. In the United States, the Shionogi Group launched Mulpleta[®] for the treatment of thrombocytopenia in adult patients with chronic liver disease one month earlier than planned, after it was granted priority review designation.

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.”



Appearance on Cambria Palace TV Program (January 24, 2019)

■ First time the program has featured a prescription pharmaceutical company

In the pharmaceutical industry, where acquisitions and other trends are fueling intense competition for survival, Shionogi was presented as a company that is making its presence felt with a drug discovery-based strategy that is different from its peers.

■ Shionogi's characteristics highlighted on the program

- **Discovery-based pharmaceutical company**

In drug development, where the probability of success is said to be 1 in 25,000, Shionogi's R&D has produced 7 new drugs in 14 years.

- **A strategy of focusing on our areas of strength**

Drug R&D is concentrated on three areas, including infectious diseases.

- **Avoidance of patent cliffs**

A management strategy that has overcome the patent cliff problem – the sharp decline in sales when generic versions emerge after the patent on a drug expires

- **Exceptionally fast drug development**

Research and development of Xofluza® was a top-priority project involving the whole company.



(1) Business Operations and Results

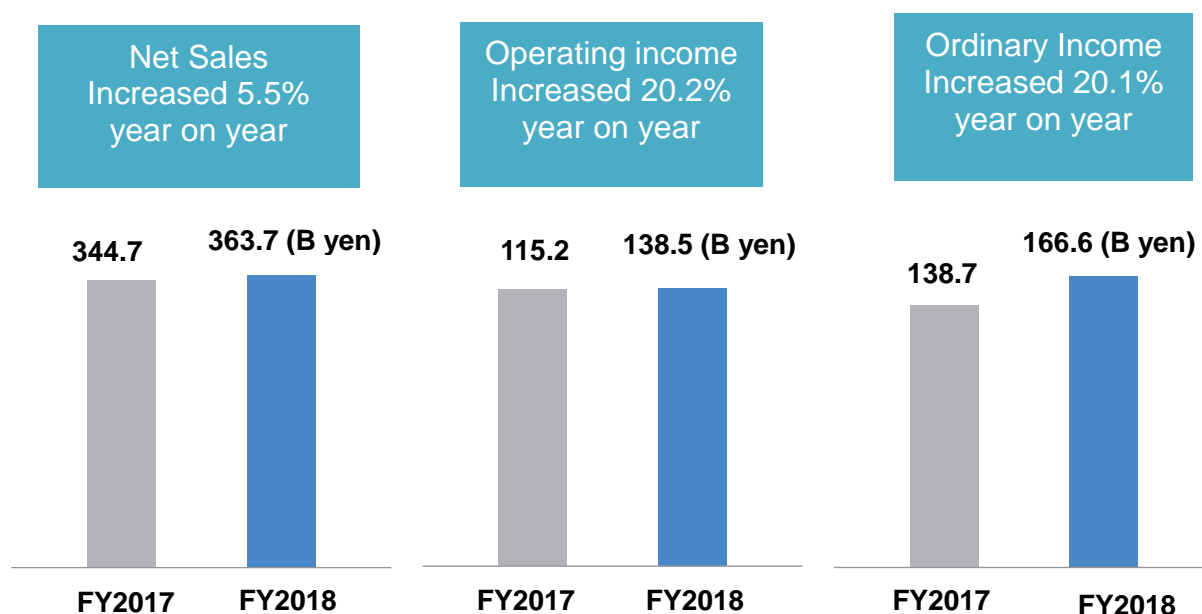
Summary of Business Operation for FY2018

Net Sales ¥363.7 billion	Operating Income ¥138.5 billion	Ordinary Income ¥166.6billion
Profit Attributable to Owners of Parent ¥132.8 billion		Return on Equity (ROE) 20.9%

Net sales were ¥363.7 billion (5.5 percent increase year on year) and we have achieved increase in net sales for the 4th consecutive year. The main contributor to sales was domestic prescription drug sales, which were ¥128.7 billion (7.6 percent decrease), but royalty and milestone income of ¥180.3 billion (16.3 percent increase) contributed to sales growth.

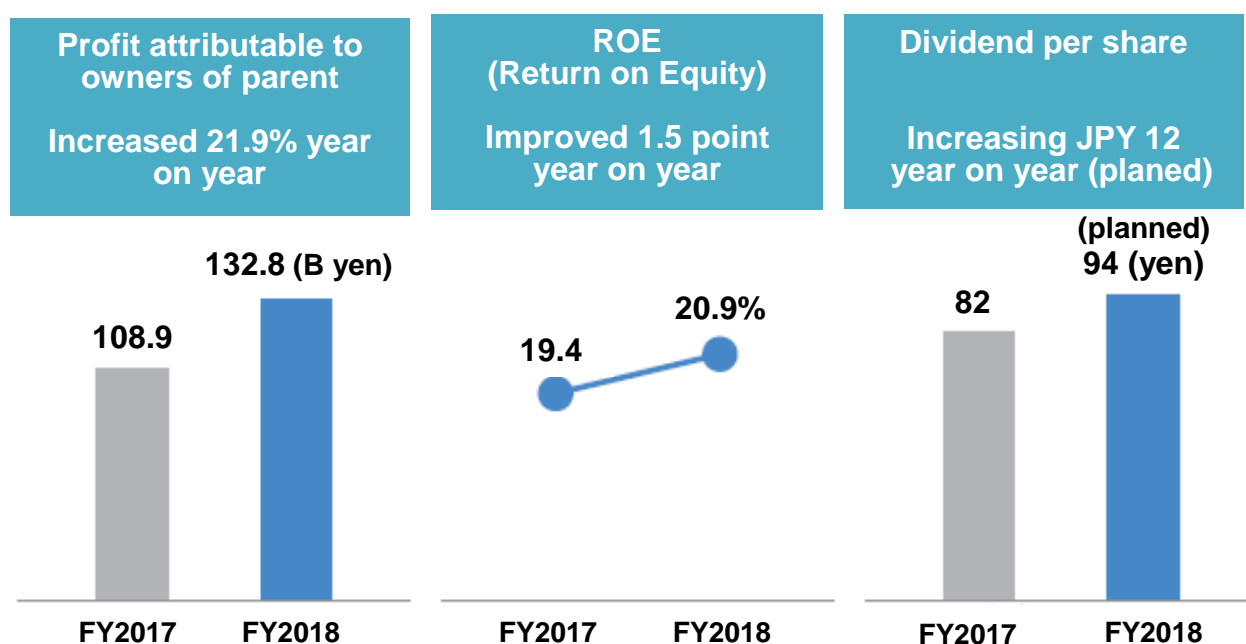
Operating income was ¥138.5 billion (20.2 percent increase), setting a new record for the 4th consecutive year.

Ordinary income was ¥166.6 billion (20.1 percent increase), setting a new record for the 7th consecutive year.



Profit attributable to owners of parent increased 21.9 percent to ¥132.8 billion, setting a record for the 3rd consecutive year, reflecting the increases in 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 20.9 percent.



In FY2018, to enhance our earning power, we focused on expanding sales of new products, and implemented initiatives for transformation with a basic strategy of investing aggressively in research and development as well as in-licensing of new development projects, development candidates and technologies to achieve sustained growth.

Key Results in FY2018

1. **Royalties and milestone payments, plus dividend income from ViiV**
2. **Research and development**
 - Progress of growth drivers toward sustained growth and expansion by investment
3. **Domestic/overseas business**
 - Expanded sales of strategic products
4. **Social contribution activities**
5. **Promotion of diversity and inclusion**

① Royalties and milestone payments, plus dividend income from ViiV

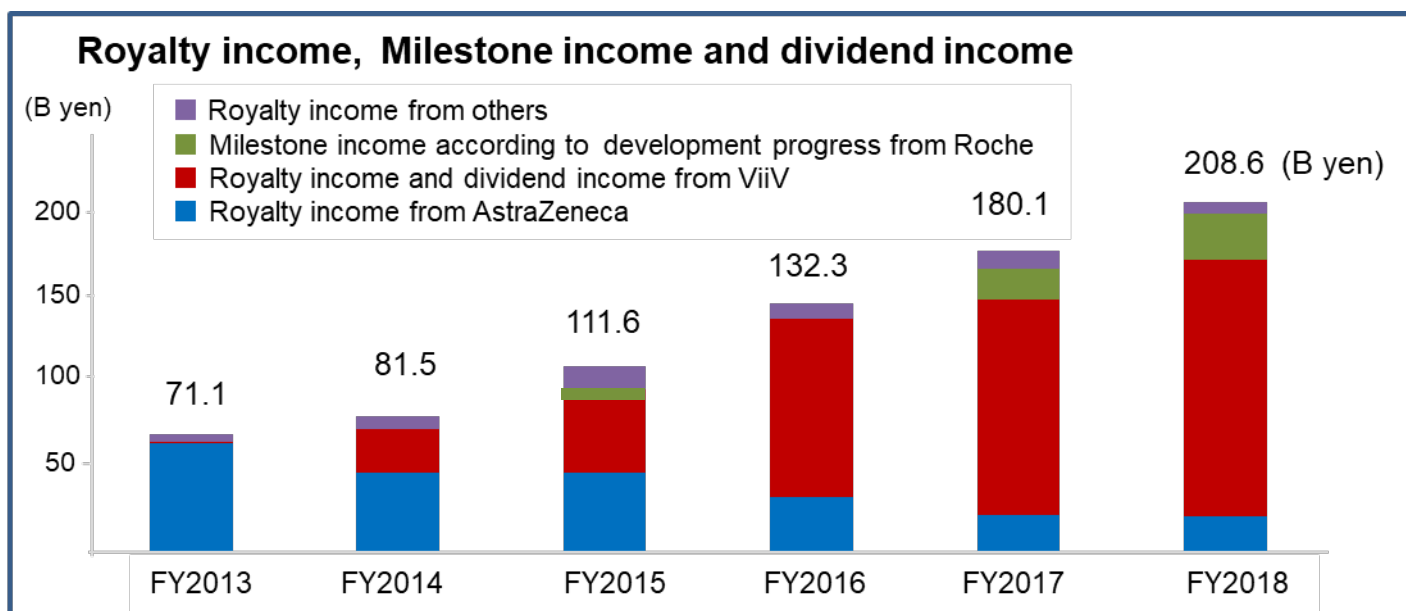
- Royalties for Tivicay[®], Triumeq[®] and Juluca[®] increased ¥21.0 billion year on year
- Dividends from ViiV increased
- Received milestone payments from Roche in connection with progress in global development of Xofluza[™]

Global sales of the anti-HIV drug Tivicay[®], the combination drug Triumeq[®] and Juluca[®], which Shionogi licensed to ViiV, expanded steadily, and royalties from ViiV increased 20.3 percent to ¥124.4 billion. As was the case in the previous fiscal year, dividend income from ViiV increased during the fiscal year ended March 31, 2019, due to strong global sales of anti-HIV drugs.

In addition, steady progress was made in development of a new two-drug HIV regimen licensed to ViiV.

As in the previous fiscal year, Shionogi received milestone payments from Switzerland-based Roche in connection with progress in global development and approval in the U.S. of anti-flu drug Xofluza[™]. In addition, royalties on Crestor[®] sales from UK-based AstraZeneca decreased 2.9 percent to ¥22.0 billion.

As a result, total royalties, milestone payments and dividend income increased 15.8 percent to ¥208.6 billion.



② Research and Development

▪ Results of Discovery Research and CMC Research

During the fiscal year ended March 31, 2019, Shionogi worked to continuously create development candidates and development projects mainly. As a result, in the area of infectious diseases, one of its core therapeutic areas, Shionogi created a new anti-flu drug candidate. In the area of frontier areas,* Shionogi created a drug candidate for non-alcoholic steatohepatitis (NASH).

In the fiscal year ended March 31, 2019, Shionogi focused on research and development of eight high-priority projects, after adding S-812217, a development candidate for the treatment of depression licensed from U.S.-based Sage Therapeutics, to the seven high-priority projects set at the end of the previous fiscal year. In discovery research, Shionogi carried out pre-clinical studies on an anti-HIV drug with a novel mechanism of action; S-004992, an anti-tuberculosis candidate; and S-540956, a nucleic acid adjuvant, and started five new research programs for peptide drugs.

In CMC research, we carried out development for commercial production of cefiderocol, a treatment for multidrug-resistant gram-negative bacterial infections, ahead of its launch in the United States, and development of a commercial inhalation device in preparation for the launch of S-770108 (inhaled pirfenidone), a treatment for idiopathic pulmonary fibrosis. In manufacturing technologies for small-molecule APIs, Shionogi developed a technology for improved absorbability into the body and worked on development of a technology that significantly reduces impurities and degradants compared with conventional methods.

	8 High-Priority Projects	Results in Fiscal 2018
ID* *	Novel HIV Drug	Conducted pre-clinical studies before the start of clinical trials in fiscal 2019
	S-004992 (Tuberculosis)	Conducted pre-clinical studies before the start of phase I clinical trials (China)
Pain/ CNS	S-600918 (Refractory/unexplained chronic cough)	Phase II trials confirmed effect on refractory, unexplained chronic cough (Japan)
	S-637880 (Neuropathic pain)	Phase I clinical trials and a microdosing test (Japan)
	S-812217 (Depression)	Phase I clinical trials began in October 2018 (Japan)
Others	S-540956 (Nucleic acid adjuvant)	Conducted pre-clinical studies before the start of clinical trials in fiscal 2019
	S-770108 (Idiopathic pulmonary fibrosis)	Phase I clinical trials completed (Japan)
Peptide	Peptide projects	Began discovery programs (Infectious diseases: 1, Pain/CNS: 2, Other: 2)

* Disease areas other than the core therapeutic areas of infectious diseases and pain/CMS

** Infectious disease

- Results of Development

In the fiscal year ended March 31, 2019, Shionogi filed for approval of Xofluza™, an anti-flu drug, in the United States, and obtained approval on October 24, two months earlier than planned. As a result, marketing by alliance partner Roche was able to begin before the start of the flu season. In addition, positive results were obtained in phase III clinical trials in influenza patients at high risk for influenza-related complications, and Roche filed a supplemental New Drug Application in the United States. In Japan, Shionogi moved forward on the development of a granule formulation of and prophylaxis indication for Xofluza® to maximize the value of the product.

Shionogi obtained approval in the United States and Europe for Lusutrombopag (U.S. brand name: Mulpleta®), a treatment for thrombocytopenia associated with chronic liver disease. Furthermore, approval of Rizmoic®, a treatment for opioid-induced constipation, was obtained in Europe.

In addition, for cefiderocol, phase III clinical trials for multidrug-resistant gram-negative bacterial infections and phase III clinical trials for hospital-acquired pneumonia are under way, and applications have been filed in the United States and Europe

Shionogi filed an application for approval in adult patients for Intuniv®, a treatment for attention deficit hyperactivity disorder (ADHD), which has already been launched in Japan for pediatric patients. Shionogi also obtained approval of Vyvanse®, an ADHD treatment for pediatric patients.

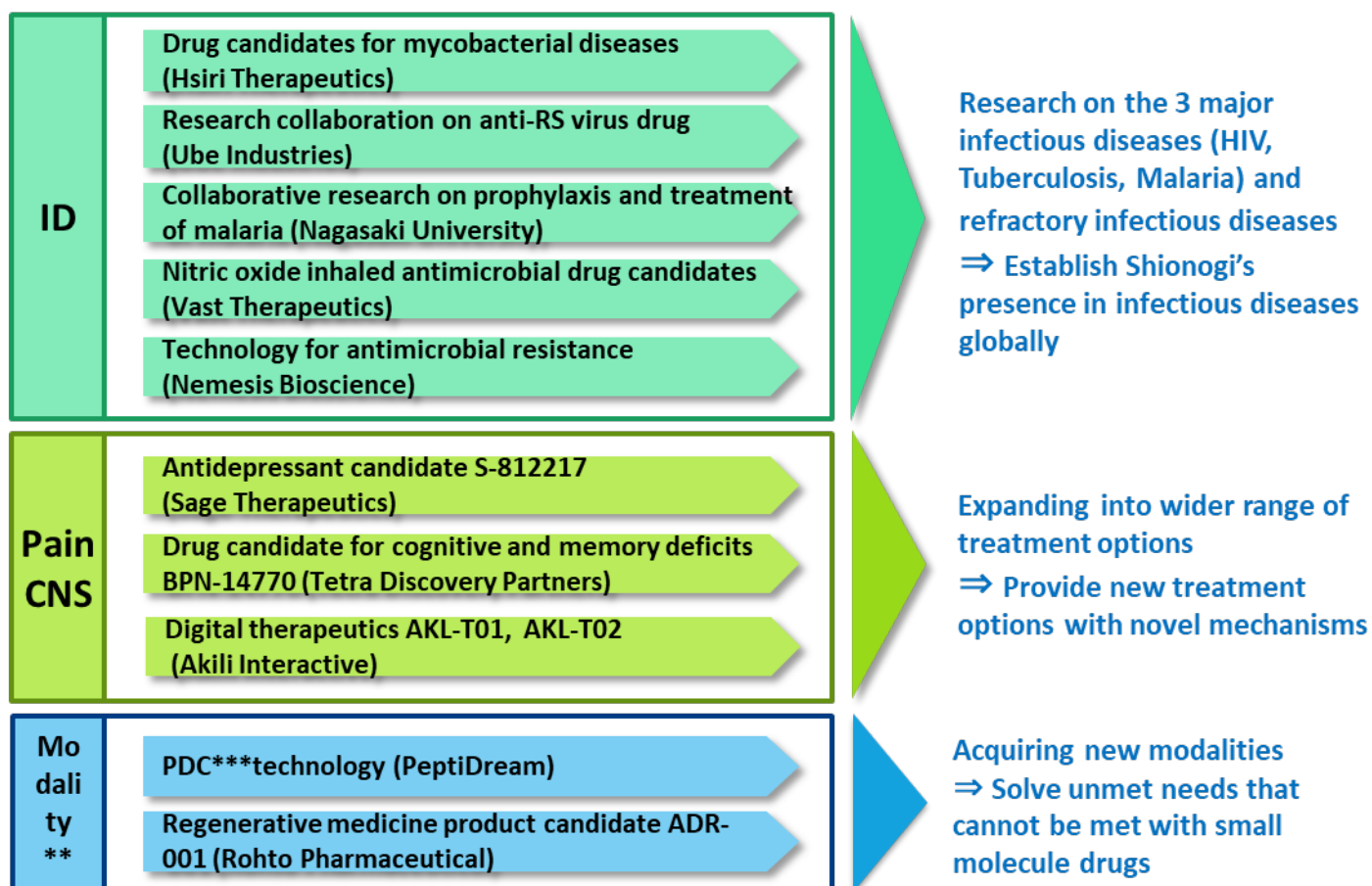
As for the eight high-priority projects, phase II clinical trials of S-600918 confirmed efficacy in patients with refractory/unexplained chronic cough. A phase I clinical trial of S-770108 (inhaled pirfenidone®) for the treatment of idiopathic pulmonary fibrosis was completed, and Shionogi began a phase I clinical trial of S-812217, an anti-depressant in-licensed from Sage Therapeutics and S-005151.

Xofluza™ Influenza virus infection	U.S.: NDA submission – Approval (October 2018) Japan: Approval of 20mg granule formulation, phase III clinical trial for pediatric granule formulation, phase III clinical trial for prophylaxis
Cefiderocol Multidrug-resistant gram-negative bacterial infections	Accepted for review: U.S. (February 2019), Europe (March 2019) Global phase III clinical trial for gram-negative carbapenem resistance in progress, phase III clinical trial for hospital-acquired pneumonia in progress
Lusutrombopag (Mulpleta®) Thrombocytopenia	Approval: U.S. (July 2018), Europe (February 2019)
Intuniv® ADHD	Japan: Additional NDA for use in adult patients (August 2018)
Vyvanse® ADHD	Approval: Japan (March 2019)
S-005151 Acute ischemic stroke, Epidermolysis bullosa	Japan: Phase I clinical trial began (acute ischemic stroke, FY2018 Q1)

Expansion of R&D Pipeline and Technologies through Strategic Business Investments

As a drug discovery-based pharmaceutical company, Shionogi has set an in-house drug discovery ratio of at least 50 percent as one of its management targets; currently, this ratio stands at 68.8 percent*. While Shionogi develops pipeline projects created in-house, expansion of pipeline projects and technologies through alliances with other companies is also essential for driving innovation. In the fiscal year ended March 31, 2019, in addition to ordinary research and development expenses, Shionogi made strategic business investments of ¥20 billion, in-licensed a total of 10 compounds, and entered into agreements for them.

To build these compounds and technologies into future growth drivers, Shionogi will conduct research and development along with products discovered in-house.



*As of March 31, 2019

**New discovery technology or therapeutic tool

***Peptide drug conjugate, a conjugate that connects a drug and special cyclic peptide with a linker. The special cyclic peptide passes through the blood-brain barrier, enabling the drug to be delivered into the brain.

Novel Antidepressant S-812217

S-812217 is a novel antidepressant candidate that has a novel mechanism of action. Shionogi has acquired the rights to develop and commercialize this compound in Japan, Taiwan and South Korea. In phase II clinical trials that Sage conducted in the United States, the compound showed a durable effect that continued even after treatment ended. It is expected to fill needs that are unmet with existing antidepressants. The Shionogi Group will draw on its experience with development of Cymbalta[®], which holds the top market share for antidepressants in Japan, to carry out development to make S-812217 available to patients suffering from depression as early as possible.

Shionogi and Sage held a briefing for analysts and institutional investors on February 5, 2019



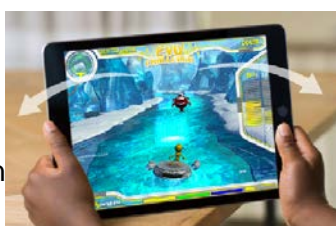
Digital Non-Drug Prescription Treatment AKL-T01 (SDT-001)

AKL-T01 (Shionogi Group code no. SDT-001) is a digital medicine for ADHD in-licensed from Akili Interactive. Shionogi has acquired the development and commercialization rights for this product in Japan and Taiwan. In clinical trials conducted by Akili in the United States, AKL-T01 showed a good therapeutic effect.

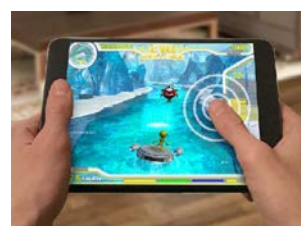
The Shionogi Group will meet the needs of ADHD patients by providing a new digital non-drug treatment option with SDT-001, along with drug treatments Intuniv[®], which is currently on the market in Japan, and Vyvanse[®], which was granted approval in Japan in FY2018.

SDT-001 Operation Screen

Simultaneously performing dual tasks (steering and tapping) optimized for each patient stimulates the cerebral cortex.



Steering:
Avoid obstacles



Tapping:
React to specific objects

[Topics] Working on Peptide Drug Discovery

The Shionogi Group is currently working on peptide drug discovery as a new modality after small-molecule discovery. Shionogi has previously had peptide drug candidates that were in-licensed from other companies, but will now undertake its own peptide drug discovery research.

① Boosting Drug Discovery Efficiency with a PDPS Drug Discovery Platform

Shionogi acquired the rights to use the Peptide Discovery Platform System (PDPS) developed by PeptiDream in the previous fiscal year, and has improved its success rate in discovery research. In the fiscal year ended March 31, 2019, we used the PDPS to launch five new discovery projects in infectious diseases, pain/CNS, and other areas, and in two of these discovery programs, we also worked on small-molecule drugs. Currently, we have a total of 12 peptide drug discovery programs in progress.

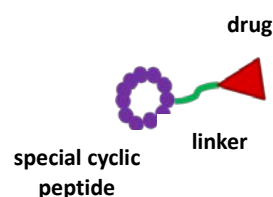
*PDPS: A technology that can be expected to increase the probability of acquiring highly active and selective peptide compounds for drug targets that are difficult to obtain hit compounds for using conventional high-throughput screening

② PeptiStar, a Contract Manufacturing Organization for Specialty Peptides

In FY2017, Shionogi, together with PeptiDream, Inc. and Sekisui Chemical Co., Ltd., established PeptiStar, Inc., a joint venture for research and development, manufacturing and sale of nonstandard peptide APIs. The joint venture is the world's first contract manufacturing organization (CMO) specializing in nonstandard peptides, and aims to provide stable supplies of high-quality nonstandard peptide APIs at low cost. Currently, it is making preparations for the startup of a factory in FY2019.

③ Using PDCs** to Strengthen Our Presence in the CNS Area

As part of its strategic business investment in FY2018, Shionogi entered into a joint venture agreement with PeptiDream for the discovery and development of peptide drug conjugates (PDCs). This technology improves the migration of drugs to the brain, and is intended to become a new strength of the Shionogi Group, which is active in drug discovery for CNS indications.



**PDC: A conjugate that connects a drug and special cyclic peptide with a linker. The special cyclic peptide passes through the blood-brain barrier, enabling the drug to be delivered into the brain.

Pipeline (as of March 2019)

Preclinical (target indication*)	Phase I	Phase II	Phase III	Submission				
Influenza virus infection	Global		Cefiderocol Multidrug-resistant Gram-negative bacterial infections	Cefiderocol (US) Complicated urinary tract infections, including pyelonephritis				
HIV virus infection					S-004992** Tuberculosis	S-120083 Inflammatory pain		
RS virus infection					S-117957 Insomnia	S-707106 Type2 diabetes		
Bacterial infection					S-237648 Obesity	S-488210 Head and neck squamous cell carcinoma		
Mycobacterium disease					S-588210 Solid tumor	epertinib Malignant tumor		
Fungus infection						S-588410 Bladder cancer		
Vaccine for prevention								
Peptide	In Japan		Cefiderocol Multidrug-resistant Gram-negative bacterial infections	Cefiderocol (EU) Multidrug-resistant Gram-negative bacterial infections				
ADHD					S-812217 Depression	S-600918 Refractory/unexpected chronic cough	Xofluza® Influenza virus infection (prophylaxis)	
Opioid					S-600918 Neuropathic pain	S-237648 Obesity	Xofluza® Influenza virus infection (New dosage for children)	
Alzheimer's disease					S-637880 Neuropathic pain	S-525606 Allergic rhinitis caused by Japanese cedar allergen	Cymbalta® Depression (pediatric)	
Cognitive and memory deficits					S-010887 Neuropathic pain	S-588410 Bladder cancer	Oxycodone Moderate to severe chronic pain	
Post-stroke spasticity					S-005151 Acute ischemic stroke	SR-0379 Cutaneous ulcer	S-588410 Esophageal cancer	
Peptide					S-770108 Idiopathic pulmonary fibrosis	ADR-001*** Decompensated liver cirrhosis		
Obesity								
S-723595 NASH								
Cancer metastasis								
S-540956 Nucleic acid adjuvant								
Peptide								
								<ul style="list-style-type: none"> • Infectious diseases • Pain/CNS • Other

Preclinical	Phase I	Phase II	Phase III	Submission
Out-licensed	GSK3342830 Multidrug-resistant Gram-negative bacterial infections		DTG/3TC Treatment for HIV infection TANGO study (maintenance)	DTG/3TC (EU/US) Treatment for HIV infection
			CAB LAP Prevention for HIV infection	Xofluza™ Influenza virus infection (High risk patients)
			CAB+RPV LAP Treatment for HIV infection	
			Xofluza™ Severe influenza virus infection	
			Xofluza™ Influenza virus infection (pediatric)	
				<ul style="list-style-type: none"> • Infectious diseases • Pain/CNS • Others

DTG: Dolutegravir 3TC: Lamivudine RPV: Rilpivirine CAB: Cabotegravir

* Target indication may include some projects

** In preparation for Phase I

*** In Phase I/II

③ Domestic Business/Overseas Business

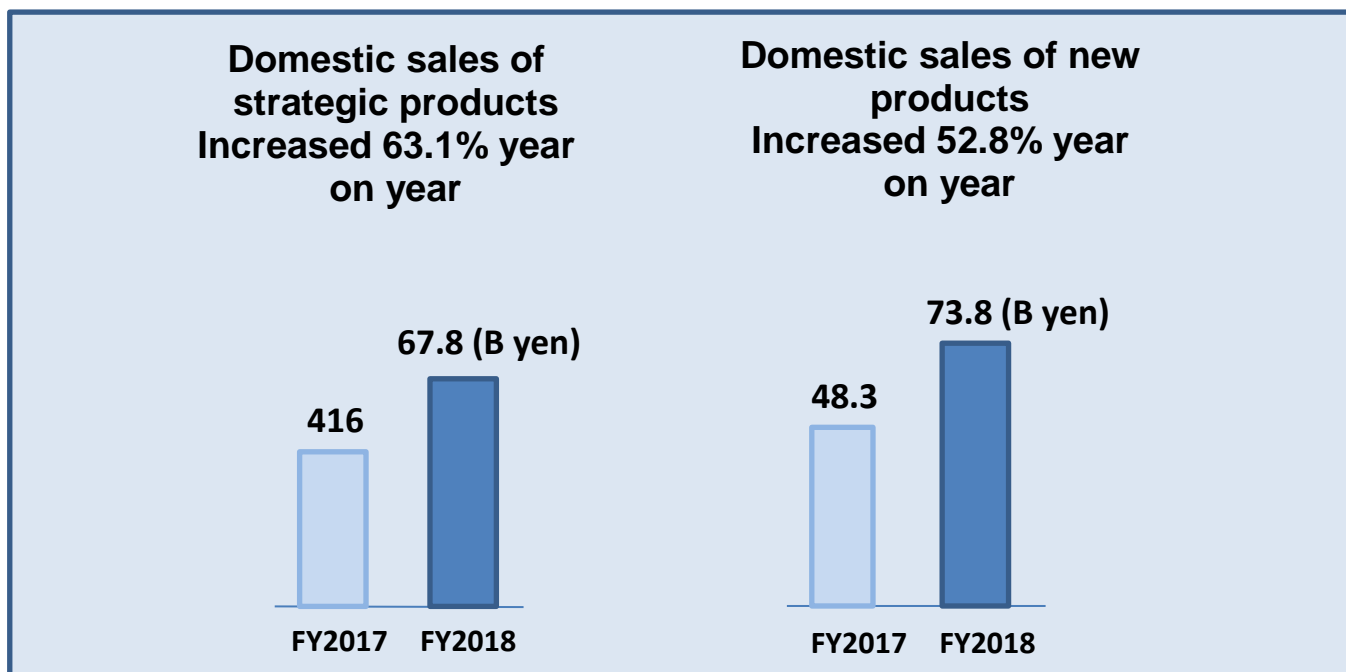
- Expanded sales of strategic products by focusing management resources
- Domestic sales growth phase, reorganized domestic sales structure
- Launched Mulpleta® in the U.S.

Domestic sales of prescription drugs increased as Shionogi concentrated its management resources on strategic products, primarily Cymbalta®, Intuniv®, Xofluza®, the OxyContin® franchise and Symproic®. Sales of strategic products totaled ¥67.8 billion (63.1 percent increase) and sales of new products amounted to ¥73.8 billion (52.8 percent increase). Sales of Xofluza®, which was launched in the previous fiscal year, were ¥26.3 billion.

Sales growth turned positive on a year-on-year basis in the third quarter because of the growth of the aforementioned strategic products along with the diminishing impact from the launch of generic versions of Crestor® and Irbetan® in the previous fiscal year.

During the fiscal year ended March 31, 2019, Shionogi reorganized its domestic sales operations, and established a new organization specifically for Mulpleta® and inhaled pirfenidone®, which are specialty products that require a high degree of expertise. With that reorganization, Shionogi established a structure that will enhance its expertise in specialty products and allow management resources to be further focused on strategic products with a large market size.

In overseas business, Shionogi received a one-time payment in connection with the termination of the alliance with Purdue Pharma L.P. in the United States for co-commercialization of Symproic®. Shionogi switched to its own sales and distribution of Symproic®, and in April 2019 entered into a marketing agreement with a new alliance partner, BioDelivery Systems International. In addition, Shionogi began U.S. sales of Mulpleta®, a treatment for thrombocytopenia associated with chronic liver disease.



*Strategic products: Cymbalta®, Intuniv®, Xofluza®, Rapiacta®, Brightpoc® Flu, Brightpoc® Flu Neo, OxyContin® franchise, Symproic®

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

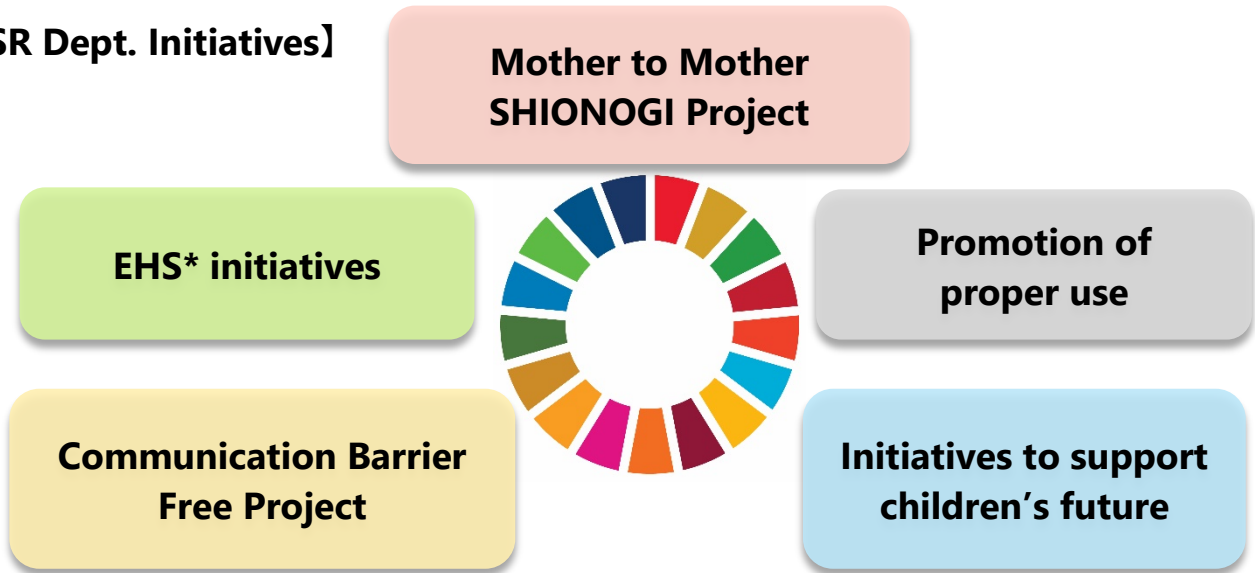
④ Social Contribution Activities

▪ CSR Department Established: April 1, 2018

Recently, more and more has been expected of companies in terms of corporate social responsibility (CSR). To meet these demands, Shionogi has established the CSR Department to fulfill its economic, social and environmental responsibilities as a corporate citizen while maintaining its focus on innovative drug discovery, and has begun to take a unified approach to CSR activities.

Compliance functions under the Human Resources & Administration Department, the EHS* Office, and the Office for Children’s Bright Future under the Corporate Planning Department were all incorporated into the Corporate Social Responsibility (CSR) Department. In addition, the activities for promoting appropriate use of the Office for Proper Use of Infectious Disease Medicine and Pain Relief Office under the Human Health Care Division were integrated to form the Office for Stewardship to Proper Use of Medicine in the CSR Department. Initiatives will be carried out mainly by the CSR Department to contribute to the realization of the SDGs** adopted at the UN Summit.

【CSR Dept. Initiatives】



* EHS : Environment, Health and Safety
 ** SDGs : Sustainable Development Goals



Communication Barrier Free Project



In the Communication Barrier Free (CBF) Project, Shionogi seeks to eliminate communication barriers when people with disabilities receive medication instructions by the end of March 2021. In support of that goal, we conducted seminars and a hearing impairment simulation event, produced a pamphlet for healthcare providers, and implemented other activities to remove communication barriers when patients with hearing and visual impairments receive medication instructions. We also brought other companies together to exchange opinions on a voice recognition tool to convert spoken words to text, and held lectures on work styles at a school for the deaf as part of our efforts to introduce the barrier free concept to various stakeholders.

Main Activities in FY2018

Outside seminars – 17 (including 11 for healthcare professionals)

Booth exhibits at external events – 5

In-house seminars – 11

Seminar at a medical institution



Mother to Mother SHIONOGI Project

This project is an initiative started in October 2015 in cooperation with the international NGO World Vision Japan. It supports the health of children and expectant mothers in Kenya by contributing a portion of sales proceeds from the Shionogi Group's Popon® S multivitamins, along with donations from employees. In FY2018, we increased our focus on the educational activities we have been conducting since the project started, such as guidance on health and hygiene, and encouraged behavioral changes among residents. The number of mothers who received prenatal care increased to 134 in 2018 from 101 in 2017.

In July 2018, we launched Popon® ai, a multivitamin supporting mothers in Japan that was developed from the concept of a health “baton” that is passed from mothers in Japan to mothers in Africa.

A health “baton” that is passed from mothers in Japan to mothers in Africa.



• Partnership with Local Governments to Support Our Children's Future

<p style="text-align: center;">Osaka</p> <p style="text-align: center;">From Jan. 2017</p>  <p>(from left) Mr. Matsui, Governor of Osaka; Teshirogi, President & CEO of</p>	<p style="text-align: center;">Shiga</p> <p style="text-align: center;">From Feb, 2018</p>  <p>(from left) Sawada, Director, Executive Vice President of Shionogi; Mr. Fujimoto, Manager of Department of Public Health Care and Welfare of Shiga</p>	<p style="text-align: center;">Kagawa</p> <p style="text-align: center;">From Mar, 2018</p> <p style="text-align: center;">Sanuki city, Higashikagawa city Ookawa Medical Association</p>  <p>(from left) Mr. Miyazaki, President of Ookawa Medical Association; Teshirogi; Mr. Oyama, Mayor of Sanuki city; Mr. Fujii, Mayor of Higashikagawa city</p>	<p style="text-align: center;">Hiroshima</p> <p style="text-align: center;">From Mar, 2018</p>  <p>(from left) Mr. Yuzaki, Governor of Hiroshima; Teshirogi</p>	<p style="text-align: center;">Iwate</p> <p style="text-align: center;">From May, 2018</p>  <p>(from left) Fukuda, Senior Executive Officer of Shionogi; Mr. Tasso, Governor of Iwate</p>
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The Shionogi Group'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 provide life-improving support for patients with attention deficit hyperactivity disorder (ADHD) and other developmental disorders.

Accordingly, in July 2016 Shionogi established the Preparatory Office for Children's Bright Future, later renamed the Office for Children's Bright Future.

Since April 2018, it has conducted its activities under the supervision of the Corporate Social Responsibility Department.

During FY2018, we entered into a new business alliance with Iwate Prefecture on May 22, 2018.

In cooperation with municipalities, we conducted training events for nursery teachers and kindergarten teachers to raise awareness of developmental delays and cultivate workers related to early intervention for developmental delays.

In Hiroshima Prefecture, Shionogi has been steadily carrying out programs with local governments, and received recognition as a company that conducts leading initiatives that serve as a model for supporting people with disabilities.

Drug Abuse Prevention Campaign with Aichi Prefecture (from May 2018)

The Shionogi Group is aiming to create conditions in which cancer patients are able to use opioids with peace of mind. Recently, the problem of prescription drug abuse, notably the opioid crisis in the United States, has spread throughout the world, and has become a serious social problem.

To prevent this problem from arising in Japan, the Shionogi Group will do more to help create a society in which steps are taken in advance to prevent misuse of opioids so that patients can get relief from cancer pain without causing abuse of opioids.



Shionogi President & CEO Isao Teshirogi (left) with Hideaki Omura, Governor of Aichi Prefecture

UICC President Princess Dina Mired of Jordan Pays a Courtesy Call to Shionogi

On November 21, 2018, Princess Dina Mired of Jordan, who serves as President of the Union for International Cancer Control (UICC), made a courtesy call to Shionogi. Established in 1933, UICC is an organization dedicated to the fight against cancer.

The Shionogi Group is focusing efforts on treatment of cancer pain, one of the major activities of UICC, and was commended by Princess Dina for its support in helping to alleviate the pain of cancer patients by promoting the proper use of and expanding access to opioids.



Princess Dina (left) with Shionogi President & CEO, Isao Teshirogi

▪ Initiatives for Infectious Diseases

Release of Shionogi AMR Position Paper

Antimicrobial resistance (AMR) is a global threat, and some reports project that it will result in 10 million additional deaths per year by 2050 if no measures are taken. The Shionogi Group prepared the Shionogi AMR Position Paper to present its views and approaches to the problem of AMR. We are proudly working to ensure that patients and society as a whole can continue to benefit from antimicrobial therapies. Through our efforts focusing on research, development, proper use and distribution of antimicrobial drugs, we will continue to be a leader in the fight against AMR.

Shionogi AMR Position Paper: <http://www.shionogi.co.jp/en/company/csr/activities/amr.html>

Measures to Improve Access to Medicine (Anti-HIV Drugs)

Developing countries account for more than 40 percent of the total global supply volume of dolutegravir (Tivicay[®]) and the dolutegravir-based combination drugs Triumeq[®] and Juluca[®], all anti-HIV drugs that Shionogi out-licensed to ViiV Healthcare. Dolutegravir is included in the Medicines Patent Pool. Since the patent is available free of charge, generic drug manufacturers are able to manufacture dolutegravir either as a single drug or as part of combination drugs with other anti-HIV agents. As a result, dolutegravir is supplied to more than 130 low- and middle-income countries.

▪ EHS Initiatives

The Shionogi Group formulated the Shionogi Group EHS Policy and EHS Action Targets, and is taking measures to protect the environment and prevent occupational accidents in all of its business activities. Since 2017, we have been issuing an EHS Report describing our environmental initiatives and safety and health initiatives, and we plan to provide even more detailed information.

EHS Report 2018: http://www.shionogi.co.jp/en/ir/pdf/ehs_2018_e.pdf

Examples of Energy Conservation and Global Warming Mitigation Measures

The Shionogi Group is continuing to make improvements in its energy usage, including fuel conversion, installation of energy-efficient electrical equipment and adjustment of air-conditioning controls, to use energy resources more effectively. In FY2018, as a result of these initiatives, Shionogi was ranked “S” for the third consecutive year as an excellent business operator practicing advanced energy-saving initiatives in a system that evaluates and classifies business operators under the Energy Conservation Act. In addition, Shionogi was ranked fourth in medical and pharmaceutical category for FY2018 in the “Ranking of Japanese Corporations for Effective Efforts to Address Climate and Energy Issues” by WWF Japan.

⑤ Promotion of diversity and inclusion

Continuous innovation is the vital ingredient to ensure companies remain viable and continue fulfilling their responsibility to society. The Shionogi Group believes that promoting diversity and inclusion is important for enabling continuous innovation. The efforts that were being made in each unit were brought under the control of the Diversity Council at the end of FY2017 to create a framework for promoting diversity and inclusion throughout the Shionogi Group.

In FY2018, we established our Diversity Vision to be shared by all employees in working for the promotion of diversity and inclusion. Currently, in addition to deepening employees' understanding of diversity and inclusion, we are taking initiatives on various themes that we believe are important in each unit, including the empowerment of women and promotion of work-style reforms.

Diversity Vision (Established in December 2018)

**Understand yourself and others, and celebrate individual diversity
Allow the wide variety of unique qualities to inspire creativity and**

“We will have an unbiased understanding of others, knowing that everyone has a different perspective; connect and resonate with diverse personalities to foster an inclusive spirit and generate abundant ideas; and, driven by such spirit and ideas, create new value and grow with society for our collective future.”

We are also a member of the Diversity Western-Japan Study Group,* and are currently collaborating with other companies on working-from-home, understanding LGBT issues, and unconscious bias.

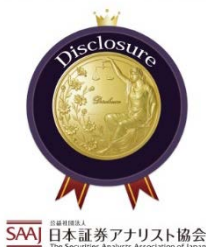
*Launched in 2004 for companies and groups to share their knowledge and experience to obtain practical learning, it currently has 48 member companies (as of March 31, 2019). Shionogi became a member in 2017.

[Topics] Shionogi's Initiatives and External Recognition

Our initiatives inside and outside the Company have received high external evaluations

Shionogi Wins "Award for Excellence in Corporate Disclosure" for Second Straight Year (October 12, 2018)

ディスクロージャー
2018年度 優良企業



The Securities Analysts Association of Japan sponsors this program to promote and enhance corporate disclosure. For the second consecutive year, 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. Shionogi was also commended for generally integrating financial and non-financial information, and actively disclosing how that will lead to enhancement of medium- and long-term corporate value.

"IR Award" (November 15, 2018)



Shionogi was selected for the IR Award by the Japan Investor Relations Association, which selected companies for their consistently high valuations and efforts to enhance IR from among companies that have maintained IR activities and constructive dialogue during the 12 years up to 2018.

Masuda Award in "Ten Best New Products Awards" (January 4, 2019)



The Ten Best New Products Awards from the Nikkan Kogyo Shimbun encourage the development of excellent new products that raise the technological level of Japanese industry. The Masuda Award is given to products recognized as particularly outstanding. Shionogi's anti-flu drug Xofluza® received the Masuda Award.

Named a "Health and Productivity Stock" for Fourth Consecutive Year and Recognized as "Health and Productivity Enterprise" for Third Consecutive Year (February 21, 2019)



"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. Shionogi was selected for the 4th consecutive year.

The "Health and Productivity Enterprise" recognizes corporations that practice excellent health and productivity management in cooperation with insurers. Shionogi was selected for the 3rd consecutive year.

[Topics] Domestic Group Companies

We have taken steps to optimize our domestic Group companies to increase productivity and build specialized expertise.

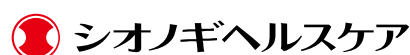
■ Shionogi Pharma Established



Shionogi Pharma Co., Ltd., a Group company in charge of the Shionogi Group's manufacturing functions, was established on October 1, 2018 and began operations on April 1, 2019. Shionogi Pharma handles contract manufacturing of investigational drug products, and is leveraging its experience and expertise to develop contract-based businesses such as clinical trials, analytical testing and pharmaceutical engineering, contributing to the advancement of the Japanese pharmaceutical industry. It aims to be a technology development-focused company that develops new manufacturing methods and products, and provides them globally.



■ Initiatives of Shionogi Healthcare



To respond flexibly to changes in market conditions for OTC drugs in Japan, Shionogi Healthcare Co., Ltd. entered into a capital alliance with Rohto Pharmaceutical Co., Ltd. on June 25, 2018, and agreed on an absorption-type merger of Takara Healthcare, Inc. on September 20, 2018. It is working to grow and expand its presence in the evolving self-care market.

Changes in Market Conditions for OTC Drugs

- Aging population
- Pressure on public finances due to rising healthcare expenditures
- Extension of healthy life expectancy based on health management

⇒ Expanding need for self-care*

➤ Alliance with Rohto Pharmaceutical

- Begin collaboration to build on the strengths of each company
- Create new business opportunities

➤ Transfer and succession of Takara Group's functional foods business

- Acquire infrastructure of mail-order business
- Support the pre-frail** to promote the long-term health of seniors for the coming super-aging society

* Self-care: Health care provided by oneself often without the consultation of a medical professional

** Pre-frail: Preliminary stage of frailty. Frailty is a condition seen particularly in elderly people, characterized by vulnerability as a result of decreased physiological reserves.

(2) Significant Subsidiaries

Company Name	Paid-in Capital	Percentage of Ownership	Main Areas of Business
Shionogi Inc.	US dollars 12	100.0	Pharmaceutical clinical development and Pharmaceutical manufacturing and sales
Shionogi B.V.*	Thousand UK Pounds 630	100.0	Pharmaceutical clinical development and Pharmaceutical manufacturing and sales
Taiwan Shionogi & Co., Ltd.	Million NT dollars 92	100.0	Pharmaceutical manufacturing and sales
C&O Pharmaceutical Technology (Holdings) Limited	Thousand HK dollars 165,840	71.0	Pharmaceutical clinical development and Pharmaceutical manufacturing and sales

*During the consolidated fiscal year, Shionogi Ltd. was dissolved in a merger with consolidated subsidiary Shionogi. B.V. as the surviving company.

(3) Capital Investment

The Shionogi Group's capital investment for the fiscal year ended March 31, 2019 totaled ¥7.9 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, 2019.

(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.

(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 problems.



▪ **Social Challenges That Shionogi Strives to Address**

The external environment of the pharmaceutical industry is changing drastically. The Shionogi Group, which states in its vision that it will “grow in service to society,” has set infectious diseases and pain/CNS as its core therapeutic areas, and is focusing on solving social issues through efforts including innovation, appropriate promotional activities, and improvement of access to care.

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. The entire Shionogi Group is committed to achieving these goals.

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, we are developing cefiderocol for multidrug-resistant gram-negative bacterial infections, and are also engaged in research and development for the three major infectious diseases (HIV, tuberculosis and malaria).

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.

Shionogi submitted a new drug application for the adult indication of Intuniv® tablets for ADHD (Japan), in-licensed a digital therapeutic app from Akili Interactive, and obtained approval of Vyvanse®. By providing these and other new treatment options, we will contribute to a more vigorous society.

3 Major Infectious Diseases

HIV	New patients : 1.8 million	Death: 0.94 million
Tuberculosis	New patients : 10.4 million	Death: 1.7 million
Malaria	New patients : 200 million	Death: 0.44 million

Epidemiology: WHO fact sheets : (HIV 2018/7, tuberculosis 2018/1, malaria 2018/11)

▪ Remaining Challenge: Mid- to Long-term Plan

To contribute to solutions to social challenges globally over the long term, the Shionogi Group has identified the following new or continuing key points to strengthen based on changes in the operating environment during the past fiscal year and the progress of its response to issues. The Group must address these tasks as top priorities.

The Shionogi Group currently recognizes the following as key tasks in research and development, domestic and overseas business, and business innovation.

To “grow in service to society as a drug discovery-based pharmaceutical company”

**Research &
Development**

Develop next-generation growth drivers

**Domestic/Overseas
Business**

**Strengthen domestic business and global
presence**

Business Innovation

**Deliver new value and strengthen our
business foundation**

② Challenges Ahead in FY2019

The Shionogi Group recognizes the challenges it needs to address in each of its business operations – research and development, domestic/overseas business, and business innovation. Based on our response to these issues, we will continue working to grow in service to society as a drug discovery-based pharmaceutical company both in single years, including FY2019, and over the long term.

In research and development, we are steadily proceeding with eight high-priority projects with the potential to be the next growth drivers after Xofluza[®] and cefiderocol, and are also expanding into new modalities such as a digital therapeutic app.

In Japan, the impact from the entry of generic versions of Crestor[®] and Irbetan[®] has lessened. The Shionogi Group will work in unison to further expand sales of new products, with a focus on Cymbalta[®], Intuniv[®] and Xofluza[®], by expanding markets and capturing market share and by maximizing the value of products.

In global business, we will carry out highly productive business operations focusing on the hospital market by launching cefiderocol, which received QIDP* designation in the United States, along with Mulpleta[®].

For business innovation, we will use IT to create new ways of contributing to health care, and will develop human resources who will be a driving force, and promote diversity and inclusion. To accomplish those goals, finding new funds for growth by continuously improving operational efficiency is essential. We will now prepare for disclosure with International Financial Reporting Standards (IFRS) in 2020. Furthermore, we will strengthen ESG** initiatives and conduct management that is conscious of reducing risk and creating opportunities.

In Japan and overseas, we will work hard to give shareholders a sense of the Shionogi Group's growth in FY2019. We will also continue to innovate and increase productivity to improve the operating margin, excluding royalties.

* Qualified Infectious Disease Product. QIDP designation is given to antibacterial and antifungal drug products that treat serious or life-threatening infections. QIDP status provides priority review and a five-year extension of market exclusivity in the United States.

** Environmental, Social and Governance. These three perspectives are necessary for the long-term growth of companies, and companies where the ESG viewpoint is weak have significant risks, and are beginning to be seen as companies with no potential for long-term growth.

2. Stock Data

- 1) Number of shares authorized to be issued: 1,000,000,000
- 2) Number of shares issued: 316,786,165 (including 5,498,751 shares of treasury stock)

Note: The number of shares decreased by 7,350,000 shares compared with the end of the previous year due to the cancellation of treasury stock on February 20, 2019.

- 3) Number of shareholders: 35,768
- 4) Major shareholders (Top 10)

Name of Shareholder	Number of Shares Held	% of Total
	Thousands of shares	
The Master Trust Bank of Japan, Ltd. (Trust account)	36,408	11.69%
Japan Trustee Services Bank, Ltd. (Trust account)	20,200	6.48%
Sumitomo Life Insurance Company	18,604	5.97%
SMBC Trust Bank Ltd. (as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485	3.04%
Nippon Life Insurance Company	8,409	2.70%
STATE STREET BANK AND TRUST COMPANY 505001	5,859	1.88%
Japan Trustee Services Bank, Ltd (Trust account 5)	5,017	1.61%
Japan Trustee Services Bank, Ltd (Trust account 7)	5,000	1.60%
STATE STREET WEST CLIENT-TREATY 505234	4,970	1.59%
Sumitomo Mitsui Banking Corporation	4,595	1.47%

Notes:

1. The Company owns 5,498,751 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 311,287,414 shares of total issued stock (excluding 5,498,751 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, Executive Vice President	Takuko Sawada	
Director	Akio Nomura	Outside Director of The Royal Hotel, Ltd.
Director	Teppei Mogi	Partner of Oh-Ebashi LPC & Partners Outside Director (audit & Supervisory Committee member) of NIITAKA Co., Ltd. Outside Director (audit & Supervisory Committee member) of KURABO INDUSTRIES LTD.
Director	Keiichi Ando	Representative Director and President of GINSEN CO., LTD. Outside Director of Tsubakimoto Chain Co.
Standing Corporate Auditor	Akira Okamoto	
Standing Corporate Auditor	Ikuo Kato	
Corporate Auditor	Shinichi Yokoyama	
Corporate Auditor	Kenji Fukuda	Partner of DOJIMA Law Office Outside Corporate Auditor of The Senshu Ikeda Bank, Ltd.
Corporate Auditor	Takaoki Fujiwara	Representative Director and Chairman of Hanshin Electric Railway Co., Ltd. Representative Director of Hankyu Hanshin Holdings, Inc. Outside Director of Sanyo Electric Railway Co., Ltd.

Notes:

- Directors Akio Nomura, Teppei Mogi and Keiichi Ando are Outside Directors stipulated in Section 15, Article 2 of the Companies Act.
- Auditors Shinichi Yokoyama, Kenji Fukuda and Takaoki Fujiwara are Outside Corporate Auditors stipulated in Section 16, Article 2 of the Companies Act.
- Directors Akio Nomura, Teppei Mogi and Keiichi Ando have each submitted notification as independent directors as stipulated by Tokyo Stock Exchange Group, Inc.
- Auditors Shinichi Yokoyama, Kenji Fukuda and Takaoki Fujiwara have each submitted notification as independent auditors as stipulated by Tokyo Stock Exchange Group, Inc.
- Summary of Contracts to Limit Liability
The Company has concluded contracts with all outside directors and outside corporate auditors to limit their liability as stipulated in Section 1, Article 423 of the Companies Act to the amount stipulated in the relevant laws and ordinances under the condition that the requirements stipulated therein are fulfilled.
- Directors and Corporate Auditors who retired during the Period
Outside Corporate Auditor: Masahide Hirasawa (retired (deceased) June 14, 2018)

(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 restricted stock compensation (medium-term performance-linked and long-term) introduced in FY2018. 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. Stock-based compensation is awarded based on a grant table according to the director's position and role. Medium-term performance-linked stock compensation is granted in order to further increase linkage with medium- to long-term performance, provide directors, excluding outside directors, an incentive to continuously increase corporate value, and to further promote shared values with shareholders.

Performance targets consist of net sales and operating income driven by new products and core businesses, return on equity, the growth rate of total shareholder return (TSR) at comparable companies, and other indicators. These targets are based on the assumption that the Company achieves its vision, which is to “grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare.”

As a result, the share of base remuneration in total remuneration, which was approximately 75 percent in FY2013, declined to less than 50 percent in the last fiscal year. We will aim to further reduce the proportion of base remuneration to approximately 40 percent.

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, of which an outside director serves as chairperson and outside directors comprise a majority of members, to advise the Board of Directors. The committee duly considers director and corporate auditor remuneration.

(Millions of yen, except for persons)

Category	Persons remunerated	Amount of remuneration paid					Total
		Base remuneration	Bonus	Stock options	Restricted stock compensation		
					Medium-term performance-linked	Long-term	
Directors (outside directors among directors)	6 (3)	248 (43)	153 (-)	12 (-)	19 (-)	40 (-)	473 (43)
Corporate Auditors (outside auditors among auditors)	6 (4)	102 (43)	- (-)	- (-)	- (-)	- (-)	102 (43)
Total	12	350	153	12	19	40	575

Notes:

1. By resolution of the General Meeting of Shareholders, the total amount of compensation of directors and corporate auditors is limited to no more than ¥750 million for directors (approved by the General Meeting of Shareholders on June 20, 2018) and no more than ¥120 million for corporate auditors (approved by the General Meeting of Shareholders on June 24, 2011).
2. The amount of remuneration paid and persons remunerated include one corporate auditor who retired (deceased) on June 14, 2018.
3. “Bonus” above is the relevant allowance for directors’ bonuses for FY2018.
4. “Stock options” above is the relevant expense recognized for FY2018, although no new grants of stock options were made in FY2018.
5. “Restricted stock compensation (Medium-term performance linked/Long-term)” above is the relevant expense recognized for FY2018.

(3) Outside Board Members

1) Major Activities

Office	Name	Major Activities
Director	Akio Nomura Attendance at Board of Director meetings 13/13 (100%)	At meetings of the Board of Directors, Mr. Nomura made statements on the execution of duties by the directors from a broad perspective, focusing on the objectivity and impartiality of management, based on his long and successful career.
Director	Teppei Mogi Attendance at Board of Director meetings 13/13 (100%)	At meetings of the Board of Directors, Mr. Mogi made statements on the execution of duties by the directors from a broad perspective placing priority on the observance of social norms and compliance with laws and regulations and with recognition of the corporate responsibility held by the Company.
Director	Keiichi Ando Attendance at Board of Director meetings 13/13 (100%)	At meetings of the Board of Directors, Mr. Ando made statements on the execution of duties by the directors from the perspective of his long and successful career, placing importance on the objectivity and impartiality of management.
Corporate Auditor	Shinichi Yokoyama Attendance at Board of Director meetings 13/13 (100%) Attendance at Board of Corporate Auditors meetings 8/8 (100%)	At meetings of the Board of Directors, Mr. Yokoyama made statements on the execution of duties by the directors from a broad perspective, based on his long and successful career. In addition, at meetings of the Board of Corporate Auditors, he discussed significant matters of audit and made recommendations as necessary.
Corporate Auditor	Kenji Fukuda Attendance at Board of Director meetings 12/13 (92%) Attendance at Board of Corporate Auditors meetings 8/8 (100%)	At meetings of the Board of Directors, Mr. Fukuda made statements on the execution of duties by the directors from a broad perspective based on his legal insight. In addition, at meetings of the Board of Corporate Auditors, he discussed significant matters of audit and made recommendations as necessary.
Corporate Auditor	Takaoki Fujiwara Attendance at Board of Director meetings 10/10 (100%) Attendance at Board of Corporate Auditors meetings 6/6 (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.

Note: Corporate Auditor Takaoki Fujiwara's attendance rates at Board of Directors meetings and at Board of Corporate Auditors meetings are his attendance after being appointed on June 20, 2018.

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 DOJIMA Law Office, where Kenji Fukuda is a partner, nor with The Senshu Ikeda Bank, Ltd., where Mr. Fukuda serves as an outside corporate auditor.

The Company does not have any relationship that should be indicated with Hanshin Electric Railway Co., Ltd., where Takaoki Fujiwara serves as representative director and chairman, Hankyu Hanshin Holdings, Inc., where he serves as representative director, or Sanyo Electric Railway Co., Ltd., where he serves as an outside director.

4. Other Material Matters

Legal Actions

- On August 17, 2015, Shionogi filed a patent infringement action against MSD K.K., which sells Isentress® in Japan (hereinafter referred to collectively as “MSD”), regarding the patent for Shionogi’s HIV integrase inhibitor. 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. On September 4, Intellectual Property High Court adjudged that the Company’s Japanese patent is invalid in the abovementioned lawsuit to rescind the invalidation decision and appeal trial, and such judgement has become final and binding.
- 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 bictegravir 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 bictegravir in Canada, over the patent for dolutegravir held by the Company.

Consolidated Balance Sheets

(As of March 31, 2019)

(Millions of yen)

Accounts	FY2018	(Reference) FY2017	Accounts	FY2018	(Reference) FY2017
Assets	778,741	711,463	Liabilities	106,311	106,622
Current Assets	461,743	379,504	Current Liabilities	89,107	72,565
Cash and deposits	193,549	140,106	Notes and accounts payable-trade	9,442	8,016
Notes and accounts receivable-trade	65,918	53,240	Current portion of bonds	920	—
Short-term investment securities	133,264	124,300	Current portion of long-term loans payable	—	10,000
Merchandise and finished goods	18,741	14,716	Income taxes payable	35,870	19,513
Work in process	7,272	6,993	Provision	10,654	10,207
Raw materials and supplies	14,097	12,926	Provision for bonuses	9,058	8,741
Other	28,942	27,257	Provision for sales returns	1,428	1,360
Allowance for doubtful accounts	(43)	(36)	Other provisions	166	105
			Other	322,219	24,829
Non-current assets	316,997	331,959	Non-current liabilities	17,203	34,056
Property, plant and equipment	74,653	75,956	Bonds payable	—	18,491
Buildings and structures, net	45,149	48,725	Deferred tax liabilities	124	3,123
Machinery, equipment and vehicles, net	11,178	12,595	Net defined benefit liability	11,930	8,096
Land	8,437	8,352	Other	5,147	4,344
Construction in progress	3,908	1,057	Net assets	672,429	604,840
Other, net	5,979	5,224	Shareholders' equity	652,371	579,257
Intangible assets	54,769	75,060	Capital stock	21,279	21,279
Goodwill	19,258	32,852	Capital surplus	20,512	20,227
Sales rights	30,319	38,073	Retained earnings	639,461	574,392
Other	5,191	4,134	Treasury stock	(28,882)	(36,641)
Investments and other assets	187,574	180,942	Accumulated other comprehensive income	15,130	21,589
Investment securities	151,851	155,675	Valuation difference on available-for-sale securities	28,927	35,856
Net defined benefit asset	30,721	21,735	Deferred gains or losses on hedges	747	1,174
Deferred tax assets	1,792	738	Foreign currency translation adjustment	(18,370)	(15,330)
Other	3,250	2,835	Remeasurements of defined benefit plans	3,826	(111)
Allowance for doubtful accounts	(42)	(42)	Subscription rights to shares	527	527
			Non-controlling interests	4,400	3,466
Total assets	778,741	711,463	Total liabilities and net assets	778,741	711,463

Consolidated Statements of Income

(Year ended March 31, 2019)

(Millions of yen)

Accounts	FY2018	(Reference) FY2017
Net sales	363,721	344,667
Cost of sales	54,880	73,911
Gross profit	308,841	270,756
Selling, general and administrative expenses	170,303	155,537
[R&D expenses]	[68,325]	[59,945]
Operating income	138,537	115,219
Non-operating income	33,256	28,326
Interest and dividends income	32,327	27,702
Other	928	623
Non-operating expenses	5,218	4,852
Interest expenses	581	557
Other	4,637	4,294
Ordinary income	166,575	138,692
Extraordinary income	20,854	—
Gain on sales of investment securities	17,946	—
Gain on sales of non-current assets	2,907	—
Extraordinary losses	17,086	1,314
Impairment loss	13,148	519
Special retirement expenses	2,848	—
Loss on disaster	823	—
Loss on disposal of non-current assets	265	—
Loss on valuation of investment securities	—	794
—	—	—
Income before income taxes	170,343	137,378
Income taxes-current	39,988	30,152
Income taxes-deferred	(2,951)	(1,562)
Profit	133,306	108,788
Profit(loss) attributable to non-controlling interests	547	(78)
Profit attributable to owners of parent	132,759	108,866

Non-consolidated Balance Sheets

(As of March 31, 2019)

(Millions of yen)

Accounts	FY2018	(Reference) FY2017	Accounts	FY2018	(Reference) FY2017
Assets	612,336	584,964	Liabilities	79,075	84,454
Current assets	304,275	298,611	Current liabilities	69,362	53,400
Cash and deposits	71,182	38,136	Accounts payable-trade	6,954	5,450
Accounts receivable-trade	59,000	47,759	Current portion of bonds	920	—
Short-term investment securities	129,512	124,300	Current portion of long-term loans payable	—	10,000
Merchandise and finished goods	12,923	10,835	Accounts payable-other	19,008	12,273
Work in process	6,601	5,744	Accrued expenses	3,566	3,145
Raw materials and supplies	11,830	11,981	Income taxes payable	28,938	12,057
Advance payments-trade	3,313	3,617	Deposits received	2,766	3,395
Short-term loans receivable	2,368	44,925	Provision for bonuses	6,648	6,661
Other	7,542	11,311	Provision for directors' bonuses	153	96
Non-current assets	308,061	286,353	Provision for sales returns	26	21
Property, plant and equipment	68,010	68,201	Other	380	299
Buildings, net	37,770	40,199	Non-current liabilities	9,712	31,054
Structures, net	2,240	1,919	Bonds payable	—	18,491
Machinery and equipment, net	10,945	12,420	Deferred tax liabilities	—	3,016
Vehicles, net	21	30	Provision for retirement benefits	8,374	8,760
Tools, furniture and fixtures, net	4,119	4,228	Other	1,338	785
Land	8,350	8,352	Net assets	533,261	500,510
Lease assets, net	863	140	Shareholders' equity	503,058	462,951
Construction in progress	3,700	909	Capital stock	21,279	21,279
Intangible assets	22,721	26,577	Capital surpluses	16,392	16,392
Software	2,789	2,187	Legal capital surplus	16,392	16,392
Sales rights	18,894	24,245	Retained earnings	494,268	461,920
Other	1,037	144	Legal retained earnings	5,388	5,388
Investments and other assets	217,329	191,574	Other retained earnings	488,880	456,532
Investment securities	89,363	98,329	Reserve for advanced depreciation of noncurrent assets	3,820	3,948
Stocks of subsidiaries and affiliates	100,613	68,321	General reserve	368,645	368,645
Investments in capital of subsidiaries and associates	603	603	Retained earnings brought forward	116,414	83,938
Long-term prepaid expense	839	539	Treasury stock	(28,882)	(36,641)
Prepaid pension cost	21,691	22,598	Valuation and translation adjustments	29,675	37,031
Deferred tax assets	2,843	—	Valuation difference on available-for-sale securities	28,928	35,856
Other	1,416	1,224	Deferred gains or losses on hedges	747	1,174
Allowance for doubtful accounts	(42)	(42)	Subscription rights to shares	527	527
Total assets	612,336	584,964	Total liabilities and net assets	612,336	584,964

Non-consolidated Statements of Income

(Year ended March 31, 2019)

(Millions of yen)

Accounts	FY2018	(Reference) FY2017
Net sales	327,991	315,941
Cost of sales	48,649	66,856
Gross profit, net	279,342	249,084
Selling, general and administrative expenses	140,975	132,177
[R&D expenses]	[67,769]	[59,304]
Operating income	138,366	116,907
Non-operating income	6,035	4,831
Interest and dividends income	4,148	3,296
Other	1,887	1,535
Non-operating expenses	4,565	4,205
Interest expenses	167	210
Other	4,398	3,995
Ordinary income	139,836	117,534
Extraordinary income	19,466	—
Gain on sales of investment securities	17,946	—
Gain on sales of shares of subsidiaries and associates	1,018	—
Gain on sales of non-current assets	501	—
Extraordinary losses	23,210	519
Loss on valuation of stocks of subsidiaries and associates	18,878	—
Special retirement expenses	2,504	—
Loss on disaster	816	—
Impairment loss	746	519
Loss on disposal of non-current assets	265	—
Income before income taxes	136,092	117,014
Income taxes-current	39,065	28,615
Income taxes-deferred	(3,009)	(736)
Profit	100,037	89,135

Accounting Auditor's Audit Report

May 8, 2019

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, 2018 to March 31, 2019.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Accounting Auditor's Responsibility

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

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

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

Audit Opinion

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

Interests in the Company

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

Accounting Auditor's Audit Report

May 8, 2019

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 154th fiscal term from April 1, 2018 to March 31, 2019.

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 154th fiscal period from April 1, 2018 to March 31, 2019 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, 2019

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 :Takaoki Fujiwara