SHIONOGI & CO., LTD.

Annual Report 2013
Year ended March 31, 2013

The Company Policy of Shionogi

Shionogi's purpose

Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

For this purpose, Shionogi will need to

Pursue the search for even better medicines.
Produce even better medicines.
Promote awareness of these better medicines to more people so that more people will be able to use these medicines.
Research, produce, and promote in an even more economical manner.

For this purpose, Shionogi people will need to

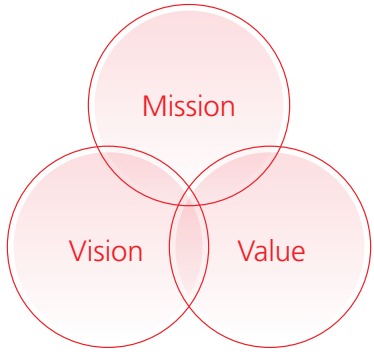
Strive ceaselessly day after day to improve their skills.
Strive ceaselessly day after day to improve as human beings.

As a result, Shionogi people will

Find even greater satisfaction in their daily work and in their daily lives.
Find even greater improvement in the quality of their lives.
Find even greater prosperity in their lives.

(Established in 1957)

Shionogi's Action Guidelines



Mission

We will deliver pharmaceuticals that offer an even higher level of satisfaction to patients, their families, and healthcare providers and improve the quality of life for patients and their families.

Vision

A company with a strong presence worldwide
A company that has pride and dreams and embraces challenges

Value

Customer focus, Trust, Professionalism, On-site orientation, Respect for the individual

Contents

Editorial Policy

Period Under Review
Fiscal 2012 (April 1, 2012–March 31, 2013)
Certain activities continuing after fiscal 2012 are also included.

Scope and Organization
This Annual Report encompasses the activities of Shionogi & Co., Ltd. and 38 companies (32 consolidated subsidiaries and 6 affiliates).

The section entitled Efforts to Preserve the Environment covers all business facilities of Shionogi & Co., Ltd., and six domestic subsidiaries. In this report, "Shionogi" refers to Shionogi & Co., Ltd. and all its on-site subsidiaries.

"Domestic subsidiaries" refers to the one domestic manufacturing subsidiary (Shionogi Pharma Chemicals Co., Ltd.) and two domestic non-manufacturing subsidiaries (Shionogi General Service Co., Ltd. and Saishin Igaku Co., Ltd.). "Shionogi Group" refers to all the aforementioned companies.

Notes Concerning Numerical Values and Graphs
All numerical values are rounded to the nearest unit, as applicable. Totals may not match due to rounding.

Forward-looking Statements

This report contains forward-looking statements. These statements are based on expectations in light of the information currently available, assumptions that are subject to risks, and uncertainties which could cause actual results to differ materially from these statements.

Risks and uncertainties include general domestic and international economic conditions, such as general industry and market conditions, and changes of interest rates and currency exchange rates.

These risks and uncertainties particularly apply to forward-looking statements concerning existing products and those under development. Product risks and uncertainties include, but are not limited to, completion and discontinuation of clinical trials; obtaining regulatory approvals; claims and concerns about product safety and efficacy; technological advances; adverse outcome of important litigation; domestic and foreign healthcare reforms; and changes of laws and regulations.

For existing products, there are also manufacturing and marketing risks, which include, but are not limited to, inability to build production capacity to meet demand, unavailability of raw materials, and competition with other companies' products.

The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, or otherwise.

This report contains information on pharmaceuticals (including compounds under development), but this information is not intended to make any representations or advertisements regarding the efficacy of these pharmaceuticals nor provide medical advice of any kind.

Shionogi's 135-Year History

Shionogi has positioned fiscal 2013 as the first year of the Group's globalization, based on a tradition and history stretching back 135 years to the Company's foundation. Shionogi is looking to realize the Company Policy—"to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve"—on a global basis.

1878

- **Gisaburo Shiono, Sr., founder of the Company, launched Shiono Gisaburo Shoten as a drug wholesaler at the present site of the head office, Doshomachi, Osaka.**

Founder
Gisaburo Shiono, Sr.
(1854-1931)
Gisaburo Shiono, Sr. was born in 1854 in Doshomachi, Osaka. Under the guidance of his father Kichibe he learned the wholesale trade and on March 17, 1878 launched his own drug wholesaling business in Doshomachi on his 24th birthday. This wholesaler was the predecessor of Shionogi & Co., Ltd.

1886

- The management of Shionogi decided to concentrate on imported western drugs.

1897

- Shionogi started to deal directly with trading firms in Europe and the US.

1909

- **The corporate emblem FUNDOH was registered.**

FUNDOH Means Pursue the Truth
Shionogi's corporate emblem is derived from FUNDOH, which is a weight used to measure medicine on a balance. It symbolizes "accuracy," "honesty" and "trust," and expresses Shionogi's wish for the constant pursuit of the truth.

(FUNDOH from the Edo era)

1909

Antacidin, an antacid agent, was launched as the first drug produced.

1910

- A manufacturing plant, Shiono Seiyakusho, was constructed.

1919

- Shiono Gisaburo Shoten and Shiono Seiyakusho were merged and the new company was named Shionogi Shoten Co., Ltd.

1922

- Established the Kuise Plant (Now Kuise Site).

1943

- The Company was renamed, Shionogi Seiyaku K.K. (Now Shionogi & Co., Ltd.).

1946

- Developed the Aburahi Laboratories (Now Aburahi Facilities).

1957

- The Company Policy of Shionogi was established.

1963

Taiwan Shionogi & Co., Ltd. was established.

1968

- Established the Settsu Plant.

1980

- Established the Developmental Research Laboratories (Now Shionogi Pharmaceutical Research Center (SPRC)).

1983

- Constructed the Kanegasaki Plant.

1997

Launched the cephem antibiotic, *Flomox*.

1998

- Established the Shionogi Charter of Conduct.

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Shionogi Limited, UK
(Development foothold in EU)

C&O Pharmaceutical Technology (Holdings) Limited
(R&D, manufacturing, and sale of pharmaceuticals in China)

Shionogi Inc.
(Development, manufacturing, and sale of pharmaceuticals in US)

2000 2005 2010

2000

The First Medium-Term Business Plan starts.
"Laying the foundation"
Completion of corporate restructuring to concentrate on pharmaceutical business.

2001

Established Shionogi USA, Inc. (Now Shionogi Inc.)

- Transferred agricultural chemicals business.
- Established a joint venture named Shionogi-GlaxoSmithKline Pharmaceuticals LLC (Now Shionogi-ViiV Healthcare LLC).
- * Started joint research and development, including HIV integrase inhibitors

2002

- Transferred veterinary drugs business and clinical laboratory.
  Sold Ohmori Co., Ltd., a wholesaler of pharmaceuticals.

2003

- Launched the cancer pain analgesic, *OxyContin*.

2005

The Second Medium-Term Business Plan starts.
"Accelerating toward significant strides"
Established constant flow of pipeline products through energizing and globalizing R&D.

- Launched the hyperlipidemia treatment, *Crestor*.
- Launched the carbapenem antibiotic, *Finibax*.

2007

- Launched the cancer pain analgesic, *OxiNorm*.

2008

- Established Shionogi Analysis Center Co., Ltd.
- Launched the hypertension treatment, *Irbetan*.
- Established a joint research facility with Hokkaido University, Shionogi Innovation Center for Drug Discovery.

Acquired Sciele Pharma, Inc. (Now Shionogi Inc.)

- Launched the acne vulgaris treatment, *Differin*.
- Launched the idiopathic pulmonary fibrosis treatment, *Pirespa*.

2009

- Established Ezose Sciences, Inc., a venture company providing serum glycan analysis services.

2010

The Third Medium-Term Business Plan starts.
"SONG for the Real Growth"
Launch of multiple products developed globally and real growth.

- Launched the anti-viral drug for influenza, *Rapiacta*.
- Sold Bushu Pharmaceuticals Ltd., a contract manufacturing company.
- Launched the antidepressant drug, *Cymbalta*.
- Established the PET Molecular Imaging Center at the Osaka University Graduate School of Medicine.

Established Shionogi Inc. as the US group headquarters.

- Established Shionogi Techno Advance Research Co., Ltd.

2011

- Completed a new research facility SPRC4.

Acquired a Chinese pharmaceutical company, C&O Pharmaceutical Technology (Holdings) Limited.

2012

Established a European subsidiary, Shionogi Limited.

- Launched the injectable cancer pain analgesic, *OxiFast*.

*** Revised HIV integrase inhibitor relationship with ViiV.**

2013

Launched the Postmenopausal vulvar and vaginal atrophy treatment, *Osphena*™.

5th

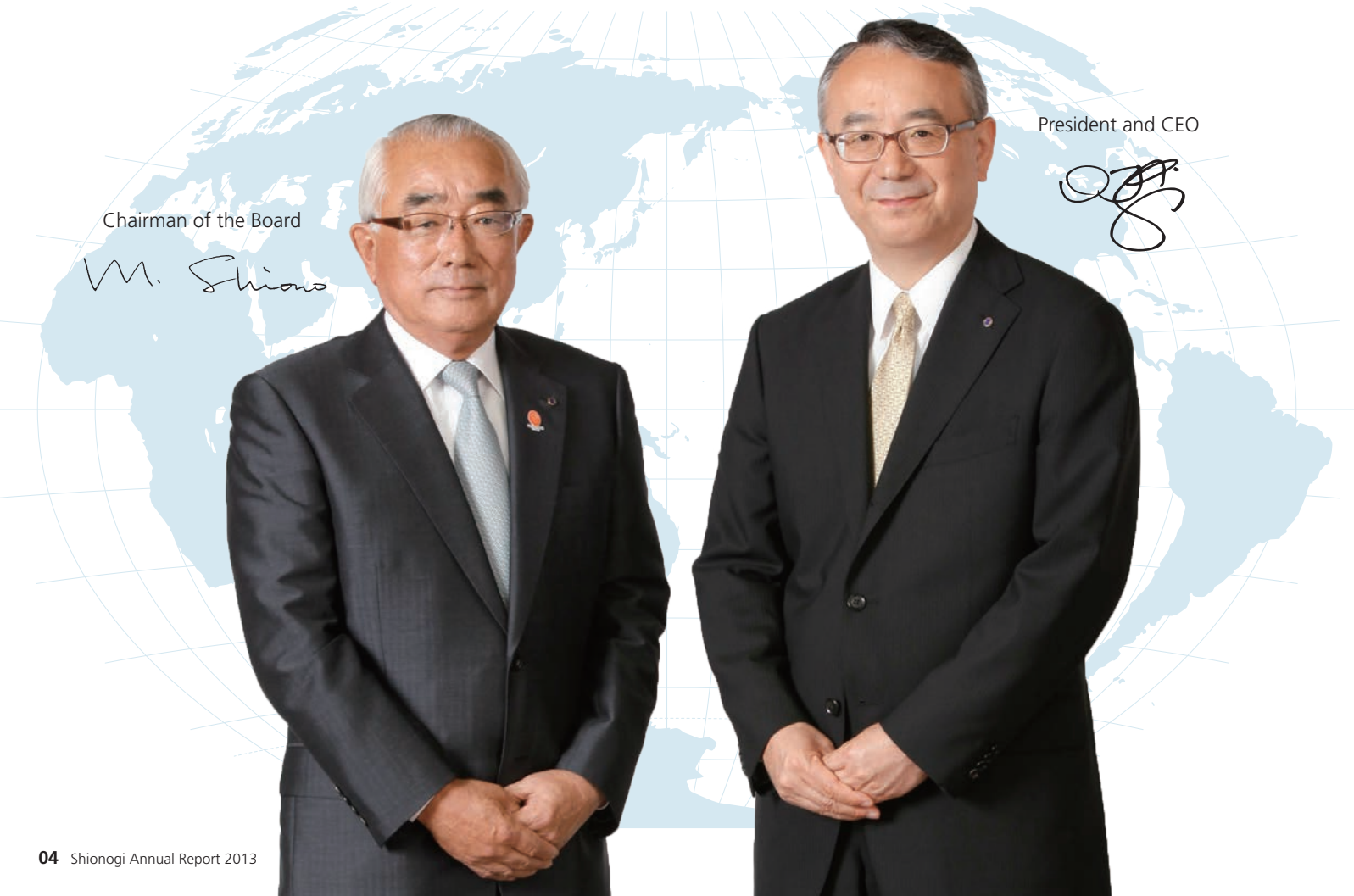
To Our Stakeholders

The Shionogi Group is pushing ahead with its Third Medium-Term Business Plan, with the aim of achieving growth over the medium and long terms.

The Shionogi Group is in the midst of implementing its Third Medium-Term Business Plan, spanning the period from fiscal 2010 to fiscal 2014. This Plan is designed to enable the Shionogi Group to overcome the "Crestor Cliff," a phrase which refers to the expected drop in royalty income resulting from the expiration of patents for the hyperlipidemia treatment *Crestor*, a mainstay product, in 2016 and 2017, and so continue to grow without this royalty income thereafter. We are working hard to bring innovative new drugs to market globally and expand our earnings to realize our medium- to long-term vision.

Fiscal 2014 Management Targets	
Consolidated net sales:	**¥375.0 billion**
Operating income:	**¥110.0 billion**
Overseas net sales:	**¥87.0 billion**

Fiscal 2020 Aim	
Consolidated net sales:	**¥600.0 billion**
Operating margin:	**At least 25%**
Overseas net sales ratio:	**At least 50%**



Fiscal 2012: The Halfway Point of Our Business Plan and a Year of Many Accomplishments

In fiscal 2012, the year ended March 31, 2013, we secured stable earnings in the Japanese market, absorbing the impact of NHI drug price revisions with steady growth in our eight strategic products, particularly new drugs. In overseas markets, stable operations produced improved profitability at our US subsidiary, Shionogi Inc., while our Chinese subsidiary, C&O*1, made its first full-year contribution to our net sales. We are thus making steady progress solidifying our base for the Shionogi Group to grow globally.

Fiscal 2012 was a significant year in terms of development compounds that will underpin our future growth. In anti-HIV drugs, in October 2012 we entered into an agreement that substantially revised our integrase inhibitor relationship with UK-based development partner ViiV*2, which has clarified future earnings prospects. In December 2012, ViiV filed New Drug Applications (NDA) in the US, EU and Canada for the anti-HIV agent *dolutegravir* (generic name), and expects to gain approval and launch the drug in the US in the summer of 2013. What's more, our treatment for postmenopausal vulvar and vaginal atrophy *Osphena*™ (*ospemifene*) gained regulatory approval in the US in February 2013 and was launched the following June. Other compounds in late-stage clinical development on a global basis also made steady progress.

On the earnings front, as part of efforts to improve our earnings structure ahead of the "Crestor Cliff," we worked to reduce costs even more across the company. As a result of these efforts, all income levels were higher than the levels in any prior fiscal year. We are now working to ensure that we achieve our business plan targets for fiscal 2013.

Stepping Up Globalization to Grow Again After the 2016 "Crestor Cliff"

We aim to secure stable earnings in Japan, our mother market, and at the same time continuously launch proprietary products through our subsidiaries in the US, the world's largest pharmaceutical market, and the fast-growing Chinese market to grow steadily on a global basis. In terms of research and development, in addition to priority therapeutic areas such as metabolic syndrome, we will take on the challenge of research in new therapeutic areas with high unmet medical need*3, including central nervous system disorders. We are determined to quickly develop future growth drivers globally, while also utilizing our UK subsidiary.

The Shionogi Group will work as one to steadily execute the basic strategies of its Third Medium-Term Business Plan to meet the demands of society and develop continuously. In this way, we will realize the Company Policy of Shionogi globally, and deliver the tangible benefits of growth to all our stakeholders. We look forward to receiving ongoing support and guidance from all our stakeholders.

*1: C&O Pharmaceutical Technology (Holdings) Limited
*2: ViiV Healthcare Ltd.
*3: This refers to conditions for which there remains no satisfactory method of treatment.

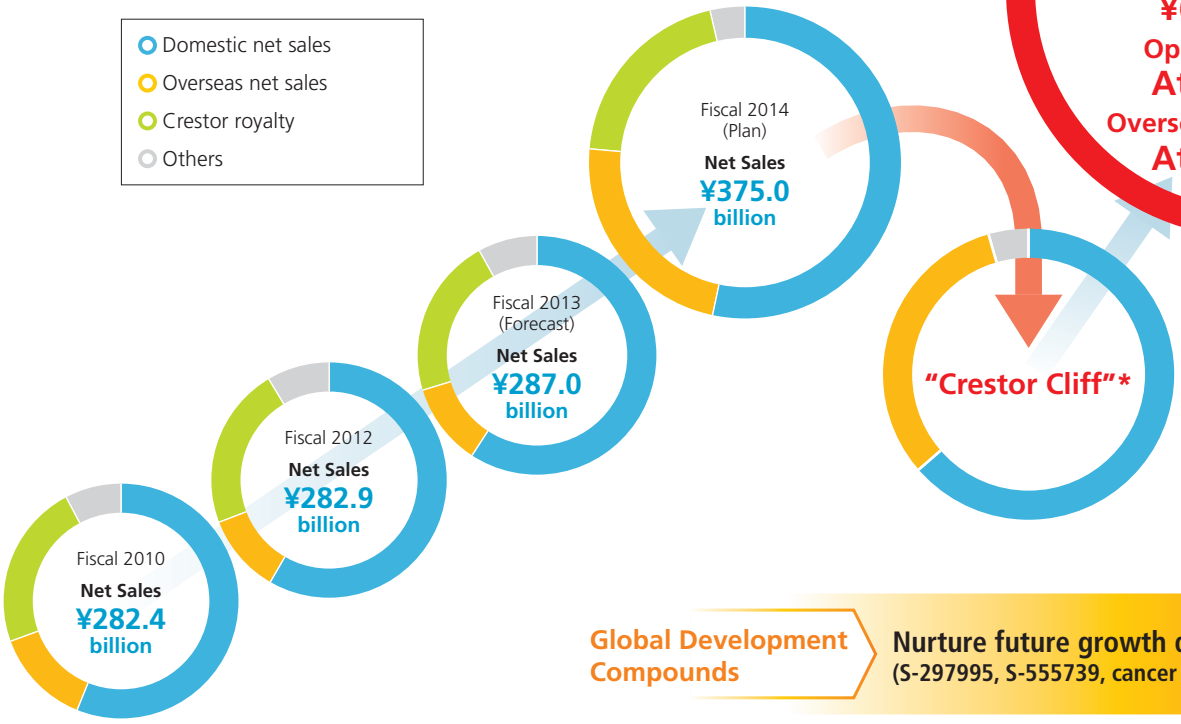
Snapshot

Shionogi Medium- to Long-Term Vision

Overcome the so-called "Crestor Cliff" and enter an era of renewed growth

Fiscal 2020
Era of renewed growth

[Fiscal 2020 Aim]
Consolidated net sales
¥600.0 billion
Operating margin
At least 25%
Overseas net sales ratio
At least 50%



* The expected drop in royalty income resulting from the expiration of patents for *Crestor*, a leading product

Global Development Compounds — Nurture future growth drivers. (S-297995, S-555739, cancer vaccines, etc.)

Global HIV Integrase Inhibitors — Grow Anti-HIV agents. (Royalty income and dividends from ViiV Healthcare)

Global New Products — Grow new drug *Osphena*™. (Overseas sales expansion)

Domestic Strategy — Grow eight strategic products. (Solidify domestic marketing base)

2010 — 2012 — 2013 — 2014 — 2016 — 2018 — 2020

Third Medium-Term Business Plan

Three Basic Strategies
- Steady growth mainly through enriched pipeline
- Investments in new growth drivers
- Therapeutic areas to be focused on

Fourth Medium-Term Business Plan (not yet announced)

Fiscal 2012 Achievements

Global New Drugs: Treatment for Postmenopausal Vulvar and Vaginal Atrophy *Osphena*™ (*ospemifene*)

Filed for regulatory approval in the US (April 2012)

Filed for regulatory approval in the EU (March 2013)

Obtained regulatory approval
(February 2013)
(Launched June 2013)

Please refer to **page 15**

Global Anti-HIV agents: *Dolutegravir*, an Integrase Inhibitor

Substantially revised integrase inhibitor relationship with ViiV (October 2012)

Filed for regulatory approval in the US, Canada and EU
(December 2012)

Global anti-HIV agents market approx. **US$16.8 billion** (FY2011)

(Source: Evaluate Pharma 2011)

Please refer to **page 13**

Global Late-Stage Clinical Development Products

Alleviation of opioid-induced adverse effects S-297995
Started Phase III clinical trials globally

Allergic rhinitis treatment S-555739
Phase III LPO* for seasonal allergies in Japan
* Last patient out

(As of August 2013)

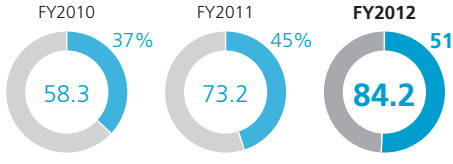
Please refer to **pages 17 30-31**

Eight Strategic Products in Japan

Steadily expanding sales

Increased share to 51% of prescription drug sales in Japan

Net Sales / Share of Sales
(Billions of yen)



	FY2010	FY2011	FY2012
Prescription drug sales in Japan	158.9	164.4	**165.7**

Please refer to **pages 32-33**

Cost Management

Achieved record operating income

Appropriately and efficiently controlled expenses

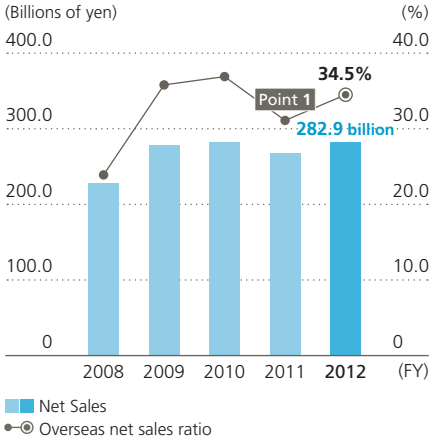
Operating Income
(Billions of yen)

Performance Highlights

	Millions of yen					Thousands of U.S. dollars*1
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012
For the years ended March 31:						
Net sales	¥227,512	¥ 278,503	¥282,350	¥ 267,275	¥ 282,904	$ 3,009,297
Cost of sales	70,929	76,264	81,737	77,753	78,575	835,815
Selling, general and administrative expenses	124,568	149,801	153,721	142,519	145,480	1,547,495
Operating income	32,015	52,438	46,892	47,003	58,849	625,987
Income before income taxes and minority interests	30,786	58,541	33,135	41,495	58,307	620,221
Net income	15,661	38,626	20,027	27,102	66,728	709,797
Research and development expenses	52,822	51,808	50,921	53,599	53,021	563,993
Capital investments	10,875	12,547	17,967	13,233	11,447	121,764
Depreciation and amortization	13,468	18,048	17,966	16,282	11,912	126,710
Net cash provided by operating activities	29,120	52,902	56,528	54,724	59,276	630,529
Net cash used in investing activities	(149,056)	(826)	(13,947)	(38,290)	(19,960)	(212,318)
As of March 31:						
Property, plant and equipment, net	¥ 71,812	¥ 62,448	¥ 70,221	¥ 74,282	¥ 78,474	$ 834,741
Total assets	501,853	540,762	523,242	522,162	574,882	6,115,115
Total long-term liabilities	114,955	131,956	115,326	92,900	53,042	564,216
Total net assets	310,094	341,976	328,096	347,198	423,633	4,506,255
Per share amounts:	Yen					U.S. dollars
Net income	¥ 46.75	¥ 115.33	¥ 59.80	¥ 80.93	¥ 199.25	$ 2.12
Net assets	924.43	1,019.71	979.69	1,027.83	1,254.44	13.34
Dividends	28.00	36.00	40.00	40.00	42.00	0.45
Other:						
Equity ratio (%)	61.7	63.2	62.7	65.9	73.1	
Return on equity [ROE] (%)	4.8	11.9	6.0	8.1	17.5	
Return on assets [ROA] (%)	7.0	9.7	8.5	8.8	10.7	
Payout ratio (%)	59.9	31.2	66.9	49.4	21.1	
Non-Financial Data						
CO_2 emissions (Thousand tons – CO_2)*2	–	104	87	93	89	
Amount of waste generated (t)	5,875	6,218	5,015	4,744	4,564	
Ratio of hybrid and electric vehicles (%)*3	–	–	39.7	48.9	80.0	

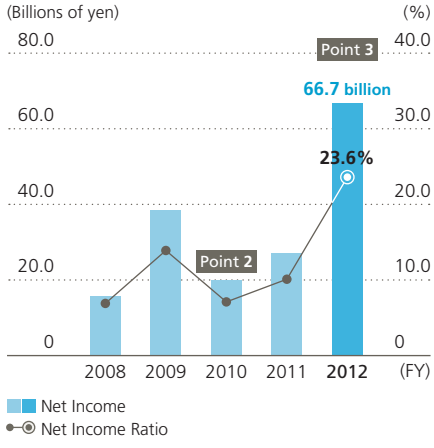
*1: U.S. dollar figures have been calculated, for convenience only, at the rate of ¥94.01 = US$1.00, the approximate rate of exchange on March 31, 2013.
*2: The electric power CO_2 conversion uses internally specified figures.
Data are from fiscal 2009 because of a change to the scope of aggregation following enforcement of the Amended Act on Temporary Measures for Promotion of Rational Uses of Energy and Recycled Resources in 2010.
*3: Excludes cold regions of Japan

Net Sales / Overseas Net Sales Ratio

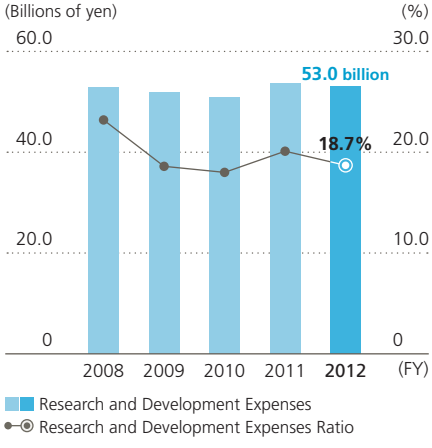


Operating Income / Operating Income Ratio

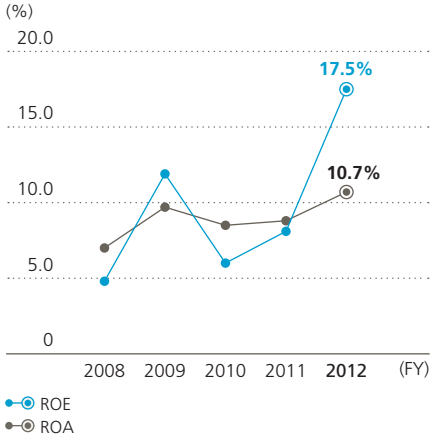
Net Income / Net Income Ratio



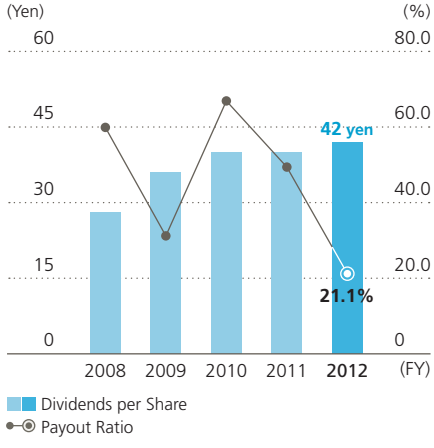
Research and Development Expenses / Research and Development Expenses Ratio



ROE / ROA



Dividends per Share / Payout Ratio

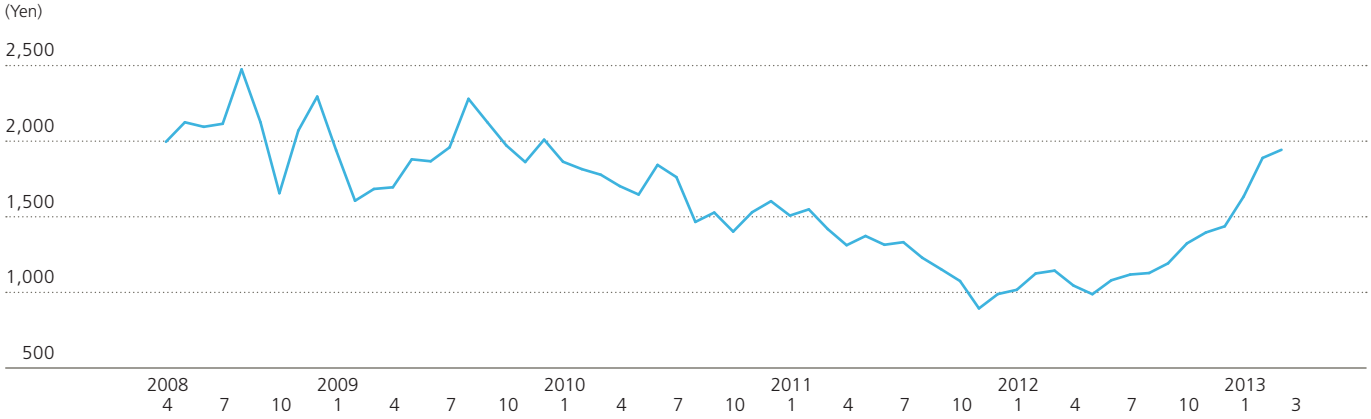


Point 1 Reflects a sluggish performance in the US business.

Point 2 Reflects extraordinary losses, including loss on disaster attributable to the Great East Japan Earthquake, and business structure improvement expenses and impairment losses in US operations.

Point 3 Reflects lower tax expenses due to impairment losses on the valuation of stock of affiliates on a non-consolidated basis associated with revaluation of US operations.

Stock Data



Interview with the President

President and CEO
Isao Teshirogi, Ph.D.

Shionogi has positioned fiscal 2013 as the first year of the Group's globalization, and we will work over the course of this year toward realizing our Company Policy globally.

In the wake of realignment within the domestic pharmaceutical industry —a consequence of widespread M&A activity—and with multinational drugmakers pushing deeper into the Japanese market, the Shionogi Group has established development and sales bases in the US, Europe, and Asia with a view to ensuring ongoing, steady, and independent growth as an R&D-oriented global pharmaceutical company. As a result of these efforts, we are now poised to move onto a higher growth trajectory.

In fiscal 2013, the Group as a whole will clarify priorities when determining cost allocation, putting the highest priority on new products launched on the US market, as a means of growing overseas sales. Having identified fiscal 2013 as the first year of Shionogi's globalization, we will also seek to plant in our domestic employees the realization that Shionogi is now a global company, requiring them to adopt a much broader mindset.

Continuous global development of breakthrough new drugs is required if the Shionogi Group is to survive fierce competition, overcome the "Crestor Cliff" that will occur between 2016 and 2017, and achieve further growth in the post-Crestor era. To that end, our employees are working as one to realize the Shionogi Company Policy globally, in the spirit of striving constantly to ensure that patients around the world have access to the best new drugs, as soon as humanly possible.

Question 1

First, could you outline the initiatives being taken to globalize operations as a means of overcoming the "Crestor Cliff," and describe the results seen in fiscal 2012?

As the domestic prescription pharmaceuticals market is not expected to expand further going forward, Shionogi must pursue a more significant presence in the large US and European markets, as well as in China and other emerging economies that are expected to experience high growth. More so than ever before, we must apply a global perspective to determining how best to utilize the Group's limited resources in terms of manpower, goods, and capital in order to maximize the value of pipeline products by bringing them to market quickly. It is essential to make timely decisions on what products to prioritize in which markets, and on whether it is best in each case to go it alone, or to develop the product jointly with another company, or alternatively secure a licensing agreement. In this sense, fiscal 2012 was an important year in terms of laying the groundwork for further globalization of the Shionogi Group.

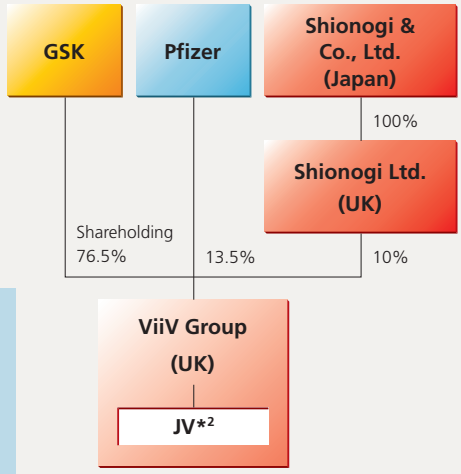
1 We revised an agreement with ViiV Healthcare concerning anti-HIV drugs, which we believe will evolve into a key pillar of earnings.

In October 2012, we restructured an agreement with UK-based pharmaceutical company ViiV Healthcare, partner in the joint development of anti-HIV drugs that we hope will become an important source of income for the Shionogi Group. The revisions concern sales rights and management of operations; under the amended agreement, we will continue to have a say in management as a 10% shareholder in ViiV, in addition to receiving royalties at a fixed percentage of sales, and dividends from ViiV. We believe these changes will allow us to dedicate more resources to the development and sales of proprietary global products. The anti-HIV agent *dolutegravir* has been granted priority review status by the FDA*, and we expect both approval and launch to take place in the summer of 2013.

* FDA: U.S. Food and Drug Administration

Relationship with ViiV Concerning Anti-HIV Drugs

- Rights to *dolutegravir*, an HIV integrase inhibitor*1, and other franchise products were transferred to ViiV, with Shionogi becoming a 10% shareholder in ViiV
- We will receive dividends from ViiV proportionate to our 10% shareholding, and also are entitled to representation on ViiV's Board (one person)
- We will receive royalties averaging in the high teens on sales of *dolutegravir* and other franchise products
  (In principle, the amout will not decline even with combination preparations)



Merits of the New Framework

- With representation on ViiV's Board, Shionogi has a say in management and can make an ongoing contribution to maximizing the value of *dolutegravir* and other franchise products, thereby augmenting royalty income.
- Resources previously used in integrase inhibitor development can be channeled into R&D for internally developed products to achieve an early, global launch of growth drivers to succeed *dolutegravir*.

Anti-HIV Drug Market

- HIV infected people: **approx. 34 million** (Source: WHO, UNICEF, UNAIDS, Progressive report 2011*3)
- Anti-HIV market: **approx. US$16.8 billion**
  (Source: EvaluatePharma 2011: 10% year-on-year increase (Regional breakdown: US approx. 47%, other countries approx. 53%))

Profile of *dolutegravir*

***Dolutegravir* is a next-generation HIV integrase inhibitor that has been jointly developed by Shionogi and ViiV, and was discovered in joint research by Shionogi and GlaxoSmithKline plc.**

- ViiV filed NDAs in the US, Europe and Canada (December 17, 2012)
- The FDA has granted a priority review designation
- Product Profile
  - High degree of clinical activity
    In Phase III trials conducted on treatment-naive patients, approximately 90% of patients in the *dolutegravir* group maintained a viral load of less than 50 copies per mL (48-week data)
  - Unlikely to produce drug-resistant virus
    In treatment-naive patients, there was no observation of *dolutegravir* producing a virus resistant to either *dolutegravir* or drugs used in combination as background therapy
  - Low cross-resistance
    Also effective in patients who failed with therapy using existing integrase inhibitors
  - Good pharmacokinetics
    Can be taken once daily without the need for a pharmacokinetic booster*4
  - Can be administered together with most other anti-HIV drugs without the need for dose adjustment

*1: Integrase inhibitors block HIV replication inside the body by preventing the viral DNA from integrating into the genetic material of human immune cells.
*2: JV: Under the previous agreement, Shionogi held 50% of rights
*3: "Global HIV / AIDS Response" report issued by the World Health Organization (WHO), United Nations Children's Fund (UNICEF), and Joint United Nations Programme on HIV / AIDS (UNAIDS)
*4: Used in combination to maintain and improve a drug's anti-viral effect by maintaining sufficient drug concentration in the blood through drug-metabolizing enzyme inhibition

2 We have now launched *Osphena*™ in the US, as the Shionogi Group's first global drug.

June 2013 saw the launch in the US (the world's largest pharmaceutical market) of the Shionogi Group's first global drug, *Osphena*™, for the treatment of postmenopausal vulvar and vaginal atrophy (VVA). Right now, the entire Group's top priority is to quickly maximize the value of *Osphena*™, which we believe has a significant role to play in improving patients' QOL (Quality of Life). In fiscal 2013, the Group will strive as one to increase sales of *Osphena*™ in the US market.

In March 2013, we also submitted a Marketing Authorization Application (MAA) to the European Medicines Agency (EMA), and we are now in the process of selecting commercialization partners in the EU. We hope that we can also quickly deliver this drug to patients suffering from VVA in Europe as well to contribute to treatment.

We believe that, with the aforementioned changes to our agreement with ViiV regarding anti-HIV drugs, the US launch of global product *Osphena*™ and other developments, we have paved the way for Shionogi to overcome the "Crestor Cliff" and further grow its operations.

We are also working to enrich and accelerate our development pipeline to secure growth drivers other than these two products. With an eye to further enhancing development efficiency, Shionogi will strengthen global portfolio management, redoubling efforts to develop and market proprietary medicines across our entire network—in Japan, the US, and Europe, and also in China.

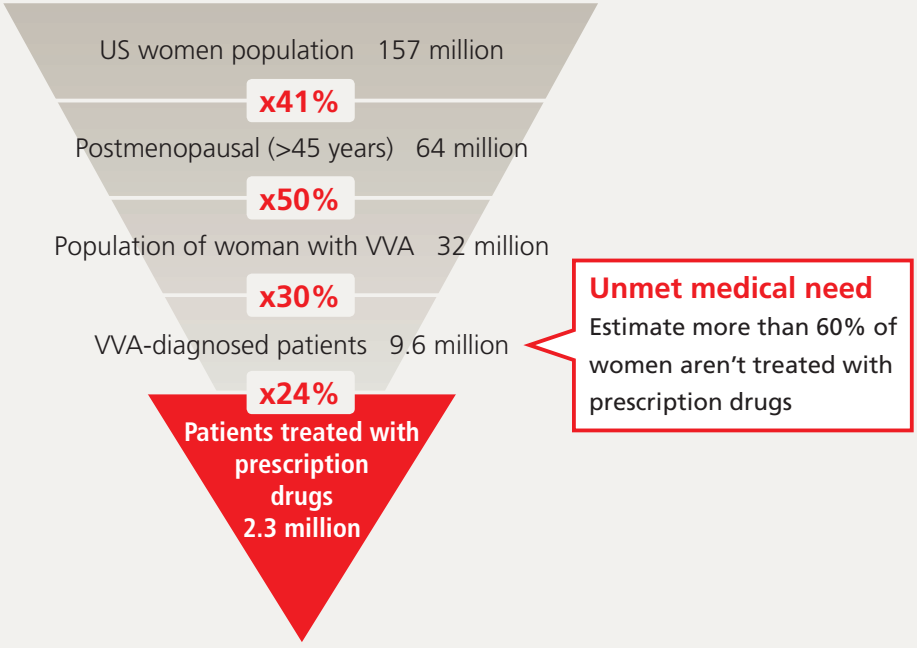
Osphena™ was launched in June 2013

About Global Drug *Osphena*™

Osphena™ provides a new treatment option for the many women troubled by dyspareunia (painful intercourse) due to menopause.

While approximately 32 million postmenopausal women in the US experience symptoms of VVA, only around 2.3 million are being treated with a prescription medication. It seems the majority of women with VVA are not being treated because women and their doctors are not proactively discussing the condition and its symptoms.

Postmenopausal vulvar and vaginal atrophy (VVA) market (2012)



- Product Profile
  - *Osphena*™, an estrogen agonist / antagonist with tissue selective effects, is the first oral alternative to existing vaginal estrogens
  - It binds to estrogen receptors, resulting in activation of estrogenic pathways in some tissues (agonism) and blockade of estrogenic pathways in others (antagonism)
  - Clinical trials confirmed the efficacy and safety of *Osphena*™, which demonstrated significant improvements in dyspareunia relative to placebo, in the form of an increase in the proportion of superficial cells and a decrease in the proportion of parabasal cells and reduction in vaginal pH
- Schedule

  EU: Submitted MAA in March 2013

  Asia: Under consideration

Question 2

Please discuss the global development compounds that you believe can function as new growth drivers alongside *dolutegravir* and *Osphena*™.

Our pipeline includes a number of products that we believe hold the key to Shionogi's future growth, among them cancer peptide vaccines, and late-stage development compounds such as S-297995 for the alleviation of constipation and other opioid*-induced adverse effects, and the allergic rhinitis treatment S-555739. Furthermore, in October 2012, we expanded offerings in one of our core therapeutic areas by entering into a license agreement with Kotobuki Pharmaceutical Co., Ltd., for a hypercholesterolemia treatment that has a different mechanism of action from *Crestor*. In the same month, we inked an agreement with US-based Janssen Pharmaceuticals, Inc., aimed at speeding up development and maximizing the value of drug candidates in the sphere of Alzheimer's disease treatment, thereby enhancing our contribution to patients worldwide. Under the terms of this contract, a drug candidate for Alzheimer's disease discovered by Shionogi and employing a new mechanism of action was licensed out to Janssen, which has a wealth of experience and expertise in development in this therapeatic area.

In R&D, our promotion of collaboration with Japanese and international universities and research institutions has contributed already to the discovery of innovative new drug candidates. It is also significant, we think, that the VVA treatment *Osphena*™ has secured FDA approval on schedule, and under favorable conditions, in an era when new drugs for obstetrics and gynecology are frequently knocked back. This is a source of pride, as we regard this as testament to the Shionogi Group's improved development prowess. At Shionogi, we will continue striving to bring revolutionary new products to patients around the world as soon as humanly possible, maintaining our credentials as an R&D-oriented global pharmaceutical company by keeping R&D expenditure at around 20% of consolidated sales, while clearly defining the priority assigned to individual compounds.

* Prescription narcotic

Treatment for Alleviating Opioid-induced Adverse Effects
S-297995 (generic name: naldemedine)

Features

Oral medication that has minimal CNS effect and selectively targets peripheral opioid receptors, therefore effectively alleviating opioid-induced adverse effects including constipation and nausea / vomiting, while exerting no adverse impact on the analgesic effect of opioids.

Results from clinical trials to date

- Verified relief of opioid-induced constipation (OIC)
- No evidence of central opioid withdrawal and no change in pain intensity or opioid dosage
- Once-daily administration generally well tolerated
- Favorable pharmacokinetics (low interindividual variability, dose-dependent exposure)

Development stage

- Global: Conducted End of Phase II meeting with the FDA, started Phase III clinical trials
- Japan: Preparing for the start of Phase III clinical trials

Allergic Rhinitis Treatment S-555739

Features

Combination therapy with antihistamine shows remarkable suppressive effects against various symptoms of allergic rhinitis, surpassing existing oral anti-allergy agents. Demonstrated the possibility of replacing steroid nasal spray as a new oral treatment.

Results from clinical trials to date

- Among DP1 receptor* antagonists, was first in world to demonstrate clinical efficacy against allergic rhinitis.
- Effective when given once daily
- Has demonstrated good tolerance and safety

Development stage

- Japan: Conducting Phase III clinical trials for seasonal allergic rhinitis, and started Phase III clinical trials for perennial allergic rhinitis
- Europe: Completed POM (Proof of Mechanism) study
- US: Conducted Phase IIa clinical trials

* One of the prostaglandin D2 receptors

Question 3

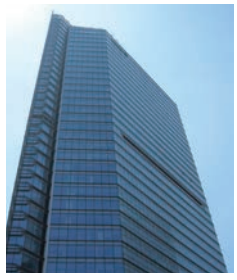
Please describe the current state of, and future outlook for, the Chinese business.

China's pharmaceutical market is on track to overtake Japan as the second largest in the world. Through C&O Pharmaceutical Technology (Holdings) Limited (C&O), a subsidiary since 2011, the Shionogi Group has used its many years of experience in promoting the proper use of drugs for infectious diseases in Japan to garner a greater share of the Chinese market, principally in antibiotics. Unfortunately, however, Shionogi's drugs still have not sufficiently reached Chinese patients.

We aim to steadily grow the Shionogi Group's China sales over the medium to long term and in the process make a greater contribution to medical care in China. This will be achieved by having C&O develop and launch new Shionogi-brand products. We will also promote research and development collaboration with Chinese academic centers of excellence, largely through Beijing Shionogi Pharmaceutical Technology Limited, another China subsidiary launched in June 2013.

[Overview of Beijing Shionogi Pharmaceutical Technology Limited]

Company name:
Beijing Shionogi Pharmaceutical Technology Limited
Representative: Masaaki Takeyasu
Head Office:
Room 2443, Level 24, Tower 3, China Central Place
77 Jianguo Road, Chaoyang District, Beijing, 100025
Date of Establishment: March 29, 2013
Capital: ¥30 million
Business Description:
Technical support for clinical development and sales and marketing, Information consulting



Question 4

What was your intention in restructuring the Group's production and supply chain organizations?

In April 2013, we undertook organizational changes aimed at improving the accuracy of our global production set-up and supply chain management (SCM). We will work to ensure a stable supply of high-quality products globally by promoting greater collaboration between the Manufacturing Division and the newly created Global SCM Division, optimizing operations and reducing our cost of sales through a global manufacturing management system spanning production strategy and planning, procurement, manufacturing and inventory control. This new approach to SCM got its first test in June 2013, with the US launch of our new VVA treatment, *Osphena*™.

Question 5

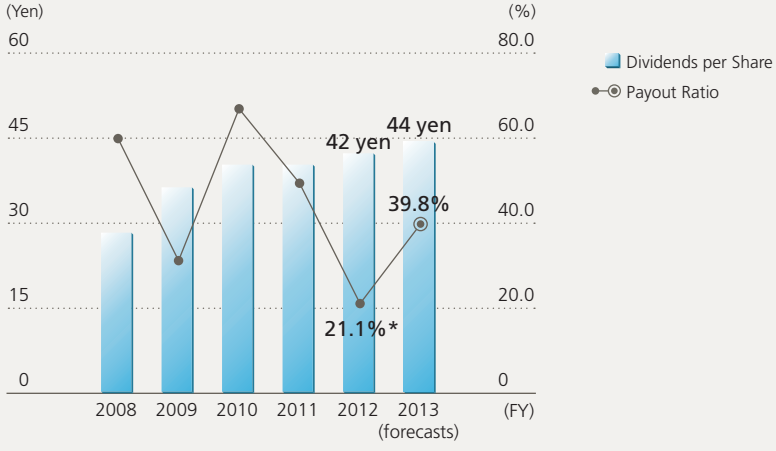
Finally, please discuss initiatives planned to increase corporate value and shareholder returns over the medium and long term.

The Shionogi Group's basic policy for profit distribution is to maintain stable dividends for shareholders while taking into account capital demands for future business development and profits earned in the relevant fiscal period.

Among the Company's major achievements in fiscal 2012 was the revision of our alliance with ViiV concerning the development of anti-HIV drugs. We believe the new scheme clarifies the future earnings prospects of *dolutegravir*—which we expect will attain blockbuster status—and other franchise products. We further believe that with the US launch of *Osphena*™ for the treatment of VVA, we have succeeded in stabilizing the longer-term outlook for overseas operations, in doing so enhancing prospects for growth. Because of these events, as of the end of fiscal 2012 Shionogi has increased its consolidated dividend payout ratio target from 35% to 40% to return profits to its shareholders. Based on this new dividend policy, Shionogi will raise the year-end cash dividend for fiscal 2012 by ¥2 per share to ¥22. Together with the interim cash dividend, we will therefore pay annual cash dividends of ¥42 per share.

The Shionogi Group will continue to proactively undertake business activities with an eye to enhancing corporate value, our longer-term objective being to steadily increase the returns delivered to shareholders.

Dividends per Share / Payout Ratio



Dividend Policy

Shionogi aims to raise dividends steadily in line with performance.
Our consolidated dividend payout ratio target is 40%.

* Consolidated payout ratio: approx. 40% based on net income excluding the one-time positive effect in tax expenses

Research

Corporate Officer
Senior Vice President,
Pharmaceutical Research Division
Kohji Hanasaki, Ph.D.

Third Medium-Term Business Plan Targets

Shionogi is focusing its efforts on the following three areas: enhancement of early phase research-portfolio; improvement of predictive performance for clinical efficacy; and centralization of functions and strengthening of flexibility. We have set two numerical performance targets: first, to select four or more new molecular entities (NMEs) for drug candidate selection per year, and second, to create NMEs with a success rate of 50% or more in POC*[1] studies.

Fiscal 2012 Achievements and Fiscal 2013 Targets

Saving Patients Worldwide with Proprietary Innovative New Drugs

In fiscal 2012, Shionogi reached the final step to supply patients worldwide with the anti-HIV agent *dolutegravir*. This drug was created jointly with the UK's GlaxoSmithKline plc, and in Phase III clinical trials has proven significantly more effective than existing treatments. We also advanced proprietary drugs; S-555739 (our proprietary drug candidate for allergic rhinitis), and S-297995 (our proprietary drug candidate for alleviating opioid-induced adverse effects) to late-stage clinical trials, in doing so nearing our goal of helping patients around the world with groundbreaking new drugs developed internally. Furthermore, with the number of Alzheimer's disease patients increasing against the background of an aging society, Shionogi also licensed out a drug candidate belonging to the class known as BACE inhibitors*[2] to Janssen Pharmaceuticals, Inc. of the US. At the same time, we also entered into a research collaboration for the discovery of back-up compounds. While delivering advances in small molecule drug discovery—an area of existing expertise—Shionogi is also expanding more aggressively into large molecule pharmaceuticals. In this area, our output of drug candidates includes an anti-Pseudomonas aeruginosa antibody developed in-house, and a cancer peptide vaccine in-licensed from OncoTherapy Science, Inc. Moreover, we are accelerating R&D activities in the field of oligonucleotide drugs*[3] including antisense and decoy nucleic acids through some alliances.

New Drug Creation Hinges on Innovation

Under Shionogi's Third Medium-Term Business Plan, the Pharmaceutical Research Division is committed to searching for groundbreaking drug discovery seeds and improving predictive performance for clinical efficacy. In the search for further drug discovery seeds, Shionogi was an early adopter both domestically and overseas of open innovation by industry and academia, to uncover academic research seeds matching the Company's research needs. Thus far, these collaborations have included FINDS, SSP, and FLASH*[4]. To further strengthen efforts to identify and mature novel seeds through joint research between industry and academia, in fiscal 2012 we expanded the SSP program to include Australia, Belgium, Denmark, Luxembourg, and the Netherlands, in addition to the UK.

In our bid to improve predictive performance for clinical efficacy, we continue to engage in research into molecular imaging technologies at the PET Molecular Imaging Center at the Osaka University Graduate School of Medicine. Using an internally developed PET imaging probe, we have confirmed the non-clinical efficacy of a central nervous system (CNS) compound under development and are now preparing a framework to manufacture PET imaging formulations under GMP*[5], as well as entering into preparations for a microdosing clinical study in collaboration with Osaka University Hospital. In collaborative research into iPS cells undertaken at the Shionogi Innovation Center on the grounds of Hokkaido University, we are at the stage of utilizing iPS cells for research into CNS diseases as an assay method which would correlate with clinical events.

In March 2013, we entered into a comprehensive collaboration agreement with the Medical Innovation Center at Kyoto University's Graduate School of Medicine. Under this agreement, Kyoto University and Shionogi will collaborate to create innovative medicines for the treatment of Alzheimer's disease and other CNS disorders, seeking to meet critical unmet medical need through basic research regarding the underlying pathology, thereby finding new drug targets for regeneration of synapses and neuronal function. The collaboration will also promote the training and development of academic and industrial scientists in medicine and drug discovery research.

To help realize the goals outlined in Shionogi's Third Medium-Term Business Plan, the Pharmaceutical Research Division is also using the Shionogi Pharmaceutical Research Center to engage in collaborative research with Shionogi Techno Advance Research Co., Ltd. (STAR) and Shanghai Sun-sail Pharmaceutical Science & Technology Co., Ltd., the research subsidiary of Chinese company C&O Pharmaceutical Technology (Holdings) Limited. By remaining active as a research-driven pharmaceutical company, we strive constantly to improve our science, productivity, relationships, and creativity to better realize our Company Policy from a global perspective, creating and providing the new medicines eagerly awaited by patients and the "Shionogi family" worldwide.

*1: POC studies are human clinical trials designed to demonstrate early signs of a product's efficacy (Proof of Concept).
*2: Drugs that block the activity of beta-secretase, an enzyme needed for the generation of beta-amyloid protein, a substance identified as causing Alzheimer's disease.
*3: Drugs composed of nucleotides (DNA, RNA) that act directly against the genes and proteins known to cause disease.
*4: FINDS: Domestic drug discovery competition (PHarma-INnovation Discovery competition Shionogi)
SSP: Overseas drug discovery competition (SHIONOGI Science Program)
FLASH: A drug discovery initiative with the Osaka University Graduate School of Medicine (PHarma-Link between Academia and SHionogi)
*5: Standards for quality control and production management of quasi-drugs and pharmaceutical products (Good Manufacturing Practice).

Intellectual Property

The Shionogi Group has a global intellectual property strategy forged on close links between its R&D strategy and business strategy. It also provides support for alliance activities and the patent protection of marketed and pipeline products.

In research and development, the Company works to reserve suitable patent rights for development compound substances, drug discovery targets and basic research technologies, while also maximizing patent protection periods and protecting patent revenues by efficiently obtaining patents regarding indication, crystalline form, manufacturing method, and formulation. Through such activities, Shionogi filed approximately 110 patent applications in fiscal 2012, of which about 40% were filed overseas. With an eye to growth in emerging markets, the Company has stepped up patent filings in such countries. The Company periodically reviews its patent portfolio, taking cost into account. As of March 31, 2013, Shionogi held approximately 190 patents in Japan and about 120 patent families overseas.

As part of its business strategy, the Company takes every care to conduct intellectual property due diligence when in-licensing and out-licensing products, and to ward against potential patent infringement. Shionogi is also engaged in brand design activities as a means of reliability assurance in the Company and its products and combating counterfeiting. In fiscal 2012, the Company filed 31 applications for trademark registration, and 13 applications for design registration.

To further its evolution as a pharmaceutical manufacturer, Shionogi will continue working as one to implement the intellectual creation cycle—which creates, protects and generates earnings from intellectual property.

Voice from the Frontline

Medicinal Research Laboratories

Takashi Kawasuji

Shionogi's anti-HIV drug research team comprises members of varying specialties, working as one to pursue drug discovery research in pursuit of the Company's goals. Over the years we have been tireless in our search for better compounds, often to the verge of collapse, variously employing cutting-edge science, a wealth of creativity and firm resolve. The upshot of all this work has been *dolutegravir*. Many people have worked feverishly on the development of this drug, and now in 2013 we are just about to start supplying it to patients. Our pleasure in being able to do so is the real thrill of drug discovery research, and in my own case, the prime motivation.

Development

Senior Executive Officer
Senior Vice President, Global Development,
Pharmaceutical Development Division
Takuko Sawada

Third Medium-Term Business Plan Mission

Shionogi is endeavoring to enhance development functions worldwide and at the same time unify the global clinical development strategy. Specific targets under the Third Medium-Term Business Plan are to "make submissions for overseas regulatory approval of four compounds originating from Shionogi or Japanese research institutes, and launch more than one product" and to "globally develop more than five late-stage products." Shionogi aims to quickly supply drugs to global markets.

Fiscal 2012 Achievements and Fiscal 2013 Targets

Two Major Achievements

Fiscal 2012 saw Shionogi chalk up two major achievements. One was obtaining regulatory approval for the first new chemical entity filed by Shionogi in the US. The other was filing new drug applications in the US, Europe and Canada.

In April 2012, Shionogi filed a new drug application in the US for the selective estrogen receptor modulator *Osphena*™ (generic name: *ospemifene*) for which regulatory approval was received as scheduled in February 2013. Furthermore, Shionogi filed for regulatory approval in Europe in March 2013.

Shionogi has been developing the anti-HIV agent, *dolutegravir*, jointly with ViiV Healthcare Ltd. In October 2012, Shionogi acquired shares in ViiV and revised the royalty agreement, and at the same time transferred development rights to ViiV. In December 2012, new drug applications were submitted to the U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) and Canada, as planned.

Accelerating Global Development of Two Late-stage Drugs

Currently, we have two global products in late-stage clinical development: S-297995 for the alleviation of opioid-induced adverse effects, and S-555739 for the treatment of allergic rhinitis. We have started Phase III clinical studies globally on S-297995, based on the results of an end of Phase II meeting held in February 2013 with the FDA. As for S-555739, clinical trials had been conducted in Japan, the US, and Europe, but because Japan has the highest unmet medical needs with regard to hay fever treatments, a Phase III trial is being conducted there in advance of other countries. Going forward, our aim is to accelerate global development by prioritizing resources on these two products.

Maximizing a Rich Pipeline

Also in Japan, we are promoting multiple late-stage developments, including the thrombocytopenia treatment and an attention deficit hyperactivity disorder (ADHD) drug, as well as *duloxetine*, for the additional indications of fibromyalgia and chronic low back pain, and *oxycodone*, for the additional indication of non-cancer pain. We will be undertaking Phase III clinical trials on several more compounds (developed both domestically and overseas).

Outside of our late-stage development programs, we are also working on next-generation therapies in the form of cancer peptide vaccines and antibody drugs. Looking ahead, Shionogi will seek to identify and select development compounds at even earlier stages, prioritizing R&D expenses on these compounds and also exploring partnership and out-licensing and in-licensing opportunities with a view to getting the most out of our wealth of development assets.

See **page 30** for our pipeline (a list of compounds) ▶▶

Target Milestones for FY2013 (Global Development)

Compound Name	Indication	Progress Targets
S-297995	Alleviation of opioid-induced adverse effects	Global: Phase III initiation
S-555739	Allergic rhinitis	US / EU: Phase II completion
S-588410*1	Bladder cancer	EU: POC initiation
S-222611	Malignant tumor	EU: Phase II initiation
S-649266	Bacterial infections	US: Phase II initiation
S-120083	Inflammatory pain	US: Phase II initiation
S-117957	Neuropathic pain	US: POM*2 initiation

Target Milestones for FY2013 (Domestic Development)

Compound Name	Indication	Progress Targets
Cymbalta®	Chronic low back pain	Phase III initiation
S-297995	Alleviation of opioid-induced adverse effects	Phase III initiation
S-555739	Allergic rhinitis	Phase III Code-break (Seasonal allergic rhinitis)
S-888711	Thrombocytopenia	Phase IIb Code-break: Go / No-go decision
S-2367	Obesity	Phase IIb Code-break: Go / No-go decision
S-556971	Dyslipidemia	Phase IIb Code-break: Go / No-go decision
S-524101	Allergic rhinitis caused by house-dust mite allergen	Phase II / III Code-break
S-646240	Age-related macular degeneration	Phase IIa Code-break: Go / No-go decision
S-588410*1	Bladder cancer	POC initiation
S-120083	Inflammatory pain	Phase II initiation

*1: Five-peptide cocktail vaccine
*2: Proof of mechanism

Shionogi Limited

CEO
Takashi Takenoshita

Our UK subsidiary Shionogi Limited was established in February 2012 to promote pharmaceutical development and industry-academic collaboration in Europe, as well as to follow HTA* establishment and acceptance trends worldwide, with the aim of incorporating these findings into development plans. In March 2013, Shionogi Limited submitted a Marketing Authorisation Application (MAA) for *ospemifene*. Via a combination of in-house sales and partnering, the subsidiary is working toward achieving both the development and sales objectives of the medium-term business plan in the EU.

The SHIONOGI Science Program was initiated in the UK in fiscal 2011 as a collaborative industry-academia initiative. It has now been expanded in scope to include other countries, and is promoting collaboration with European academia, in a joint effort between Shionogi's Pharmaceutical Research Division and the Innovation Design Office.

* Health Technology Assessment

Voice from the Frontline

Global Development Office
Tamio Fujiwara

Pharmaceutical development involves teamwork. It is my great pleasure to utilize team members' opinions in formulating our development strategy and in creating protocols, reports and academic presentations based on individual clinical and non-clinical trials. This ultimately creates a high-quality package that illustrates the compound's characteristics in the best possible light. As a whole, pharmaceutical development is full of challenges regarding clinical science which requires scientific and logical thinking. The data thus generated keeps me stimulated with excitement and anticipation of the day when another of the "Shionogi babies" comes into the world.

Sales

Executive Officer
Senior Vice President,
Human Health Care Division
Ryuichi Kume, Ph.D.

Third Medium-Term Business Plan Mission

In fiscal 2014, we aim to achieve net sales in Japan of ¥200 billion and to increase combined sales from 8 strategic products to at least 70% of total domestic sales.

Fiscal 2012 Achievements and Fiscal 2013 Targets

We expanded market share of our 8 strategic products, making progress in our drive to create an earnings structure that is not dependent on long-listed drugs.

In domestic sales, Shionogi is focusing on expanding sales of 8 strategic products as it executes one of the basic strategies of the Third Medium-Term Business Plan, namely "steady growth mainly through enriched pipeline."

In fiscal 2012, Shionogi launched *Aimix* in the *Irbetan* family of products and *OxiFast* in the *OxyContin* family of products, as well as added indications for *Cymbalta* and *Finibax*, thereby raising Shionogi's presence further in the priority markets of cardiovascular and metabolic disorders, pain and infectious diseases.

As a result, in fiscal 2012 sales of *Crestor* rose 7% year on year to ¥38.1 billion, sales of the *Irbetan* family of products climbed 20% to ¥10.7 billion, and sales of *Cymbalta* leapt 47% to ¥9.7 billion. This lifted sales of the 8 strategic products 15% year on year to ¥84.2 billion.

Steadily Executing Basic Strategy by the New Organization

We anticipate further change in the business climate, including a hike in the consumption tax rate, further measures to promote increased uptake of generic drugs, and revisions to Japan's healthcare system for the elderly. In order to better deal with such changes while still implementing the basic strategies of the Third Medium-Term Business Plan, we have undertaken further organizational reforms, following on from those carried out in 2012.

To begin with, we simplified our organizational structure to create a well-balanced marketing mix of the 4Cs: Customer value, Customer cost, Convenience and Communication. With a view to removing barriers between top management and frontline employees, we sought to create an even flatter organizational structure. We also further improved education, training and support for Medical Representatives (MRs), in order to provide medical professionals with even better-quality product information.

In fiscal 2013, Shionogi is further augmenting its lineup of treatments for cardiovascular and metabolic disorders, with the launch of *Metreleptin*, as well as the launch of *Irbetan* 200mg and the soon-to-be-launched *Irtra* from the *Irbetan* family of drugs. In line with our first basic strategy, and with a view to achieving our medium-term objectives, we will pursue sales activities with a particular focus on these new products.

Voice from the Frontline

Pharmaceutical Promotion Department
Rie Koyama

In our conversations with healthcare professionals, we endeavor to listen attentively to descriptions of patient concerns, having learned from these individuals that they see the patient, not the disease. This attentiveness affords us a thorough understanding of the various difficulties besetting patients and healthcare professionals, enabling us to offer customer solutions built around Shionogi products. Recently, when an oncologist told me of a patient suffering from a skin complaint due to an adverse reaction to cancer treatment, I suggested a therapy with a Shionogi product to him. So he was very grateful, and on my own behalf and that of the Company's MRs, I was glad to be of service to this patient. I will continue giving my all in the hope of receiving words of thanks from many more healthcare professionals.

Overseas Business Activities

Corporate Officer
Senior Vice President,
Overseas Business Division
Masaaki Takeyasu

Third Medium-Term Business Plan Mission

The Overseas Business Division was established in January 2012 with the mission of delivering Shionogi products and their huge potential to medical professionals and patients around the world. To this end, the Overseas Business Division is soundly operating subsidiaries in the US, China and Taiwan, as well as exporting products.

Fiscal 2012 Achievements and Fiscal 2013 Targets

US Operations

In fiscal 2012, we achieved our performance targets, via a raft of reforms aimed at stabilizing management of Shionogi Inc., strengthening operations, and developing a highly profitable business structure, and through effective utilization of human resources. Having received FDA approval on February 26, 2013, we launched *Osphena*™ in June 2013 for the treatment of postmenopausal vulvar and vaginal atrophy (VVA), a condition thought to affect some 32 million women in the US. Among the Shionogi Group's global products, *Osphena*™ is the first to win regulatory approval in the US. This took a Company-wide effort. Looking ahead, we plan to grow women's health into a new franchise, with a view to further expanding our scope of operations. *Osphena*™ has a different mechanism of action from traditional estrogen-alone therapy. As such, our task in fiscal 2013 will be to utilize academic activities to garner swift recognition among women's health specialists for the drug's efficacy and safety. We will also be proactive in undertaking direct-to-consumer educational campaigns, encouraging women to broach with their doctors the sensitive subject of painful intercourse due to postmenopausal VVA, and working to create a new market for treatments that also fit into women's lifestyles and contribute to improved QOL.

China and Taiwan Operations

Since 2011, China has been actively promoting responsible use of antibiotics via new administrative regulations governing the clinical use of antibacterial agents. Shionogi has prior experience in Japan in academic activities focused on the proper use of antibiotics in treating infectious disease, and has provided C&O with ample support in this respect. To further bolster support for such academic activities, in June 2013 Shionogi established a local subsidiary in Beijing to promote collaboration with Chinese academia.

Globally, the absence of new drugs to control infectious disease is an urgent issue. We will strive to help as many patients as possible by collaborating with academics in China, Taiwan and other Asian nations to promote rational use of our existing antibiotics deemed to have potential in treating resistant bacteria—a scourge that knows no borders.

The Company Policy of Shionogi espouses the universal truths and raison d'etre of a pharmaceutical company. With the release of *Osphena*™, and having designated fiscal 2013 as the first year of Shionogi's globalization, the Company will continue its search for unmet medical needs in Europe, Asia, and elsewhere, operating a high-quality business around the world in order to fulfill its social mission as a pharmaceutical manufacturer.

Launch meeting for *Osphena*™

Shionogi Inc.
President & CEO
John Keller, Ph.D.

Shionogi Inc. Fiscal 2012 Achievements and Fiscal 2013 Targets

Fiscal 2012 was a year of significant progress for Shionogi Inc. We achieved all of our financial targets, and we have now realized six consecutive quarters of on-target financial performance. This gives us a solid, stable base on which to build going forward.

Initiatives for Expanding *Osphena™*

For fiscal 2013, the most important event for Shionogi Inc. is the impending launch of *Osphena™*, a first-in-class oral drug for the treatment of dyspareunia (painful intercourse), a symptom of vulvar and vaginal atrophy (VVA) due to menopause. Approved by the FDA on February 26, 2013, *Osphena™* represents the first new chemical entity ever to be filed, approved, and launched by Shionogi in the US in our 135-year history. With an estimated 32 million women in the US experiencing symptoms of VVA – over 90% of whom are not being treated with a prescription medicine – we have a tremendous opportunity to make a difference for patients and establish ourselves as an innovative new entrant in the underserved area of women's health. *Osphena™*'s launch also represents the turning point at which Shionogi Inc. can become a major contributor to Shionogi's global growth.

As we began fiscal 2013, therefore, we were intensively preparing for the launch, finalizing our plans and strengthening and training our sales force for *Osphena™*. We have also begun outreach to women's health groups who have expressed strong interest in this new therapy.

Efforts to Develop the Next Proprietary Drug After *Osphena™*

Even given our excitement about *Osphena™*, we have not lost focus on the numerous clinical studies initiating and progressing for the US development of our Shionogi-discovered pipeline. Perhaps the most important amongst these is the initiation of Phase III pivotal studies of naldemedine (S-297995) for the treatment of opioid-induced constipation. If we are successful, naldemedine will succeed *Osphena™*'s "firsts" by becoming the first internally discovered new chemical entity to be launched by Shionogi in the US.

My Role as a Corporate Officer of Shionogi & Co., Ltd.

I was deeply honored to have been named a Corporate Officer of Shionogi & Co., Ltd. in 2013. On reflection, I fully realize that the progress we have made in the US is truly the result of a dedicated team effort across the global Shionogi family, whose members work intensively and creatively to advance our pipeline and to support our business, so that together we can improve patients' health and quality of life and thus realize Shionogi's mission every day. I hope I will be able to contribute more to the success of Shionogi & Co., Ltd. globally, both within and beyond Shionogi Inc.

Voice from the Frontline

Senior Director, Medical Affairs—Woman's Health
Shelli Graham

As I work with colleagues to successfully launch *Osphena™* in the US, I reflect back on the incredible collaboration with global Shionogi partners that has enabled Shionogi Inc. to reach this milestone. Well before NDA filing, Clinical Pharmacology reviewed the accuracy of pharmacokinetic data and designed and analyzed bioequivalence (BE) studies – one, in particular, was the pivotal BE that led to NDA filing. Non-clinical colleagues ensured the availability and quality of non-clinical data required for NDA submission. The Biostatistics group provided high-quality and timely review of the NDA data package and ran additional analyses to support the filing. Finally, CMC worked with Shionogi Inc. to fully characterize *Osphena™*, utilizing their long history in R&D to optimize production of the product. All of these groups also played critical roles in responding to questions from the FDA, which ultimately facilitated the on-time approval of *Osphena™*.

I am both proud and energized to be part of this team. It is my greatest hope that the collaborative precedent set during the development of *Osphena™* will become a model going forward, maximizing global opportunities for *Osphena™* and pipeline products that will follow.

Executive Vice President
Masaki Tomiyama

C&O's Mission

C&O is an integrated pharmaceutical company engaged in R&D, manufacturing, and distribution of prescription pharmaceutical products in China.

Some 1,100 employees across the fast-growing Chinese market operate under the basic philosophy of "Wishing a long life, creating our brilliant future hand in hand."

The company's mainstay products are antibiotics, spearheaded by *Flumarin* and *Amolin* (amoxicillin). China is regulating on the use of antibiotics, but C&O views this change in the business climate as an opportunity for growth. In conjunction with the parent company, C&O will continue to provide customers with appropriate information about Shionogi products with a view to garnering greater market share, while also working toward an early release for *doripenem*.

At the same time, we will focus on R&D geared toward the launch of products discovered internally, striving to bring forward the day when we can roll out the first product originated by C&O, thereby improving the lives of still more patients.

To realize the Shionogi Company Policy in China—namely, striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve—C&O will redouble efforts to develop proprietary new drugs, while also pursuing collaboration with Shionogi and other Group companies.

Voice from the Frontline

Executive Vice President
Xu Yan

Although C&O only joined the "Shionogi family" in 2011, our employees are secure in the belief that they are helping to advance the Company Policy. Shionogi has a wealth of experience as an R&D-oriented pharmaceutical company of many years standing. As a member of the "Shionogi family," C&O is of course committed to upholding the Shionogi Company Policy—that of striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve. Concomitantly, our aim is to build a greater presence in China's enormous pharmaceutical market.

President & CEO
Masami Morita

Taiwan Shionogi & Co., Ltd.'s Mission

Taiwan Shionogi is approaching its 50th anniversary in 2014. In the same manner as Shionogi, the company has pledged to supply the best possible medicine to improve the health and wellbeing of patients in Taiwan. Currently, Taiwan Shionogi has around 50 MRs providing information on the company's products, with a special focus on infectious diseases. The company's mainstay products are the antibiotics, *Flumarin* and *Finibax*, with *Flumarin* currently ranking as Taiwan's top-selling injectable cephem antibiotic. Taiwan Shionogi is also preparing for a domestic launch for *Rapiacta*, *Pirespa*, and other products already marketed in Japan. In the field of infectious diseases in particular, the company will remain actively engaged in new drug development and in-licensing. Taiwan Shionogi's marketing and sales team rivals the parent's in terms of nationwide coverage, and as a company, our primary mission is to further improve the health of patients in Taiwan. Beyond that, we aim to contribute to Shionogi's business expansion in Asia by bolstering human resource development and building a more effective organization, also entering into partnerships with other pharmaceutical companies.

Voice from the Frontline

General Manager,
Accounting Department
Kenji Kuroda

Shionogi's Company Policy is built upon a focus on customers, and I believe this concept of "principles before profit" is one that is universally accepted. Taiwan Shionogi has the longest history of all overseas bases within the Shionogi Group, and fully understands and executes the Shionogi corporate philosophy. I take pride in the belief that Taiwan Shionogi's marketing and sales team surpasses those of other companies in its capacity to disseminate information. Together with the local staff, I approach my job every day with the conviction that Shionogi is acting in the interests of Taiwanese patients, and I relish being able to do so.

Manufacturing

Third Medium-Term Business Plan Mission

Shionogi is implementing a global quality assurance system, with the basic goals of strengthening the production system and ensuring a stable supply to support the global launch of in-house products. In this way, Shionogi is harnessing all its strengths to ensure the quality, safety and reliability of the Shionogi brand.

Mission and Collaboration of Each Organization in the New Structure

Each of Shionogi's new divisions is redoubling collaborative efforts with related organizations while also working to ensure a stable supply, and to support the timely global launch of newly developed products and further improvement in quality.

Manufacturing Division

The Manufacturing Division's primary mission is to ensure a stable supply of high-quality products at low cost. While product safety and quality are our foremost priorities, we are of course also committed to ensuring the safety and health of employees, and to reducing the Company's environmental footprint. To advance the Company's global drive, we are building a production network that will enable us to supply Shionogi Group products worldwide, and putting in place the necessary foundations (both tangible and intangible) to comply with global GMP.

CMC Development Laboratories

In April 2013, the CMC Development Laboratories became an independent organization within the Company. We enhance productivity across the entire research and development spectrum, through even greater cooperation with the Pharmaceutical Research Division and Pharmaceutical Development Division, and intensive CMC*1 research aimed at further improving the development success rate. In a broad range of stages, extending from drug research and development to market launch, we give full play to our CMC technologies (for active pharmaceutical ingredients (API) manufacturing, formulation, etc.) and our ability to create viable products. We thus transform drug discovery seeds into global pharmaceutical products that provide an even higher level of satisfaction to patients.

Global SCM Division

At Shionogi, we have identified 2013 as the first year of the Company's globalization, in line with which we established a Global SCM (GSCM) Division in April 2013. The GSCM Division's purview covers the Group's entire product range; it is in charge of controlling who manufactures what and where, at what time, for how much, and in what quantity and quality, and supplying products to the market in a timely fashion.

Our mission is to strengthen Company quality by maximizing cash flow across the Group. To achieve this, we create strong partnerships with all divisions involved in the flow from suppliers to customers and manage the entire supply chain efficiently. Under the new organizational structure, we are working in collaboration with the "Shionogi family" around the world to ensure the safe and reliable delivery of *Osphena*™, *Doribax*, and future global products to patients around the world.

Quality, Safety and Regulatory Affairs Management Division

The Quality, Safety and Regulatory Affairs Management Division—having responsibility for supplying pharmaceutical products of reliable efficacy, safety, and quality—has a central role to play in enhancing the reputation of the Shionogi brand. This will be achieved by complying with the "Shionogi Product Policy" and conforming strictly with the Pharmaceutical Affairs Law and all other regulations governing processes from R&D through launch (GxP*2), thereby ensuring that patients around the world can use Shionogi products with peace of mind.

As pharmaceutical products impact directly on human lives, we always pay meticulous attention to risk management, working to ensure strict quality control in all activities involving Shionogi products—not just manufacturing, but also raw material procurement and so forth. In accordance with the strict laws and regulations in Europe and the US, we also comply fully with inspections by regulatory authorities, employing a pharmaceutical quality management system to build, maintain, and improve our capacity to efficiently and consistently supply top-caliber products.

*1: CMC refers to Chemistry, Manufacturing and Controls
*2: GxP is a general abbreviation for Good Practice standards—namely, GLP (Good Laboratory Practice), GMP (Good Manufacturing Practice), GCP (Good Clinical Practice), and GVP (Good Pharmacovigilance Practice).

Senior Vice President Messages

The Manufacturing Division's motto is SQDCE (Safety, Quality, Delivery, Cost, and the Environment). Based on the SQDCE motto, the Manufacturing Division is dedicated to fostering further advances in production technology and pursuing cost reforms with no area considered off-limit, to ensure goals for the Third Medium-Term Business Plan are met.

In our unwavering resolve to upholding the Company Policy, we intend to further strengthen cooperation with other divisions.

Executive Officer
Senior Vice President, Manufacturing Division
Takuo Fukuda

The creation of new drugs demands overall competence in research, development, CMC, and manufacturing. The role of the CMC Development Laboratories is to apply CMC technologies (Chemistry, Manufacturing, and Controls) to compounds deemed to have commercial potential, and to reinvent them as pharmaceutical products suitable for ingestion by patients. Our mission is to promote the "CMC Souyaku" (CMC-directed innovative drug design and development) approach to enhance the success rate for new product launch, combining the passion of our younger researchers with the experience and wisdom of our veterans, to form a team of professionals in pharmaceutical manufacturing.

Corporate Officer
Senior Vice President, CMC Development Laboratories
Kiyoshi Nagata, Ph.D.

The Global SCM Division approaches its business with three main goals: (1) to strengthen the Company's SCM capabilities and develop them worldwide, (2) to devise and execute a global production strategy, and (3) to cultivate human resources able to accomplish these. In order to achieve these goals we set three policies: (i) establishment of an aggressive GSCM system through operational innovation, (ii) firm cost control toward cash flow maximization, and (iii) maximization of capacity for event control by individual changes. And we proceed with business in collaboration with related divisions.

Corporate Officer
Senior Vice President, Global SCM Division
Hirosato Kondo, Ph.D.

At the Quality, Safety and Regulatory Affairs Management Division we have set ourselves three main goals to be achieved under the Third Medium-Term Business Plan: (1) to build and implement a global quality assurance system: (2) to upgrade predictive and preventive risk management; and (3) to focus on developing people who can achieve (1) and (2). In fiscal 2013, which Shionogi has positioned as the first year of the Group's globalization, it is extremely important for us to handle any issues regarding post-marketing *Osphena*™ properly for maximization of its value. We will act for achievement of the goals and make our division much more proactive with active and effective management and development of human resources.

Corporate Officer
Senior Vice President, Quality, Safety and Regulatory Affairs Management Division
Takayuki Yoshioka, Ph.D.

Pipeline

Shionogi has three priority therapeutic areas: infectious diseases, metabolic syndrome and pain.
The Company is also focusing on frontier fields such as allergies and cancer.

Areas	Code No. (Generic name) [Product name]	Category (Administration)	Indication
Infectious Diseases	S-649266	Cephem antibiotic (Injection)	Infection
Metabolic Syndrome	S-474474 (Irbesartan / Trichlormethiazide combination)	Angiotensin receptor antagonist / Diuretic combination (Oral)	Hypertension
	S-556971	Cholesterol absorption inhibitor (Oral)	Dyslipidemia
	S-707106	Insulin sensitizer (Oral)	Type 2 diabetes
	S-234462	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity
Pain	Duloxetine hydrochloride *[Cymbalta®]*	Serotonin and noradrenaline reuptake inhibitor (Oral)	Fibromyalgia
	LY248686 (Duloxetine hydrochloride) *[Cymbalta®]*	Serotonin and noradrenaline reuptake inhibitor (Oral)	Chronic low back pain
	Oxycodone hydrochloride hydrate *[OxyContin®]*	Natural opium alkaloids (Oral)	For the treatment of moderate to severe chronic pain
	S-297995 (Naldemedine)	Peripheral opioid receptor antagonist (Oral)	Alleviation of opioid-induced adverse effects
	S-117957	Analgesic agent for neuropathic pain (Oral)	Neuropathic pain
	S-120083	Analgesic agent for inflammatory pain (Oral)	Inflammatory pain
Peptide Vaccine	S-288310	Cancer peptide vaccine (Injection)	Bladder cancer
	S-488410		Esophageal cancer
	S-488210		Head and neck squamous cell carcinoma
	S-646240	Peptide vaccine (Injection)	Age-related macular degeneration
Frontier	Ospemifene	Selective estrogen receptor modulator (Oral)	Post-menopausal vaginal atrophy
	PSD502 (Lidocaine / Prilocaine)	Eutectic mixture of anesthetics (Metered-dose topical aerosol spray)	Premature ejaculation
	S-555739	Prostaglandin D2 receptor antagonist (Oral)	Allergic rhinitis
	S-524101	Sublingual tablet of house-dust mite allergen extracts for immunotherapy	Allergic rhinitis caused by house-dust mite allergen
	S-877503 (Guanfacine hydrochloride)	Alpha-2A-adrenergic receptor agonist (Oral)	Attention deficit hyperactivity disorder
	S-877489 (Lisdexamfetamine)	DA and NE reuptake inhibitor / Releaser of DA, NE (Oral)	Attention deficit hyperactivity disorder
	S-888711 (Lusutrombopag)	Small molecule TPO mimetic (Oral)	Thrombocytopenia
	S-222611	HER2 / EGFR dual inhibitor (Oral)	Malignant tumor
	S-414114	NF-kB decoy oligodeoxynucleotide (Topical)	Atopic dermatitis
Out-Licensing Activity	S / GSK1349572 (Dolutegravir)	Integrase inhibitor (Oral)	HIV infection
	S / GSK1265744 LAP*	Integrase inhibitor (Injection)	HIV infection
	S-0373	Non-peptide mimetic of TRH (Oral)	Spinocerebellar ataxia
	Janssen / Shionogi BACE inhibitor	BACE inhibitor (Oral)	Alzheimer's disease

* Long acting parenteral formulation

(As of August 2013)

Territories	Stage					Origin	Development
	Phase I	Phase IIa	Phase IIb	Phase III	Submission / Approval		
Japan						In-house	Shionogi / GlaxoSmithKline (UK)
US							
Japan					Approval (June 2013)	Irbesartan: Sanofi (France) Trichlormethiazide: Shionogi	In-house
Japan						Kotobuki Pharmaceutical Co., Ltd. (Japan)	Shionogi / Kotobuki Pharmaceutical Co., Ltd.
US						In-house	In-house
US							
Japan						Eli Lilly and Company (US)	Shionogi / Eli Lilly Japan K.K.
Japan							
Japan						Napp Pharmaceuticals Limited (UK)	In-house
Global						In-house	
Japan				(In preparation)			
US	POM (Proof of Mechanism)					Shionogi / Purdue Pharma L.P. (US)	Shionogi / Purdue Pharma L.P.
Japan							
Asia						OncoTherapy Science, Inc. (Japan)	In-house
Japan							
Europe							
Japan							
US					Approval (February 2013)	QuatRx Pharmaceuticals Company (US)	Shionogi / QuatRx Pharmaceuticals Company
Europe					NDA submission (March 2013)		
US						Plethora Solutions Holdings PLC (UK)	Shionogi / Plethora Solutions Holdings PLC
Japan						In-house	In-house
US							
Europe	POM (Proof of Mechanism)						
Japan						Stallergenes SA (France)	
Japan						Shire (Ireland)	Shionogi / Shire
Japan							
Japan				(In preparation)		In-house	In-house
US, Europe							
Europe							
Japan						AnGes MG, Inc. (Japan)	Shionogi / AnGes MG, Inc.
Global					NDA submission (December 2012)	Shionogi-ViiV Healthcare LLC	ViiV Healthcare Ltd. (UK)
US							
Japan						In-house	Kissei Pharmaceutical Co., Ltd. (Japan)
Europe							Janssen Pharmaceuticals, Inc. (US)

Major Products

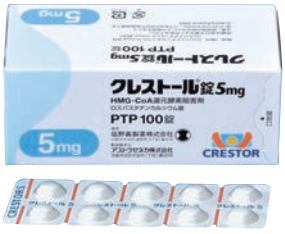
Prescription Drugs (8 Strategic Products)

Shionogi will work steadily to expand its share in the Japanese market, focusing on 8 strategic products.

Crestor® tablets
(Hyperlipidemia treatment)
Launched April 2005

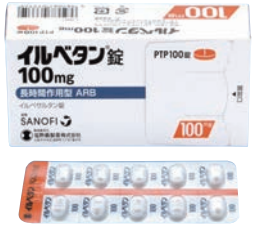
Shionogi-developed product
The statin therapy *Crestor* has been proven highly effective in lowering LDL cholesterol and is a leader among dyslipidemia treatments in Japan and overseas.

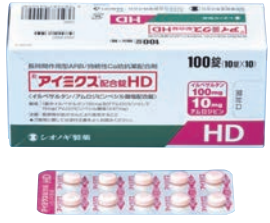
It reduces the risk of atherosclerotic diseases, and affords physicians and patients a greater sense of satisfaction and reliance.



Irbetan® Tablets, *AIMIX*® Combination Tablets *IRTRA*® Combination Tablets (*Irbetan* family of drugs)
(Antihypertensive)
Irbetan® Tablet launched June 2008, *AIMIX*® Combination Tablets launched December 2012, *IRTRA*® Combination Tablets in preparation for launch

Long-acting angiotensin II receptor blocker (ARB) with strong 24-hour-lasting hypotensive effects and anti-metabolic organ-protecting effects. Following the launch in 2012 of *AIMIX* Combination Tablets combining calcium antagonist amlodipine, Shionogi is now making preparations to launch *IRTRA* Combination Tablets combining a diuretic trichlormethiazide.

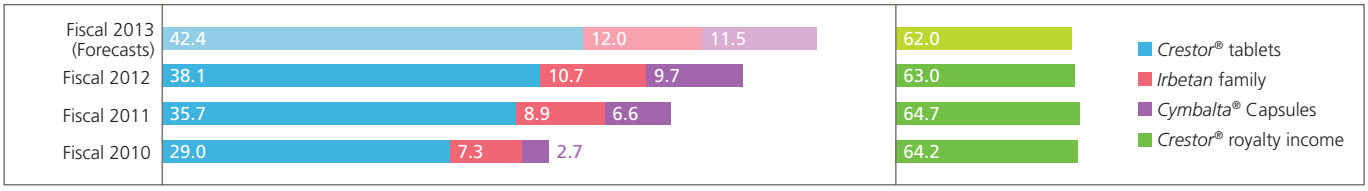




Cymbalta® Capsules
(Treatment for depression, depressive condition, and diabetic neuropathic pain)
Launched April 2010

Cymbalta is a serotonin and noradrenaline reuptake inhibitor approved as an anti-depressant in more than 100 countries. It is recommended as the first-line treatment for diabetic neuropathic pain (DNP) in domestic and international guidelines.

Sales (Billions of yen)



Over-the-Counter (OTC) Drugs

In the over-the-counter (OTC) drug business, Shionogi is working to improve people's quality of life (QOL) by offering a range of OTC drug products tailored to individual lifestyles.

Popon® Series
A line of multiple vitamins and minerals providing nutritive support for healthy life

The Popon brand has a long and established history in providing comprehensive nutritional support for people in need. Recently, we have stepped up and extended the *Popon* lineup. It includes *Popon-S*, long-selling multiple vitamins and minerals originally launched as *Popon* tablets, which marked its 61st anniversary in 2013. *Popon-S Plus* is an updated and upgraded version of *Popon-S*, featuring iron, folic acid and calcium, all of which are in high need for modern-day people. *Popon-S Royal* is personalized for people in their senior life stage, intended to provide age-adjusted nutritive support for healthy life.

Sedes® Line
A line of analgesic antipyretics that can be chosen according to pain

Following its initial launch as a prescription drug in 1939, the analgesic antipyretic *Sedes* made its debut as an OTC drug in 1950. Shionogi offers a lineup of *Sedes* products tailored to customers' pain and usage needs. Among these products are *Sedes Hi*, containing isopropylantipyrine and acetaminophen. *Sedes Hi* demonstrates a strong analgesic effect for acute pain and is the No.1* drug in its class based on the repeat use ratio. Other products include *Sedes Hi G* granules and *Sedes First*, which is recommended for first-time analgesic users because it does not include ingredients that cause drowsiness and is gentle on the stomach.

* Source: Survey by Dentsu Retail Marketing Inc. (Based on data collected from 250 major drugstores nationwide participating in the survey as panel stores.)
Survey target: Analgesic antipyretic purchasers from August 2011 to July 2012 (311,790 people).
Top 15 brands by purchase amount.

(All launch dates are in the Japanese market.)

OxyContin® Tablets, *OxiNorm*® Powder, *OxiFast*® Injection (*OxyContin* family of drugs)

(Cancer pain analgesic)

OxyContin® tablet launched July 2003, *OxiNorm*® powder launched September 2009, *OxiFast*® injection launched May 2012

A combination of Shionogi's 12-hour sustained-release *OxyContin* tablet and immediate-release *OxiNorm* powder enables cancer pain to be relieved more effectively.

Following the launch of the new *OxiFast* injection, patients with difficulty taking oral drugs now have access to this treatment.

Finibax® for Intravenous Drip Infusion, *Finibax*® solution kit for Intravenous Drip Infusion

(Carbapenem-type antibiotic)

Launched September 2005

Shionogi-developed products

Finibax is a carbapenem-type antibiotic for injection with strong antibacterial activity against *Pseudomonas aeruginosa*.

There is increasing expectation surrounding this product's effectiveness as a treatment for serious and intractable infections, such as sepsis, pneumonia, and peritonitis.

Differin® Gel

(Topical acne vulgaris treatment)

Launched October 2008

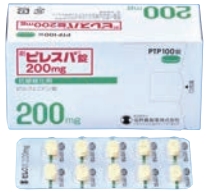
Differin gel is the first topical retinoid preparation in Japan to be indicated for acne vulgaris.

Guidelines cite *Differin* gel as a highly recommended base acne vulgaris treatment for treatment of light to severe symptoms.

Pirespa® Tablets

(Idiopathic pulmonary fibrosis treatment)

Launched December 2008



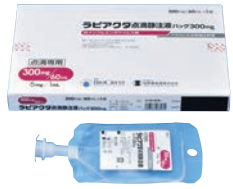
Pirespa is the world's first drug to be indicated for idiopathic pulmonary fibrosis.

Pirespa is expected to inhibit the decrease in vital capacity, and slow the progression of idiopathic pulmonary fibrosis.

Rapiacta® for Intravenous Drip Infusion

(Antiviral drug for influenza)

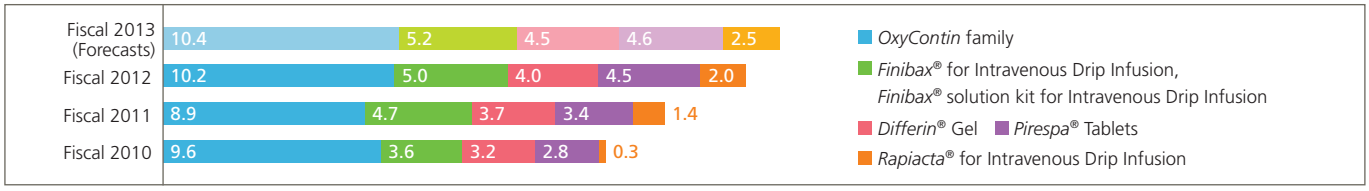
Launched January 2010



Rapiacta is the world's first neuraminidase enzyme inhibitor for intravenous drip infusion.

As a single-dose intravenous drip infusion, *Rapiacta* can be expected to produce reliable treatment benefits, enabling it to be used to treat outpatients and hospitalized patients in all age groups, from infants to the elderly.

Sales (Billions of yen)



Diagnostics

In the diagnostic product business, Shionogi provides diagnostic reagents that are useful in diagnosing and assessing diseases, among other purposes. In addition to its prescription drug business, Shionogi is contributing to the well-being of people in its diagnostic product business by enabling early diagnosis and treatment through the provision of such diagnostic reagents.

MI02 Shionogi® BNP Launched December 2004
Shionospot® BNP Launched September 2006

(BNP Kit)

These diagnostic products measure the hormone BNP (human brain natriuretic peptide), a useful indicator when diagnosing and assessing cardiac insufficiency. Therapeutic guidelines cite testing of BNP blood levels through this diagnostic reagent as a useful means of screening people for signs of cardiac insufficiency.

Brightpoc® Flu

(Quick influenza testing kit)

Launched September 2012

Brightpoc Flu is a testing kit used to quickly determine whether a patient is infected by the influenza virus. The kit can provide a positive test result within a minute for influenza type A virus and type B virus infection.

Allerport® TARC

(Th2 chemokine / TARC kit)

Launched February 2008

Allerport TARC supports assessments of the severity of atopic dermatitis and treatment benefit evaluations by measuring serum levels of TARC (thymus and activation-regulated chemokine), which is believed to play a key role in the pathogenesis of atopic dermatitis.

Checkart® quick testing system

(for standard diabetes diagnosis markers)

Launched February 2013

Checkart is a testing system designed to quickly measure HbA1c (hemoglobin A1c) and glucose levels in blood. Both HbA1c and glucose are indicators used to diagnose and manage diabetes.

Fundamental Policy on CSR

Executive Officer
Yoshiaki Kamoya

The Shionogi Group has set forth the goal of its corporate activities as being "to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve" in the Company Policy instituted in 1957. This eternal and unwavering corporate philosophy is a statement of our vision and value to society. Our operations as a pharmaceutical company inherently contribute to society, and we believe that implementing this philosophy promotes the fulfillment of our social responsibilities as a corporation.

We have also formulated the Shionogi Charter of Conduct to guide our efforts in conducting corporate activities that are suited to a truly rich and vibrant civil society as a corporate citizen and as a pharmaceutical manufacturer with awareness of social responsibility based on high ethical values. In recent years, more and more has been expected of companies in terms of CSR (corporate social responsibility) activities. In line with this trend, Shionogi is actively implementing CSR activities such as creating innovative pharmaceuticals and developing specialized human resources so as to fulfill its corporate responsibility to the economy, environment and society, and to earn the trust and understanding of society as a good corporate citizen.

Shionogi Charter of Conduct

As a company that contributes to the maintenance and improvement of the health of people around the world as well as their comfortable lives, Shionogi formulated the Charter of Conduct in the hope that our activities can benefit all stakeholders, including patients, shareholders and the general public, and lead to the growth of individual employees. All Shionogi employees pledge to act in the spirit of the Charter of Conduct, and senior management takes responsibility for serving as role models themselves and for rigorously ensuring the Charter of Conduct is understood. At the same time, we pledge to establish and refine effective internal systems for conforming with the Company's rules.

1. Actions as a corporate citizen

1. Compliance
2. External relations
3. Transactions and distribution
4. Information management and disclosure
5. Anti-social forces
6. Environmental protection
7. Social contribution activities

2. Actions as a pharmaceutical company

1. Discovery of original and innovative pharmaceuticals and provision of affordable pharmaceuticals
2. Drug development under proper procedures
3. Strict compliance with pharmaceutical-related laws and regulations
4. Stable supply of high-quality pharmaceuticals
5. Promotion of proper use after manufacture and sale

3. Actions as Shionogi

1. Raison d'etre
2. Trust from society
3. Individual and organizational growth
4. Respect for the individual and acceptance of diversity
5. Tradition and transformation
6. Fulfilling and satisfying workplace

Community Relations

Public Awareness Activities

The Ministry of Health, Labour and Welfare (MHLW) has identified five disease categories to be afforded top priority in its healthcare plan—namely, mental illness, diabetes, malignant neoplasms, cerebrovascular disease, and ischemic heart disease. Shionogi is engaging the mass media and using other means to help improve public awareness of these and other diseases, with a view to enhancing patient awareness and facilitating early discovery.

Main Public Awareness Activities

Disease	Description of public awareness activities
Mental illness*	Program promoting return to work for people suffering from depression (refer below)
Diabetes*	Use of website, leaflet distribution and so forth to provide information on diabetic neuropathic pain.
Malignant neoplasms*	Cancer pain educational activities (refer below)
Cerebrovascular disease* Ischemic heart disease*	Use of websites and other means to provide information about the importance of cholesterol management in order to prevent the onset of arteriosclerotic diseases such as heart attacks, angina, and strokes.
Idiopathic pulmonary fibrosis (designated as an intractable illness)	Use of animated website, video messages from specialist physicians, and so forth to provide information.
Acne	Program supported by dedicated "Nikibi wa Hifuka e" ("visit dermatologists for acne") website, encouraging acne patients to seek appropriate advice from dermatologists rather than suffering alone.
Influenza Hay fever	Use of events, websites and other means to provide information about wearing masks and health management.

* Five major disease categories

Helping Depression Sufferers Return to Work

According to MHLW, every year more than half a million people stay away from work because of depression. Government figures put the combined economic cost of suicides and depression cases at ¥2,678 billion. It has been suggested, however, that re-employment of depression sufferers is being hampered by a dearth of support schemes and receptive workplaces, as well as other factors.

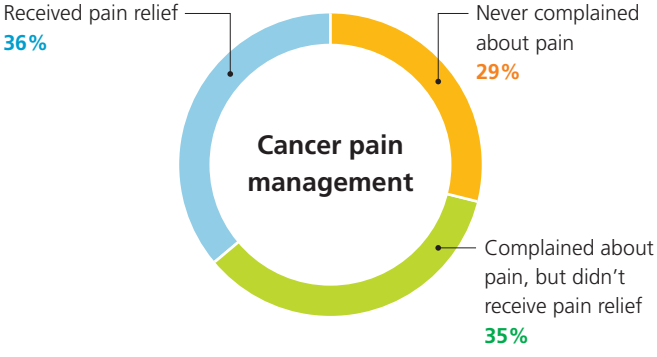
Shionogi aims to help find a solution for this problem by supporting Nikkei Business Publications, Inc.'s "Depression Rework Working Group." This group disseminates information through various media, also operating a dedicated website and hosting symposiums directed by specialist physicians and counselors.

"Mental Health Symposium 2012 in Nagoya"

Cancer Pain Awareness Campaign

A study has found that in Japan, only 36% of patients suffering from cancer pain are receiving treatment for that pain. Nearly half of those receiving no treatment made no complaint concerning cancer pain to health care professionals (see figure).

Shionogi holds symposiums for health care professionals, cancer patients and their families, where it stresses the importance of patients informing health care professionals of any pain symptoms, as a means of securing prompt treatment and early relief from cancer pain.



(Source) MMJ June 2008 Vol. 4 No.6 p. 534

Participation in the Global Health Innovative Technology Fund

Shionogi is participating in the Global Health Innovative Technology Fund (GHIT Fund), to contribute to the health of people throughout the world, especially in the developing world.

The GHIT Fund is an international non-profit foundation dedicated to advancing the development in Japan of new medicines to control diseases that are endemic in developing countries, including the three most devastating infectious diseases (HIV / AIDS, malaria, and tuberculosis), and neglected tropical diseases (NTDs).

Participation in the GHIT Fund offers Shionogi a unique opportunity to strengthen healthcare in developing countries as a business that has been focusing for some time on the development of innovative medicines to improve the lives of patients suffering from infectious diseases, including viruses. Shionogi strives constantly to accomplish its mission to provide innovative medicines to patients in developing nations and indeed all over the world, and the GHIT Fund is a new, and important, element of that overall mission.

Research Grants Through Two Foundations

Hoansha Foundation (Established: March 5, 1954)

This foundation was established with a bequeath from Gisaburo Shiono, the Company's second president. It conducts activities with the aim of contributing to advances in pharmaceutical science by providing grants for research that contributes to this end. In fiscal 2012, the foundation provided grants to 20 projects from across Japan and 2 special grants for projects from the Kansai region. It also held presentations to announce the results of research at the Company's Shionogi Pharmaceutical Research Center (SPRC), which were attended by many in-house and external researchers.

Foundation URL: http://www.shionogi.co.jp/ho/
(Japanese only)

The Cell Science Research Foundation (Established: March 17, 1988)

This foundation was established to mark the 110th anniversary of Shionogi's founding. Its activities aim to contribute to efforts to find the causes of and understand diseases, and to prevent and treat conditions by advancing research at the cellular level in the life sciences field, and by developing young researchers in Japan and promoting international exchange. In fiscal 2012, the foundation provided 10 research grants, and provided support for 4 young researchers to study overseas, and for inviting and sending researchers to 6 international forums, thereby contributing to advances in cell science research.

Foundation URL: http://www.shionogi.co.jp/zaidan/
(Japanese only)

Socie—Our Social Contribution Support Association

Shionogi established Socie in 1997. The Company, its employees and the employee labor union cooperate in supporting Socie members' voluntary social contribution activities. Socie provides assistance for disasters in Japan that are specified in Japan's Disaster Relief Act, as well as to regions overseas that are affected by earthquakes, storms, volcanic eruptions and other disasters. It also makes annual donations to various groups. In fiscal 2012, to mark its 15th anniversary, Socie donated electronic pianos and other items to Ronald McDonald House Charities Japan*.

* Ronald McDonald House Charities Japan
Established in 1999, this charity builds Ronald McDonald Houses, providing accommodation for sick children undergoing medical treatment and their families. It also aids and develops volunteers in the welfare and medical care fields

Shareholder and Investor Communications

The Shionogi Group discloses all the corporate data that is needed to earn an appropriate share price in a proper and timely manner. At the same time, we promote two-way communication with shareholders and investors and use the feedback in management.

Top management holds semiannual and annual financial results briefings and first- and third-quarter conference calls for domestic institutional investors and analysts. At the same time, we also disclose every quarter's progress of research and development (R&D), which is vital for pharmaceutical manufacturers. Furthermore, senior management convenes annual R&D briefings. In this way, we are sharing information regarding the current status and direction of our R&D as a whole. We also distribute audio recordings of financial results and R&D briefings on our website.

Additionally, we actively conduct management-led IR activities for institutional overseas investors in the US, UK and Asia. The opinions and questions we hear in the course of our investor relations activities in Japan and overseas are fed back to relevant internal parties and used in management. Furthermore, in June 2013 we completely refreshed our corporate website, which is one of the means by which we distribute information. With this revamp, we are trying to enhance the accessibility and understandability of information needed by stakeholders, as well as the range of information available.

R&D Meeting

Corporate Website

Relationship with Employees

We list as one of the five values of Shionogi's Action Guidelines, "Respect for the individual," which means maintaining maximum respect for the diverse individualities of everyone involved with Shionogi.

Human Resources System and Human Resource Development

Human Resources System

Shionogi has put in place a human resources system that places great emphasis on producing results and behavior modification, with the aims of developing strong individuals and growing an organization that can compete globally. Our evaluation system features grading according to duties, and remuneration that reflects wage rates. This promotes the growth of individuals while contributing to the achievement of organizational goals. In this way, we are promoting growth by motivating individual employees to tackle and achieve challenging targets.

Fair and Equitable Personnel Evaluations

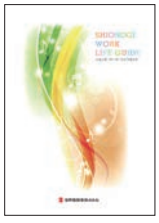
In order for employees to grow in their jobs, we believe it is crucial to properly evaluate their achievements and results, and their development in the performance of their duties, so that we can give them appropriate jobs, remuneration, and other benefits. In view of this, Shionogi is clarifying evaluation standards, disclosing information on a fair and equitable basis, and providing extensive educational programs for evaluators. In these ways, Shionogi is increasing the transparency and objectivity of its evaluation methodology. In addition, by giving appropriate feedback on evaluation results, the Company is working to increase satisfaction in the evaluation system.

Human Resource Development

Shionogi's basic stance on human resource development is that people are the source of the Company's competitiveness. We support career building right through from when an employee joins Shionogi to when they leave. Human resource development at Shionogi is composed of an organic mix of elements, including on-the-job training, off-site training, and personal development. We believe that the growth of individual employees will lead to the growth of the organization.

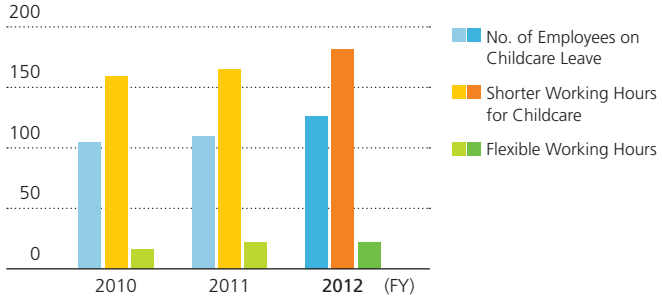
Promoting Work-Life Balance

Shionogi believes that realizing the Company Policy is the epitome of achieving work-life balance and is thus promoting this in connection with the various situations people face in life such as raising children, caring for relatives, and engaging in personal development. The policy states that by fulfilling one's responsibilities and enhancing one's skills and character as a human being, one will feel satisfied and fulfilled and find greater richness in one's life as a result. In December 2012, we began issuing the *Shionogi Work-Life Guide* in-house. This guidebook introduces the various systems we have designed to support various life situations, and is one way we are promoting work-life balance.



Shionogi Work-Life Guide

No. of Employees on Childcare Leave / Shorter Working Hours for Childcare / Flexible Working Hours



Occupational Health and Safety, and Mental Health Strategies

Occupational Health and Safety

In order to realize the Company Policy, Shionogi recognizes the importance of its employees' health and safety at work. In research and production facilities where chemicals are used, the safety and health committee of each workplace leads efforts to ensure that chemicals are properly handled as well as stored and managed. Furthermore, in order to prevent occupational injury or illness caused by facilities and equipment, Shionogi is bolstering its internal checking system, and at the same time conducts rigorous safety inspections regularly, as it works to raise employee safety awareness.

Concerning employee health, Shionogi is promoting a system to facilitate the management of working hours and thereby create a framework for preventing the incidence of chronically excessive work hours. We also cooperate with a health insurance association to ensure employees take part in the regular annual health checkup, and encourage employees to receive testing for adult-onset and gynecological illnesses. In these and other ways, we are implementing measures to maintain and improve employee health.

Mental Health Measures

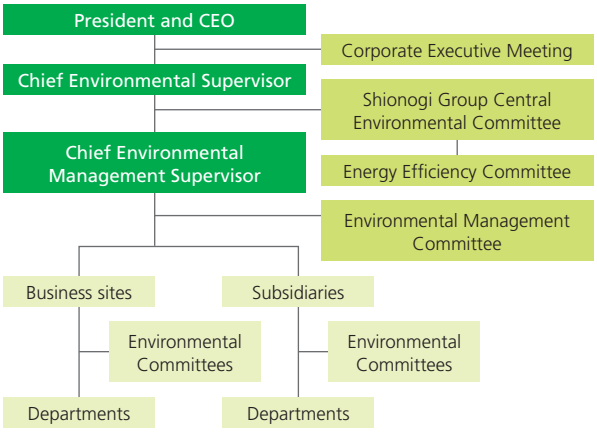
To address mental health, Shionogi has a specialized physician working full-time as an industrial physician and has established a counseling system that includes an outside employee assistance program (EAP)*. In these and other ways, the Company is implementing a comprehensive range of measures in line with the Japanese Ministry of Health, Labour and Welfare's "four care policy" (self-care, managerial care, on-site industrial staff health care, and external resource-based care). Since fiscal 2012, we have also been conducting stress checks of employees to raise their awareness of mental and physical health management, in a bid to prevent mental disorders.

* This program provides support for employee's mental health.

Efforts to Preserve the Environment

Efforts to Preserve the Environment

In promoting its business activities, the Shionogi Group is aware that, as a company, it has an important social responsibility to give appropriate consideration to the global and local environments. To lessen the environmental impact of all of our business activities, we have established Shionogi Group Environmental Protection Plan Targets in accordance with "The Shionogi Group's Basic Environmental Policy." We conduct a range of environmental preservation activities that give consideration to global environmental protection, resource protection, and harmony with the natural environment.



Environmental Management System

ISO 14001 and Environmental Audits

Shionogi has acquired ISO 14001* certification for four business sites with a large environmental impact, namely three manufacturing divisions (Kuise Site, Settsu Plant, and Kanegasaki Plant) and a research division, the Shionogi Pharmaceutical Research Center (SPRC). The subsidiaries Shionogi Analysis Center Co., Ltd. and Shionogi Pharma Chemicals Co., Ltd. have also obtained this certification.

Every year, we also receive an audit by an external organization. In fiscal 2012, certification was renewed following an audit by Japan Chemical Quality Assurance Ltd. Furthermore, environmental audits are conducted at manufacturing plants, research laboratories and domestic production subsidiaries to confirm that the status of environmental management is satisfactory, that environment-related laws and regulations are being complied with, that environmental risks are being properly managed, and so forth.

* International standard for environmental management systems

Compliance with Laws and Regulations, and Education and Training

Japan has a wide range of environmental regulations. The Shionogi Group identifies the laws and regulations governing its activities, sharing pertinent information with all business sites, as well as conducting education programs and creating manuals to ensure legal compliance.

To ensure that each employee understands the importance of environmental activities, we educate those who are handling tasks with a large environmental impact before they commence their work. This program covers general environmental education, waste management, chemical substance handling and other subjects. Also, to be prepared for an emergency situation such as an earthquake, fire or other disaster, or hazardous substance leak, we specify response procedures and a communication and reporting system, as well as regularly conduct emergency response drills and review response procedures.


A disaster drill at the Kanegasaki Plant

Recognition for Kanegasaki Plant and SPRC New Wing

Shionogi's Kanegasaki Plant received an award from the Minister of the Environment in recognition of contributions to a sustainable society at the 7th National Convention for the Promotion of the 3Rs, held in October 2012 by the Ministry of the Environment and the 3R Promotion Forum. While production volume rose due to an increase in production facilities through the installation of new equipment, the plant was still able to greatly improve its recycling rate from 38% to 92% and maintain it, by improving production processes, as well as properly assessing and separating different types of industrial waste.

The building (SPRC4) at the SPRC has also been widely acclaimed for the environmental friendliness of its design, receiving many awards. These include the Award for Excellence from Osaka Prefecture in the Osaka Sustainable Architecture Awards, as well as the Nikkei's Kinki New Office Promotion Award due to factors such as the facility's functionality and consideration for the environment.


SPRC4, Osaka

Targets of Phase 4 of the Shionogi Group Environmental Protection Plan Fiscal 2012 Results

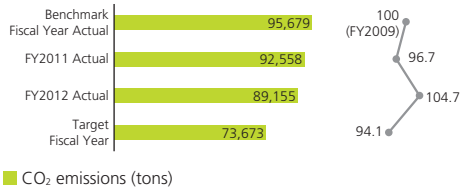
At present, we are striving to reduce the Group's entire environmental impact by implementing initiatives under Phase 4 of the Shionogi Group Environmental Protection Plan (fiscal 2011 to fiscal 2015). The targets and results of activities in fiscal 2012 are as follows:

1. Promote measures to conserve energy and counter global warming

- Reduce CO_2 emissions by 23% compared to the fiscal 2005 benchmark year (fiscal 2020).
- Reduce the Basic Unit for Energy by an annual average of 1%.
- Promote the introduction of highly energy-efficient equipment and facilities.

■ Fiscal 2012 Results

Manufacturing and research divisions took various steps such as upgrading to highly efficient boilers and power supply equipment, and improving air-conditioning control. At the same time, domestic production subsidiaries switched from fuel oil A to gas when boilers were upgraded. These steps led to a 6.8% reduction in CO_2 emissions compared to the benchmark fiscal year. The basic unit for energy was affected by the start of operations at three new wings at the Kanegasaki Plant alongside other factors, but we will continue our efforts to improve energy efficiency.



CO_2 emissions (tons)
Basic Unit for Energy* (vs. FY2009)

* The Basic Unit for Energy is calculated by dividing energy usage by production volume, total floor area, etc.

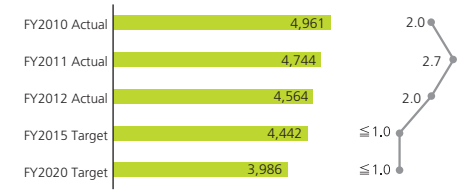
2. Strengthen conservation of resources and waste disposal measures

- Reduce the amount of waste generated by 10% compared to the fiscal 2010 benchmark year (20% reduction by fiscal 2020).
- Promote zero emissions*.

* Waste sent to landfills for final disposal divided by total waste generated of no more than 1% is defined as zero emissions.

■ Fiscal 2012 Results

We worked to reduce waste in formulation processes in manufacturing departments and promoted the 3Rs—reduce, reuse, and recycle—including reusing solvents and recycling waste liquids.



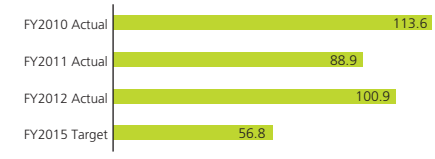
Waste generated (tons)
Landfill disposal rate (%)

3. Strengthen management of chemical substances

- Reduce atmospheric emissions of dichloromethane in the manufacture of active pharmaceutical ingredients (APIs) by 50% compared with the fiscal 2010 benchmark year.
- Control the use and atmospheric emission of chemical substances.
- Promote the proper treatment and management of polychlorinated biphenyls (PCBs).

■ Fiscal 2012 Results

We have set voluntary control levels for chemicals that are stricter than regulatory levels and are controlling emissions. In fiscal 2012, atmospheric emissions of dichloromethane increased at the Kanegasaki Plant due to defective facilities. However, we will continue to look at ways of achieving the emission reduction target.



Atmospheric emissions of dichloromethane (tons)

4. Promote understanding of biodiversity

- Properly preserve and expand endangered plant species in the Company's botanical gardens.
- Conduct education on biodiversity and related laws and regulations.

■ Fiscal 2012 Results

We conducted employee training as part of environmental activities with an awareness of biodiversity, in accordance with the Fundamental Philosophy and Guideline for Conduct Concerning Biodiversity formulated by the Japan Pharmaceutical Manufacturers Association. In addition, the research division conducted research in conformity with the Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms and the Invasion of Alien Species Act. At the Aburahi Facilities' botanical gardens, we maintained and managed a variety of endangered plants and we are looking at increasing the number of plants.

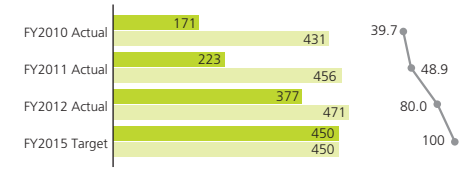
Asiasarum dimidiatum is an endangered plant

5. Promote the introduction of low-emission vehicles

- Use only hybrid or electric vehicles for cars lent to MRs (except in cold regions)

■ Fiscal 2012 Results

In order to reduce CO_2 and exhaust gas emissions by raising fuel efficiency, we are making progress by introducing hybrid vehicles for MRs. In fiscal 2012, hybrid vehicles accounted for 80.0% of all such vehicles (excluding cold regions of Japan), up 31.2 percentage points from fiscal 2011, reflecting the large number of newly introduced vehicles.

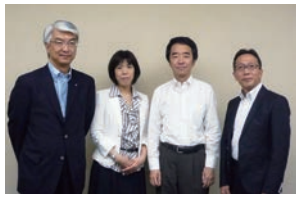


EVs and HBs (No.)
Cars lent to MRs (No.)
Ratio of EVs and HBs (%)

* EVs and HBs mean electric vehicles and hybrid vehicles, respectively.

Third-party Opinion

Experts at the Institute for Environmental Management Accounting (IEMA) provide us with their opinion on our efforts to improve the reliability and transparency of disclosure of our environmental activities. We also receive advice on our environmental friendliness, environmental management status, and future activities.



Corporate Governance

The Shionogi Group recognizes that it is its social mission to continually discover, develop, and provide useful and safe medicines that help improve the health of people and medical treatment around the world as well as their quality of life. Shionogi also recognizes that continuously and faithfully accomplishing this mission should increase its corporate value. Accordingly, it believes strongly in carrying out sound and transparent management practices through the corporate governance system it has established.

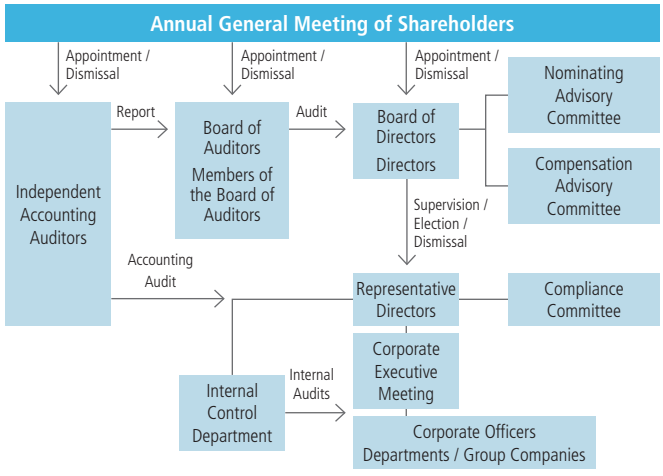
Corporate Governance System

The Shionogi Group has adopted a "company with Board of Auditors" corporate governance system. The Board of Directors has five members, including three outside directors, in order to further enhance management transparency and accountability to stakeholders. Furthermore, the Company has established a Nomination Advisory Committee and a Compensation Advisory Committee as advisory bodies to the Board of Directors. Both committees are chaired by outside directors, ensuring that selected directors are vetted and evaluated from a fair and honest perspective and multiple angles, including assessment of aptitude, impact on management, quality of work performance, and appropriateness of compensation.

The Board of Auditors has five members, including three outside members of the Board of Auditors in order to ensure greater transparency and fairness. Members of the Board of Auditors audit directors' performance of duties at meetings of the Board of Directors and Corporate Executive Meeting.

Moreover, the Company 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 members of the Board of Auditors, and corporate officers responsible for operation.

Corporate Governance Structure (As of April 2013)



Amount of Remuneration for Directors and Members of the Board of Auditors (Fiscal 2012)

Category	Persons remunerated	Amount of remuneration paid (¥ millions) Base remuneration	Bonus	Stock options	Total
Directors	6	186	26	28	241
(Outside directors among directors)	(3)	(33)	(–)	(–)	(33)
Members of the Board of Auditors	5	91	–	–	91
(Outside members of the Board of Auditors among members of the Board of Auditors)	(3)	(35)	(–)	(–)	(35)
Total	11	277	26	28	333

About Outside Directors and Outside Members of the Board of Auditors

Selection Policy for Outside Directors and Outside Members of the Board of Auditors

- There are no conflicts of interest between the Company and individual outside directors and outside members of the Board of Auditors and no risk of conflicts of interest with general shareholders.
- Selected individuals have outstanding insight and ability based on experience and specialist expertise relating to management, and can properly demonstrate that insight and ability.
- Selected individuals know their role as an outside director or outside member of the Board of Auditors and can give frank opinions and advice to Company management at the right time.
- Selected individuals have the personality, professional background, insight and other qualities that are sincerely valued by not only the Company's management team but also stakeholders.

Messages from Outside Directors

Akio Nomura

Since my appointment as an outside director, I have felt that Shionogi is a pharmaceuticals manufacturer that conducts corporate activities based on high ethical values and in accordance with the Company Policy which states "Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve."

In order for a company to earn the trust of society and continuously develop, it must actively disclose information while ensuring transparency in its own decision-making. Shionogi's Board of Directors makes open and fair management decisions, always mindful of its accountability.

I draw on my experience as a corporate manager and place importance on my neutrality as an independent director, as I work to further increase corporate value from an objective perspective. I also work to ensure Shionogi develops further and contributes broadly to society.

Teppei Mogi

As economic globalization gathers pace, it has been very important for Japanese companies to comply with various laws and regulations in countries around the world, such as anti-trust laws and the U.S. Foreign Corrupt Practices Act (FCPA), and of course to observe laws and regulations in Japan.

Shionogi's management must be sufficiently aware of overseas laws and regulations before executing business as the company develops business globally.

I am using my experience related to international legal affairs to contribute as an outside director to the refinement and operation of a global compliance and risk management system. At the same time, I offer appropriate advice with a legal focus for management decisions.

Katsuhiko Machida

The manufacturing industry, including the pharmaceuticals business, is a precious industry for a resource-poor country like Japan. The role it plays is an extremely large one indeed. However, amid increasing uncertainty surrounding the global economy and escalating competition, there are greater demands for swift management decision-making that weighs up both the risks and rewards.

Based on my management experience at a global manufacturing company and the objective, outside perspective of shareholders and other stakeholders, I am determined to contribute to the even more objective and transparent management of Shionogi while maintaining the overarching perspective of being a stakeholder myself.

Reason for Selection of Outside Directors and Outside Members of the Board of Auditors

	Name	Reason for Selection	Attendance
Outside Directors	Akio Nomura	Mr. Nomura has abundant experience and broad discernment as a senior corporate executive. The Company believes that he can make management decisions placing importance on the objectivity and impartiality of management and contribute to highly transparent management as an independent director.	Attended all 11 Board of Directors' meetings
	Teppei Mogi	Mr. Mogi has abundant experience and professional knowledge as an attorney at law. The Company believes that he can use this experience and knowledge to make management decisions placing priority on the observance of social norms, laws and ordinances and contribute to highly transparent management as an independent director.	Attended all 11 Board of Directors' meetings
	Katsuhiko Machida	Mr. Machida has abundant experience and broad discernment as a senior corporate executive of a global manufacturing business. The Company believes that he can make management decisions placing importance on the objectivity and impartiality of management and contribute to highly transparent management as an independent director.	Attended all 9 Board of Directors' meetings (After appointment on June 27, 2012)
Outside Members of the Board of Auditors	Takeharu Nagata	Mr. Nagata has abundant experience and broad discernment as a senior corporate executive. The Company believes that he can properly carry out audit duties such as providing advice regarding the legality and propriety of operations executed by directors.	Attended all 11 Board of Directors' meetings Attended all 7 Board of Auditors' meetings
	Shinichi Yokoyama	Mr. Yokoyama has abundant experience and broad discernment as a senior corporate executive. The Company believes that he can properly carry out audit duties such as providing advice regarding the legality and propriety of operations executed by directors.	Attended all 11 Board of Directors' meetings Attended all 7 Board of Auditors' meetings
	Kenji Fukuda	Mr. Fukuda has abundant experience and professional knowledge as an attorney at law. The Company believes that he can use this experience and knowledge to properly carry out audit duties such as providing advice regarding the legality and propriety of operations executed by directors.	Attended all 11 Board of Directors' meetings Attended all 7 Board of Auditors' meetings
	Koichi Tsukihara	Mr. Tsukihara has abundant experience and broad discernment as a senior corporate executive. The Company believes that he can properly carry out audit duties such as providing advice regarding the legality and propriety of operations executed by directors.	(Appointed June 26, 2013)

Status of Audit Execution

The members of the Board of Auditors receive reports on the details of accounting audits from the independent auditors, and, if necessary, join the accounting audits conducted by the independent auditors, and exchange opinions and respond in other ways.

Names of Certified Public Accountants (CPAs) and Independent Auditors

Names of CPAs		Name of Independent Auditors
Designated Limited Liability Partner Engagement partner	Akihiko Masuda	Ernst & Young ShinNihon LLC
	Hideki Maekawa	

- Assistants for audit work
  Nine CPAs and seven other people (including people who have passed the CPA examination and systems experts)

Internal Audits

The members of the Board of Auditors receive regular monthly reports on the status and results of internal audits from the Internal Control Department, which is the Company's internal auditing department, and exchange opinions and respond in other ways. Furthermore, the members of the Board of Auditors cooperate with the Internal Control Department to conduct investigations and carry out other work to quickly address any issues from an internal control perspective.

Strengthening the Internal Control System

In accordance with the Basic Policy for Building an Internal Control System approved by the Board of Directors based on the Companies Act, Shionogi has established systems for ensuring the appropriateness of operations. The Board of Directors annually evaluates the state and management of internal control systems over the past year and based on this evaluation revises basic policy to augment the internal control system. In addition, Shionogi makes sincere efforts to ensure the reliability of financial reporting. At the same time, to comply with the internal control report system under the Financial Instruments and Exchange Act, Shionogi is strengthening internal controls over financial reporting for the Shionogi Group as a whole, as it works to improve the quality of management control.

Framework for Information Disclosure

In accordance with the Company's Disclosure Policy, the Shionogi Group continuously discloses corporate information in a timely, appropriate and fair manner to all stakeholders in order to enhance management transparency as a company widely trusted by society.

Risk Management

Shionogi recognizes the intrinsic risk factors in each of its organizational units associated with their activities, determines response strategies, and works to avoid or mitigate those risks. Response policies for important risks that could significantly impact the Company's management are discussed at the Corporate Executive Meeting and other meetings, and necessary measures are implemented. Regarding risks associated with disasters, accidents, corporate scandals, and other situations, Shionogi has formulated compendiums pertaining specifically to compendium of disasters, pandemics, and corporate scandals as well as BCP guidelines based on a Crisis Management Policy. In accordance with these, Shionogi is promoting crisis management processes that emphasize respect for human lives, demonstrate consideration for and contributions to local communities, and mitigate potential damage to corporate value.

Thorough Compliance

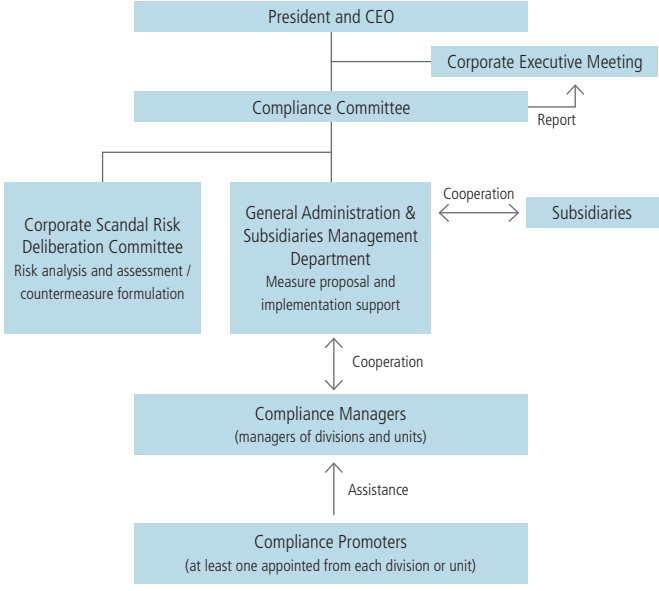
Shionogi works to instill the importance of compliance in all Shionogi Group employees and requests compliance performance in accordance with the Shionogi Group Compliance Policy, in order to ensure compliance with laws and regulations and ethical behavior in business activities. Specifically, led by the Compliance Committee, which is chaired by the president, the Company engages in the following types of activities.

The Company designates a Compliance Manager in each department or unit, along with a Compliance Promoter as an assistant. These officers take steps to identify and prevent compliance risks based on compliance risk management action plans in each department or unit. At the same time, they work to increase the effectiveness of compliance assurance through integrated management across the company of progress as reported in compliance risk management action reports.

The Bureau of the Compliance Committee drafts compliance measure proposals for the Group as a whole and provides support for promotion activities of departments and units, as well as runs compliance training programs for all employees. In April 2013, the Company formulated and disseminated the Shionogi Code of Practice, and at the same time distributed a revised version of Shionogi's Compliance Handbook to all employees, providing a reminder regarding compliance.

Shionogi also works to improve internal audits and strengthen monitoring to verify the effectiveness of the internal control system. At the same time, it is working to discover early and prevent compliance violations by fully utilizing the internal control system.

Compliance Promotion Structure (As of April 2013)



Shionogi's Compliance Handbook

Members of Boards (As of June 26, 2013)

Earning the Trust of All Stakeholders

Shionogi aims to be a corporate entity trusted by all stakeholders, including shareholders, patients and their families, and the medical community by directly addressing various issues with transparency and high ethical values.

Directors

Front row from left: Motozo Shiono, Isao Teshirogi. Back row from left: Teppei Mogi, Akio Nomura, Katsuhiko Machida

Chairman of the Board and Representative Director **Motozo Shiono**	1972 Joined the Company 1984 General Manager, Marketing Planning Department 1984 Director of the Company 1987 General Manager, Accounting Department	1987 Managing Director of the Company 1990 Senior Managing Director of the Company 1996 General Manager, Agro., Vet. & Industrial Chem. Division	1996 Representative Executive Director 1999 President of the Company 1999 General Manager, Corporate Planning Division 2008 Chairman of the Board (incumbent)
President and CEO **Isao Teshirogi, Ph.D.**	1982 Joined the Company 1999 General Manager, Corporate Planning Department and General Manager, Secretary Office 2002 Director of the Company 2002 General Manager, Corporate Planning Department	2004 Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division 2006 Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division	2007 Senior Executive Officer 2008 President and CEO (incumbent)
Outside Director **Akio Nomura**	1998 Representative Director and President, Osaka Gas, Co., Ltd. 2000 Director, West Japan Railway Company	2003 Representative Director and Chairman, Osaka Gas, Co., Ltd. 2008 Outside Director, Royal Hotel, Ltd. (incumbent)	2009 Outside Director of the Company (incumbent)
Outside Director **Teppei Mogi**	1989 Registration as attorney at law 1994 Partner, Oh-Ebashi Law Offices (incumbent) 2002 Partner, Oh-Ebashi LPC & Partners (incumbent)	2004 Professor, Kwansei Gakuin University Law School 2005 Part-time instructor, Kobe University Graduate School of Law (incumbent)	2009 Outside Director of the Company (incumbent) 2010 Part-time instructor, Kwansei Gakuin University Law School (incumbent)
Outside Director **Katsuhiko Machida**	1998 President, Sharp Corporation 2007 Chairman, Sharp Corporation 2008 Outside Director, Sekisui House, Ltd. (incumbent)	2008 Chairman and Chief Executive Officer, Sharp Corporation 2010 Chairman, Sharp Corporation 2012 Director, Corporate Advisor, Sharp Corporation	2012 Corporate Advisor, Sharp Corporation 2012 Outside Director of the Company (incumbent) 2013 Special Advisor, Sharp Corporation (incumbent)

Members of the Board of Auditors

From left: Shinichi Yokoyama, Sachio Tokaji, Mitsuaki Ohtani, Koichi Tsukihara, Kenji Fukuda

Standing Member of the Board of Auditors
Mitsuaki Ohtani, Ph.D.

1975 Joined the Company
1998 Director of the Company
1998 General Manager, Clinical Research Department and General Manager, Product Development Department
2000 General Manager, Pharmaceutical Development Division and General Manager, Strategic Development Department
2001 Executive General Manager, Pharmaceutical Research & Development Division, General Manager, Discovery Research Laboratories and General Manager, Strategic Development Department
2002 Executive General Manager, Pharmaceutical Research & Development Division and General Manager, Discovery Research Laboratories
2004 Standing Member of the Board of Auditors of the Company (incumbent)

Standing Member of the Board of Auditors
Sachio Tokaji

1970 Joined the Company
1998 General Manager, Accounting Department
2002 Director of the Company
2002 General Manager, Accounting & Financial Department
2004 Corporate Officer and General Manager, Accounting & Financial Department
2004 Corporate Officer and General Manager, Accounting & Financial Department and General Manager, International Business Department
2006 Corporate Officer and Corporate Business Management Executive and General Manager, Accounting & Financial Department
2007 Executive Officer and Corporate Business Management Executive
2008 Director of the Company and Senior Executive Officer
2011 Standing Member of the Board of Auditors of the Company (incumbent)

Outside Member of the Board of Auditors
Shinichi Yokoyama

2001 President, Sumitomo Life Insurance Company
2003 Outside Corporate Auditor, NEC Corporation
2007 Chairman and Representative Director, Sumitomo Life Insurance Company (incumbent)
2008 Outside Member of the Board of Auditors of the Company (incumbent)
2010 Outside Corporate Auditor, Sumitomo Chemical Co., Ltd. (incumbent)

Outside Member of the Board of Auditors
Kenji Fukuda

1984 Registration as attorney at law
1984 Joined Dojima Law Office
1987 Partner, Dojima Law Office (incumbent)
2009 Vice President, Osaka Bar Association
2009 Governor, Japan Federation of Bar Associations
2009 Visiting Professor, Osaka University Law School
2011 Outside Member of the Board of Auditors of the Company (incumbent)

Outside Member of the Board of Auditors
Koichi Tsukihara

2005 Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation
2005 Vice President and Executive Managing Officer, Sumitomo Mitsui Financial Group
2006 Representative Director and President, Sumitomo Mitsui Card Co., Ltd.
2011 Representative Director and Chairman, Sumitomo Mitsui Card Co., Ltd.
2012 Director and Chairman, Sumitomo Mitsui Card Co., Ltd. (incumbent)
2012 Outside Director, Gurunavi, Inc. (incumbent)
2013 Outside Member of the Board of Auditors of the Company (incumbent)

Corporate Officers

Senior Executive Officer **Takuko Sawada**
Executive Officer **Takuo Fukuda**
Executive Officer **Ryuichi Kume, Ph.D.**
Executive Officer **Yoshiaki Kamoya**
Corporate Officer **Hirosato Kondo, Ph.D.**

Corporate Officer **Kohji Hanasaki, Ph.D.**
Corporate Officer **Takayuki Yoshioka, Ph.D.**
Corporate Officer **Kiyoshi Nagata, Ph.D.**
Corporate Officer **Masaaki Goshima**
Corporate Officer **Akio Tsubokura**
Corporate Officer **Masaaki Takeyasu**
Corporate Officer **John Keller, Ph.D.**
Corporate Officer **Shinya Matsuzawa**

Ten-Year Consolidated Financial Highlights

Shionogi & Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			
	2004	2005	2006	2007
For the years ended March 31:				
Net sales	¥200,485	¥199,365	¥196,389	¥ 199,759
Cost of sales	79,856	74,069	68,708	67,542
Selling, general and administrative expenses	100,337	96,567	98,455	103,354
Operating income	20,292	28,729	29,226	28,863
Income before income taxes and minority interests	5,178	31,655	38,798	31,723
Net income	2,204	18,942	22,735	18,595
Research and development expenses	29,808	29,409	32,257	37,456
Capital investments	5,853	5,001	11,132	11,107
Depreciation and amortization	9,705	9,412	8,653	8,798
As of March 31:				
Property, plant and equipment, net	¥ 71,993	¥ 68,191	¥ 64,251	¥ 67,815
Total assets	376,161	396,999	427,683	429,569
Total long-term liabilities	49,005	27,783	38,371	36,282
Total net assets	292,387	300,065	337,434	345,752
Per share amounts:				
Net income	¥ 6.06	¥ 54.64	¥ 66.55	¥ 54.61
Net assets	844.53	879.79	989.76	1,014.73
Dividends	8.50	12.00	16.00	16.00
Other:				
Equity ratio (%)	77.7	75.5	78.8	80.4
Return on equity [ROE] (%)	0.8	6.4	7.1	5.4
Payout ratio (%)	140.3	22.0	24.0	29.3

Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥94.01 = US$1.00, the approximate rate of exchange on March 31, 2013.
2. From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former shareholders' equity, valuation and translation adjustments, and minority interests as total net assets. Figures for fiscal years through the year ended March 31, 2006 have been calculated in conformity with the new standard.

Millions of yen						Thousands of U.S. dollars
2008	2009	2010	2011	2012	2013	2013
¥ 214,268	¥227,512	¥ 278,503	¥282,350	¥ 267,275	¥ 282,904	$3,009,297
68,594	70,929	76,264	81,737	77,753	78,575	835,815
105,275	124,568	149,801	153,721	142,519	145,480	1,547,495
40,399	32,015	52,438	46,892	47,003	58,849	625,987
39,963	30,786	58,541	33,135	41,495	58,307	620,221
25,064	15,661	38,626	20,027	27,102	66,728	709,797
40,290	52,822	51,808	50,921	53,599	53,021	563,993
13,069	10,875	12,547	17,967	13,233	11,447	121,764
10,666	13,468	18,048	17,966	16,282	11,912	126,710
¥ 70,378	¥ 71,812	¥ 62,448	¥ 70,221	¥ 74,282	¥ 78,474	$ 834,741
413,704	501,853	540,762	523,242	522,162	574,882	6,115,115
29,024	114,955	131,956	115,326	92,900	53,042	564,216
342,236	310,094	341,976	328,096	347,198	423,633	4,506,255
					Yen	U.S. dollars
¥ 74.21	¥ 46.75	¥ 115.33	¥ 59.80	¥ 80.93	¥ 199.25	$ 2.12
1,020.31	924.43	1,019.71	979.69	1,027.83	1,254.44	13.34
22.00	28.00	36.00	40.00	40.00	42.00	0.45
82.7	61.7	63.2	62.7	65.9	73.1	
7.3	4.8	11.9	6.0	8.1	17.5	
29.6	59.9	31.2	66.9	49.4	21.1	

Management's Discussion and Analysis

Overview of Results

The sales of prescription drugs in Japan for the fiscal year ended March 31, 2013 increased slightly year on year despite the effect of the NHI drug price revisions on the Shionogi Group.

In addition, the previously volatile results of US operations stabilized, and the Shionogi Group benefited from Group-wide cost reductions. As a result of these and other factors, the Shionogi Group achieved record operating income.

Net Sales

Net sales increased 5.8% year on year to ¥282,904 million.

1. Domestic Sales of Prescription Drugs
   Sales of the eight strategic products, centered on the three core strategic products of the hyperlipidemia treatment, *Crestor*, the hypertension treatment, *Irbetan*, and the antidepressant drug, *Cymbalta*, increased 15.0% to ¥84,219 million. This compensated for lower sales of existing products due to NHI drug price revisions and other factors and led to an overall increase in domestic sales of prescription drugs.
2. Exports and Overseas Subsidiaries
   Export and overseas subsidiary sales increased substantially. Sales increased substantially year on year at US subsidiary Shionogi Inc., which achieved stable operations throughout the fiscal year. In addition, China-based pharmaceutical company C&O Pharmaceutical Technology (Holdings) Limited (C&O) also contributed a full year of sales.
3. Royalty Income
   Crestor royalty income decreased because AstraZeneca's global sales of *Crestor* decreased in 2012. However, total royalty income increased year on year to ¥69,846 million due to a one-time licensing fee for an Alzheimer's disease treatment.

Gross Profit

The cost of sales increased 1.1% in year-on-year terms to ¥78,575 million. The cost of sales ratio decreased from 29.1% to 27.8% due to an increase in sales US operations where the cost of sales ratio is low.

As a result, gross profit increased 7.8% year on year to ¥204,329 million.

Operating Expenses and Operating Income

Selling, general and administrative (SG&A) expenses increased 2.1%. However, operating income increased 25.2% year on year to ¥58,849 million due to factors including higher net sales, an improved gross margin, ongoing cost reductions, and improved earnings at Shionogi Inc.

Other Income (Expenses)

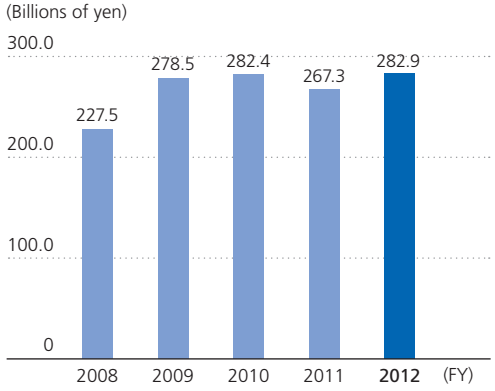
In fiscal 2012, Shionogi recorded net other expenses of ¥542 million. This compared with net other expenses of ¥5,508 million in fiscal 2011.

As a result of the ViiV agreement covering HIV drugs, the Shionogi Group recognized other income of ¥40,434 million as gain on exchange of investment securities, which is the difference between the carrying value of the Shionogi Group's equity position in Shionogi-ViiV Healthcare L.P. and the market value (fair value) of a 10% equity position in ViiV. In addition, when revising the agreement Shionogi considered reallocation of the management resources of U.S. operations and tested for impairment of goodwill and sales rights associated with products that Shionogi Inc. handles. As a result, Shionogi recognized an impairment loss on fixed assets of ¥40,836 million.

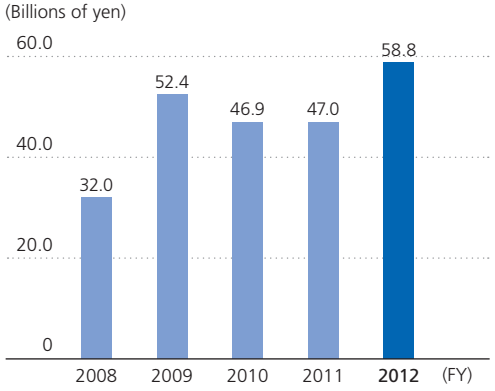
Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests increased 40.5% to ¥58,307 million. Including income tax adjustments,

Net Sales



Operating Income



income taxes were negative ¥8,531 million, a decrease of 159.3% year on year. This reflected a large decline in income taxes due to the loss on valuation of stock of affiliates that was booked on a non-consolidated basis as a result of the aforementioned impairment at Shionogi Inc.

Net income increased 146.2% to ¥66,728 million. The net income ratio was 23.6%, compared with 10.1% in the previous fiscal year. Net income per share increased from ¥80.93 to ¥199.25.

Segment Information

The Shionogi Group operates as a single business segment related to prescription drugs, involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. While Shionogi performs analysis of sales by product and evaluations of performance by Group companies, decisions on business strategy, and the allocation of management resources, especially the allocation of research and development expenses, are made on a Group-wide basis. Therefore, disclosure of segment information for the year ended March 31, 2013 has been omitted.

Research and Development Expenses

The Shionogi Group aims to achieve world-class research productivity and to quickly supply pharmaceuticals to global markets in conducting research and development (R&D) activities. The Group quickly identifies unmet medical needs (medical needs that are not addressed for reasons including lack of effective treatment), enhances its strength in small molecule drug discovery, and deploys various leading-edge technologies to develop large molecule drugs to continuously supply innovative pharmaceuticals to patients worldwide.

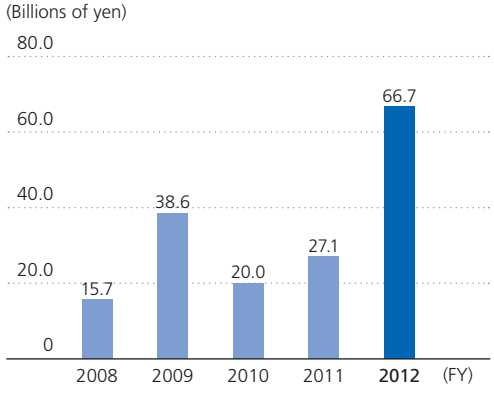
1. Research Activities
   In July 2011, the Shionogi Group completed the Shionogi Pharmaceutical Research Center (SPRC) with the aim of consolidating and strengthening research functions. SPRC is energetically conducting activities with the aim of further strengthening organizational cooperation, increasing candidates for development, and improving the success rate in moving from non-clinical to clinical trials. In October 2012, the Shionogi Group licensed a treatment for Alzheimer's disease with a novel mechanism of action to a Johnson & Johnson group company with excellent experience and expertise in the field of Alzheimer's disease. Moreover, the Shionogi Group energetically collaborates with universities and research institutions in Japan and around the world to sustain the discovery of innovative new drugs.
2. Development Activities
   At present, the Shionogi Group is developing a strong pipeline that includes late-stage development of a drug for alleviating opioid-induced adverse effects (S-297995) and an allergic rhinitis treatment (S-555739). In February 2012, the Shionogi Group established a wholly owned subsidiary, Shionogi Limited, in London, the United Kingdom, as a development base in Europe. The Shionogi Group will move forward with faster, more effective tri-regional development in the United States, Europe and Asia to enable the rapid supply of drugs to global markets.
3. In-licensing of Products and Technologies
   In October 2012, the Shionogi Group and Kotobuki Pharmaceutical Co., Ltd. (Nagano Prefecture) concluded a license agreement covering the worldwide rights to develop, manufacture and commercialize a cholesterol absorption inhibitor (Kotobuki code name: KT6-971) owned by Kotobuki. This product is expected to lower serum cholesterol levels by selectively inhibiting a cholesterol transporter in the small intestine. The Shionogi Group is committing to providing new options for treating metabolic syndrome, which is one of its targeted therapeutic areas.

As a result of these activities, overall Group R&D expenses for fiscal 2012 totaled ¥53,021 million.

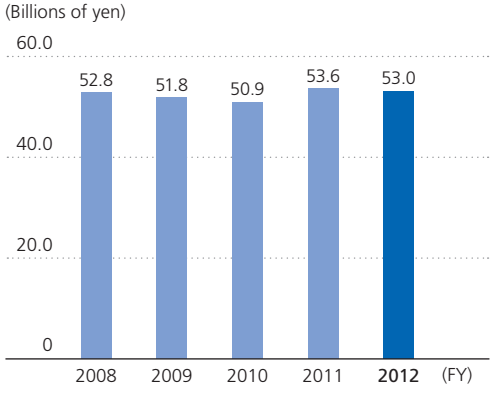
Cash Flows

For fiscal 2012, net cash provided by operating activities increased ¥4,552 million compared with the previous fiscal year to ¥59,276 million. Income before income taxes and minority interests increased, while depreciation and amortization and other non-cash items decreased.

Net Income



R&D Expenses



Net cash used in investing activities decreased ¥18,330 million compared with the previous fiscal year to ¥19,960 million in the absence of the use of cash in connection with the C&O acquisition in fiscal 2011. The main uses of cash were purchases of property, plant and equipment in connection with the construction of a beta-lactam injectable drug facility and a new production facility for high-potency active pharmaceutical ingredients.

Net cash used in financing activities increased ¥9,938 million compared with the previous fiscal year to ¥37,687 million as a result of factors that included the redemption of bonds payable, the repayment of debt and the payment of dividends.

As a result, cash and cash equivalents at March 31, 2013 increased ¥2,855 million to ¥101,543 million.

Capital Investment

Capital investment by the Shionogi Group in fiscal 2012 totaled ¥11,447 million, down ¥1,786 million, or 13.5%, year on year.

The Company invested ¥10,509 million mainly on manufacturing facility expansion, including construction of a beta-lactam injectable drug facility and a new production facility for high-potency active pharmaceutical ingredients. Furthermore, a total of ¥938 million was invested at consolidated subsidiary Shionogi Inc. and elsewhere.

Assets, Liabilities and Net Assets

As of March 31, 2013, total assets stood at ¥574,882 million, ¥52,720 million more than at March 31, 2012. Current assets increased ¥25,913 million year on year to ¥266,845 million. This increase was due mainly to loss carry forwards at the Company which resulted in increases in deferred income taxes and income taxes receivable. Non-current assets increased ¥26,807 million from a year earlier to ¥308,037 million, mainly because an increase in investments in securities resulting from the acquisition of ViiV shares outweighed a decrease in goodwill and marketing rights due to impairment.

Total liabilities amounted to ¥151,249 million, a decrease of ¥23,715 million. This primarily reflected the loss carry forwards discussed above which reduced accrued income taxes, and the Group's redemption of bonds and repayment of long-term debt.

Net assets totaled ¥423,633 million, up ¥76,435 million year on year. Total shareholders' equity increased ¥53,336 million to ¥428,773 million, mainly because of a net increase in retained earnings after the addition of net income and the deduction of dividends. Accumulated other comprehensive loss, net decreased ¥22,559 million to ¥8,662 million from a year earlier due to the impact of exchange rates and stock prices. Share subscription rights increased ¥64 million and minority interests increased ¥476 million.

Reflecting these various factors, the ratio of total net assets to total assets increased from 65.9% to 73.1%.

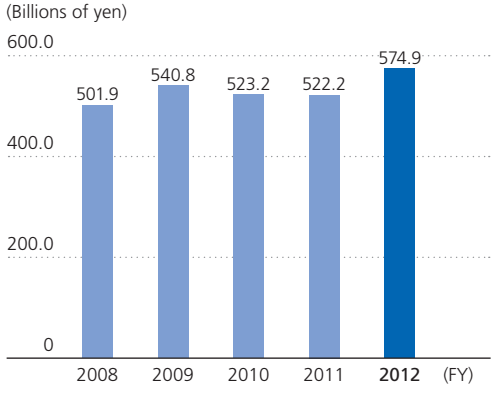
Dividends

Shionogi aims to raise dividends steadily in line with performance while proactively making business investments to increase corporate value from a medium- to long-term perspective. The Shionogi Group is making steady progress with its growth initiatives, and has therefore raised its target for the consolidated dividend payout ratio to 40% to return profits to shareholders.

Shionogi's Articles of Incorporation stipulate twice-yearly distributions of retained earnings as interim and final dividends wherever possible. The General Meeting of Shareholders must approve the final dividend, while the Board of Directors approves the interim dividend.

Consolidated net income for fiscal 2012 includes reduced tax payments in connection with the loss on valuation of stock of affiliates. Excluding this one-time tax effect and based on the above policy, Shionogi decided to increase the year-end cash dividend for fiscal 2012 by ¥2 to ¥22 per share, as forecast at the beginning of the fiscal year. Together with the interim cash dividend, the total annual dividend was ¥42 per share. The consolidated dividend payout ratio was 21.1%.

Total Assets



Business and Other Risks

The main types of risk that might have a significant impact on the Shionogi Group's management performance and financial condition are listed below.

Forward-looking statements in the text reflect the Group's judgment as of March 31, 2013.

(1) Systemic and Regulatory Risk

In the pharmaceutical industry, revisions to the National Health Insurance (NHI) system are being considered, including revisions to the NHI drug price system. These trends could affect the results of the Shionogi Group. In addition, an increase in the strictness of Japanese or overseas regulations concerning such items as the development and manufacture of pharmaceuticals could present the Group with additional expenses or make it difficult for its products to comply with regulations, and there is a possibility that this might have an impact on the Group's performance.

(2) Risk of Adverse Drug Reactions

Pharmaceuticals entail the risk of unanticipated adverse drug reactions that could involve termination of sales, product recalls, and other outcomes that could affect the results of the Shionogi Group.

(3) Pharmaceutical R&D Risk

Pharmaceutical R&D requires substantial commitment of resources and time. In addition, new drugs are subject to numerous uncertainties prior to the start of actual sales.

(4) Intellectual Property Risk

The Shionogi Group uses patents as intellectual property to protect the pharmaceuticals it discovers and generate income from them. However, the various types of intellectual property may be unable to provide adequate protection, or may infringe on the intellectual property of third parties.

Furthermore, the expiry of intellectual property rights (patents) of pharmaceuticals developed by Shionogi or the launch of sales of generics after such expiry could affect the results of the Shionogi Group.

(5) Risk of Dependence on Certain Products

The Shionogi Group obtains approximately 42% of its product sales and royalty income from two of its products, *Crestor* and *Flomox* (as of fiscal 2012). If the incidence of an unexpected factor were to cause a drop in or the discontinuation of the sales of one of these products, there is a possibility that this might have an impact on the Group's performance.

(6) Intensification of Global Competition

Global competition involving non-Japanese companies in the pharmaceutical industry's R&D and sales operations is becoming increasingly intense.

(7) Risk of Alliances with Other Companies

The Shionogi Group engages in diverse forms of alliances with other companies with respect to joint research, joint development, joint marketing, and other activities, including cooperation in such forms as cooperative research projects, cooperative development projects, the in-licensing and out-licensing of technologies, and cooperative marketing projects. If some situation were to change or eliminate these cooperative relationships, it might have an impact on the Group's performance.

(8) Risk of Natural Disasters or Pandemics

The sudden occurrence of natural disasters or other unforeseen incidents or a pandemic could dictate the closure of plants, laboratories or other business sites, or the shutdown of plants, which could affect the results of the Shionogi Group.

(9) Capital Market and Foreign Exchange Risk

Fluctuations in stock and foreign exchange markets that exceed the projected range could affect the results and financial position of the Shionogi Group.

(10) Other Risks

In addition to the above-listed risks, the Shionogi Group's business activities involve the risk of lawsuits, risks related to regulatory of political and economic factors, and diverse other risks. The above list of risks does not include all the types of risks the Shionogi Group is exposed to.

Main Patent Litigations in Which the Shionogi Group is an Interested Party (as of July 2013)

Country	Product or Technology	Plaintiffs	Defendants	Court Filing Date	Current Status
US	*Crestor*	Shionogi (Patent holder), AstraZeneca	8 generic products sales companies (Apotex, Inc., etc)	December 2007	Won in High Court (established June 2013) Settled (Cobalt Pharmaceuticals, Inc., March 2013)
US	*Crestor*	Shionogi (Patent holder), AstraZeneca	Watson Pharmaceuticals, Inc. Actavis, Inc. EGIS Pharmaceuticals	October 2010	Settled (March 2013)
US	*Fortamet* (Shionogi Inc. product)	Shionogi, Andrx Corp. (Patent holder)	Lupin Ltd., Mylan Inc.	January 2009	Settled (Mylan Inc., March 2013) Settled (Lupin Ltd., May 2013)
US	*Doribax* (Japan product name: *Finibax*)	Shionogi (Patent holder), Peninsula Pharmaceuticals, Inc., Janssen Pharmaceuticals, Inc.	Sandoz Inc.	December 2011	Decision pending
US	*Doribax* (Japan product name: *Finibax*)	Shionogi (Patent holder)	Sandoz Inc. Hospira, Inc.	December 2012	Decision pending

Consolidated Financial Statements

Consolidated Balance Sheet

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2013	2012	2013
Assets			
Current assets:			
Cash and cash equivalents (Notes 9 and 12)	¥ 101,543	¥ 98,688	$ 1,080,130
Short-term investments (Notes 6 and 12)	4,465	6,296	47,495
Notes and accounts receivable (Note 12):			
Affiliates	697	880	7,414
Trade	67,212	64,688	714,945
Other	3,067	4,724	32,624
Allowance for doubtful accounts	(12)	(17)	(128)
	70,964	70,275	754,855
Inventories (Note 7)	49,328	50,121	524,710
Deferred income taxes (Note 14)	21,036	9,044	223,763
Other current assets	19,509	6,508	207,521
Total current assets	266,845	240,932	2,838,474
Property, plant and equipment:			
Land (Note 24)	9,769	9,856	103,914
Buildings and structures (Note 24)	119,343	120,207	1,269,471
Machinery, equipment and vehicles	80,982	82,433	861,419
Furniture and fixtures	36,894	37,381	392,448
Construction in progress	7,525	5,777	80,045
Accumulated depreciation	(176,039)	(181,372)	(1,872,556)
Property, plant and equipment, net	78,474	74,282	834,741
Investments and other assets:			
Investments in securities (Notes 6 and 12)	121,077	55,151	1,287,916
Investments in affiliates (Note 12)	1,552	8,418	16,509
Prepaid pension costs (Note 15)	25,272	22,809	268,822
Goodwill (Note 13)	40,293	63,573	428,603
Marketing rights (Note 13)	24,048	36,664	255,803
Long-term prepaid expenses	4,493	6,851	47,793
Deferred income taxes (Note 14)	5,732	6,238	60,972
Other assets	7,096	7,244	75,482
Total investments and other assets	229,563	206,948	2,441,900
Total assets	¥ 574,882	¥ 522,162	$ 6,115,115

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2013	2012	2013
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 12):			
Affiliates	¥ 1,434	¥ 1,231	$ 15,254
Trade	9,301	7,382	98,936
Construction	2,552	3,844	27,146
Short-term bank loans (Notes 8 and 12)	7,500	—	79,779
Current portion of long-term debt (Notes 8 and 12)	31,500	24,000	335,071
Allowance for employees' bonuses	7,135	6,746	75,896
Provision for sales returns	6,459	5,357	68,705
Accrued expenses	20,599	15,219	219,115
Accrued income taxes (Notes 12 and 14)	1,079	9,891	11,478
Deferred income taxes (Note 14)	2	—	21
Other current liabilities (Note 9)	10,646	8,394	113,243
Total current liabilities	98,207	82,064	1,044,644
Long-term liabilities:			
Long-term debt (Notes 8 and 12)	30,028	69,000	319,413
Accrued retirement benefits for employees (Note 15)	8,995	8,793	95,681
Deferred income taxes (Note 14)	12,757	7,730	135,698
Long-term accounts payable—other	219	6,244	2,329
Other long-term liabilities	1,043	1,133	11,095
Total long-term liabilities	53,042	92,900	564,216
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2013 and 2012	21,280	21,280	226,359
Capital surplus	20,227	20,227	215,158
Retained earnings	407,008	353,676	4,329,412
Less treasury stock, at cost	(19,742)	(19,746)	(209,999)
Total shareholders' equity	428,773	375,437	4,560,930
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	16,055	7,729	170,780
Deferred loss on hedges (Note 28)	(450)	(141)	(4,787)
Translation adjustments	(24,267)	(38,809)	(258,132)
Accumulated other comprehensive loss, net	(8,662)	(31,221)	(92,139)
Share subscription rights	123	59	1,308
Minority interests	3,399	2,923	36,156
Total net assets (Note 27)	423,633	347,198	4,506,255
Total liabilities and net assets	¥574,882	¥522,162	$6,115,115

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2013	2012	2013
Net sales (Notes 24 and 29)	¥282,904	¥267,275	$3,009,297
Cost of sales (Notes 16 and 24)	78,575	77,753	835,815
Gross profit	204,329	189,522	2,173,482
Selling, general and administrative expenses (Note 17)	145,480	142,519	1,547,495
Operating income	58,849	47,003	625,987
Other income (expenses):			
Interest and dividend income	2,073	1,634	22,051
Interest expense	(1,123)	(1,330)	(11,946)
Loss on disposal of property, plant and equipment	(556)	(330)	(5,914)
Gain on sales of land	228	587	2,425
Gain on exchange of investment securities	40,434	—	430,103
Gain on sales of investments in securities (Note 6)	1,019	153	10,839
Loss on sales of fixed assets (Note 18)	(329)	—	(3,500)
Impairment loss on fixed assets (Note 13)	(40,836)	(1,557)	(434,379)
Loss on disaster (Note 19)	(270)	(1,166)	(2,872)
Litigation settlement (Note 20)	(489)	—	(5,202)
Contract termination costs	(159)	(1,346)	(1,691)
Loss on devaluation of investments in securities (Note 6)	(124)	(426)	(1,319)
Special retirement benefit expenses (Note 21)	(90)	—	(957)
Business structure improvement expenses (Note 22)	—	(844)	—
Other, net	(320)	(883)	(3,404)
	(542)	(5,508)	(5,766)
Income before income taxes and minority interests	58,307	41,495	620,221
Income taxes (Note 14):			
Current	764	20,339	8,126
Deferred	(9,295)	(5,947)	(98,872)
	(8,531)	14,392	(90,746)
Income before minority interests	66,838	27,103	710,967
Minority interests	(110)	(1)	(1,170)
Net income (Note 27)	¥ 66,728	¥ 27,102	$ 709,797

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2013	2012	2013
Income before minority interests	¥66,838	¥27,103	$710,967
Other comprehensive income (Note 23):			
Net unrealized holding gain on securities	8,326	3,996	88,565
Deferred (loss) gain on hedges	(309)	148	(3,287)
Translation adjustments	14,907	(1,766)	158,568
Other comprehensive income, net	22,924	2,378	243,846
Comprehensive income	¥89,762	¥29,481	$954,813
Comprehensive income attributable to:			
Shareholders of Shionogi & Co., Ltd.	¥89,286	¥29,518	$949,750
Minority interests	476	(37)	5,063

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Translation adjustments	Total accumulated other comprehensive loss	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2011	¥21,280	¥20,227	¥339,970	¥(19,744)	¥361,733	¥ 3,733	¥(289)	¥(37,081)	¥(33,637)	¥ —	¥ —	¥328,096
Net income	—	—	27,102	—	27,102	—	—	—	—	—	—	27,102
Dividends	—	—	(13,396)	—	(13,396)	—	—	—	—	—	—	(13,396)
Purchases of treasury stock	—	—	—	(2)	(2)	—	—	—	—	—	—	(2)
Other changes	—	—	—	—	—	3,996	148	(1,728)	2,416	59	2,923	5,398
Balance at April 1, 2012	21,280	20,227	353,676	(19,746)	375,437	7,729	(141)	(38,809)	(31,221)	59	2,923	347,198
Net income	—	—	66,728	—	66,728	—	—	—	—	—	—	66,728
Dividends	—	—	(13,395)	—	(13,395)	—	—	—	—	—	—	(13,395)
Disposal of treasury stock	—	—	—	8	8	—	—	—	—	—	—	8
Purchases of treasury stock	—	—	—	(4)	(4)	—	—	—	—	—	—	(4)
Other changes	—	—	(1)	—	(1)	8,326	(309)	14,542	22,559	64	476	23,098
Balance at March 31, 2013	¥21,280	¥20,227	¥407,008	¥(19,742)	¥428,773	¥16,055	¥(450)	¥(24,267)	¥ (8,662)	¥123	¥3,399	¥423,633

	Thousands of dollars (Note 5)											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Translation adjustments	Total accumulated other comprehensive loss	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2012	$226,359	$215,158	$3,762,110	$(210,041)	$3,993,586	$ 82,215	$(1,500)	$(412,818)	$(332,103)	$ 628	$31,092	$3,693,203
Net income	—	—	709,797	—	709,797	—	—	—	—	—	—	709,797
Dividends	—	—	(142,485)	—	(142,485)	—	—	—	—	—	—	(142,485)
Disposal of treasury stock	—	—	—	85	85	—	—	—	—	—	—	85
Purchases of treasury stock	—	—	—	(43)	(43)	—	—	—	—	—	—	(43)
Other changes	—	—	(10)	—	(10)	88,565	(3,287)	154,686	239,964	680	5,064	245,698
Balance at March 31, 2013	$226,359	$215,158	$4,329,412	$(209,999)	$4,560,930	$170,780	$(4,787)	$(258,132)	$ (92,139)	$1,308	$36,156	$4,506,255

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2013	2012	2013
Operating activities			
Income before income taxes and minority interests	¥ 58,307	¥ 41,495	$ 620,221
Adjustments for:			
Depreciation and amortization	11,912	16,282	126,710
Impairment loss on fixed assets	40,836	1,557	434,379
Amortization of goodwill, net	3,204	3,426	34,081
Loss (gain) on sales or disposal of property, plant and equipment	656	(263)	6,978
Gain on sales of investments in securities	(1,019)	(153)	(10,839)
Loss on devaluation of investment in securities	124	426	1,319
Gain on exchange of investment securities	(40,434)	—	(430,103)
Decrease in provision for loss on disaster	—	(1,492)	—
(Decrease) increase in accrued retirement benefits for employees	(2,261)	741	(24,051)
Interest and dividend income	(2,073)	(1,634)	(22,051)
Interest expense	1,123	1,330	11,946
Other	1,935	2,600	20,583
Changes in operating assets and liabilities:			
Notes and accounts receivable	(1,705)	6,286	(18,136)
Inventories	1,233	(1,296)	13,116
Other current assets	1,395	8,914	14,839
Notes and accounts payable	1,965	(4,954)	20,902
Accrued expenses	7,986	8,854	84,948
Other current liabilities	(5,177)	(4,931)	(55,068)
Subtotal	78,007	77,188	829,774
Interest and dividends received	2,072	1,654	22,040
Interest paid	(1,077)	(1,230)	(11,456)
Income taxes paid	(19,726)	(22,888)	(209,829)
Net cash provided by operating activities	59,276	54,724	630,529

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2013	2012	2013
Investing activities			
Increase in short-term investments	¥ (5,159)	¥ (4,662)	$ (54,877)
Proceeds from sales and redemption of short-term investments	9,451	7,962	100,532
Increase in investments in securities	(4,275)	(4,061)	(45,474)
Proceeds from sales and redemption of investments in securities	3,828	4,178	40,719
Purchases of property, plant and equipment	(12,769)	(18,313)	(135,826)
Purchases of intangible assets	(8,516)	(10,927)	(90,586)
Increase in investment in an affiliate	(2,751)	(3,578)	(29,263)
Acquisition of investments in subsidiaries resulting in change in scope of consolidation	—	(12,639)	—
Other	231	3,750	2,457
Net cash used in investing activities	(19,960)	(38,290)	(212,318)
Financing activities			
Increase in short-term bank loans, net	7,500	—	79,779
Proceeds from long-term debt	26	—	277
Repayment and redemption of long-term debt	(31,500)	(14,000)	(335,071)
Purchases of treasury stock	(4)	(3)	(43)
Cash dividends paid	(13,378)	(13,376)	(142,304)
Other	(331)	(370)	(3,521)
Net cash used in financing activities	(37,687)	(27,749)	(400,883)
Effect of exchange rate changes on cash and cash equivalents	1,226	(689)	13,041
Net increase (decrease) in cash and cash equivalents	2,855	(12,004)	30,369
Cash and cash equivalents at beginning of year	98,688	110,692	1,049,761
Cash and cash equivalents at end of year	¥101,543	¥ 98,688	$1,080,130

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Preparation

The accompanying consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2012 to the 2013 presentation. Such reclassifications had no effect on consolidated net income or net assets.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and all companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. The Company has applied the equity method to its investments in three affiliates for the year ended March 31, 2013.

Investments in affiliates not accounted for by the equity method are carried at cost.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The fiscal year end of seventeen overseas consolidated subsidiaries is December 31, which is different from that of the Company. These subsidiaries are consolidated by using the financial statements as of and for the year ended December 31. The fiscal year end of one overseas consolidated subsidiary is June 30. In the year ended March 31, 2013, for consolidation purposes, financial statements for this subsidiary are prepared as of and for the six-month period ended December 31, 2012. As a result, adjustments have been made for any significant transactions taking place during the period from January 1 to March 31.

During the fiscal year ended March 31, 2013, the fiscal year-end date of Taiwan Shionogi & Co., Ltd. has been changed from December 31 to March 31. As a result of this change, the financial statements of Taiwan Shionogi & Co., Ltd. for the fiscal year ended March 31, 2013 cover the 15 months from January 1, 2012 to March 31, 2013, which are consolidated into the financial results for the fiscal year ended March 31, 2013. For the period from January 1 to March 31, 2012, net sales, operating income, ordinary income and income before income taxes of Taiwan Shionogi & Co., Ltd. after eliminating intercompany transactions amounted to ¥399 million ($4,244 thousand), ¥150 million ($1,596 thousand), ¥154 million ($1,638 thousand) and ¥154 million ($1,638 thousand), respectively.

In addition, C&O and its subsidiaries, a total of 10 companies, changed their fiscal year-end date from June 30 to December 31. However, this change had no effect on consolidated financial results.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

Assets and liabilities of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses of the overseas consolidated subsidiaries are translated into yen at the average exchange rates. The components of net assets excluding minority interests are translated at their historical exchange rates. Adjustments resulting from translating the foreign currency financial statements are not included in the determination of net income and are reported as "Translation adjustments" in accumulated other comprehensible income (loss) in the consolidated balance sheet.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(d) Short-term investments and investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost determined by the moving average method. Investments in investment partnerships are stated at the amount of net assets attributable to the ownership percentage of the Company.

(e) Derivatives

Derivatives are carried at fair value.

(f) Inventories

Inventories are principally stated at lower of cost, determined by the average method, or net selling value.

(g) Property, plant and equipment (other than leased assets)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is calculated by the straight-line method over the estimated useful lives of the respective assets.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	2 to 60 years
Machinery, equipment and vehicles	2 to 17 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(h) Leases

Finance lease transactions that do not transfer ownership are depreciated to a nil residual value over the period of the lease contract using the straight-line method.

The finance lease transactions entered into on or before March 31, 2008 that do not transfer ownership continue to be accounted for as operating leases.

(i) Goodwill

Goodwill is amortized over 20 years by the straight-line method.

(j) Research and development expenses and computer software

Research and development expenses are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income as incurred unless these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(k) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period.

(l) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(m) Allowance for employees' bonuses

Allowance for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year.

(n) Retirement benefits

The Company has a defined benefit pension plan known as a "cash balance plan," which allows pension benefits to fluctuate in accordance with market interest rates, and also has a lump-sum payment plan and a defined contribution pension plan. Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In addition, certain consolidated subsidiaries have defined contribution pension plans. In certain cases, the Group may also pay special retirement benefits that are not subject to any actuarial calculations.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the year end.

Prior service cost is amortized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized each year following the year in which the gain or loss is recognized, principally by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

(o) Provision for sales returns

The Company provides a reserve for sales returns at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on a product sales margin and historical sales return ratio. Certain consolidated subsidiaries provide a reserve for sales returns at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on total product sales and historical sales return ratio.

(p) Hedge accounting

The Company utilizes derivative transactions for mitigating the fluctuation risks of foreign currency assets, liabilities and forecast transactions and interest rates of loans. Hedging instruments are forward foreign currency exchange contracts, currency options and interest rate swap agreements. Hedged items are foreign currency assets, liabilities, forecast transactions and interest rates on loans from financial institutions.

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (special accounting treatment).

Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method, which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

The Company evaluates effectiveness of its hedging activities as compared with the movements of cash flows of hedging instruments and the corresponding movement of cash flows of hedged items. However, with regard to the forward foreign exchange contracts accounted for by the allocation method and the interest-rate swaps accounted for by the special accounting treatment, the evaluation of effectiveness is omitted.

(q) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for the period do not reflect such distributions. (Refer to Note 31.)

3. Change in Accounting Policies

(Change in Depreciation Method)

The Shionogi Group has changed its method of depreciation for property, plant and equipment to the straight-line method effective the year ended March 31, 2013 from the declining balance method mainly applied in the past.

Under the Third Medium-Term Business Plan from fiscal 2010, the Shionogi Group is implementing a fundamental strategy to achieve steady growth by transitioning from the former organization mainly corresponding to products that experienced rapid growth soon after launch to a new one focusing on eight strategic products that are expected to achieve stable and long-term earnings. In addition, the Shionogi Group is pursuing fundamental strategy to establish a greater presence in North America, Europe and Asia aiming at globalization of new drug development.

For the purpose of expanding sales of the eight strategic products mentioned above, the Shionogi Group has completed consolidating and strengthening its manufacturing facilities, such as constructing a plant for solid preparations, as well as strengthening tablet and granulation facilities. In addition, Shionogi Group expects the sales of the eight strategic drugs, which, for the first time, accounted for more than 50% of net sales for the year ended March 31, 2013, to account for a higher percentage in the future. In addition, a consolidated subsidiary established in the United Kingdom, Shionogi Ltd., began operations during the year ended March 31, 2013, which resulted in the completion of establishing a sales structure for the Shionogi Group in North America, Europe and Asia. As a result, the Shionogi Group reviewed its method of depreciation for property, plant and equipment and changed to the straight-line method, for the following reasons, to reflect substance of Shionogi Group's operations appropriately:

1. The Shionogi Group formerly had focused on products that experienced rapid growth soon after launch, which enabled comparatively faster cost recovery of facility investment. With the transition to a focus on eight strategic products, which are expected to generate long-term earnings, facility utilization was also expected to be more consistent and stable.

2. Overseas subsidiaries have principally applied the straight-line method for property plant and equipment. The Shionogi Group therefore was required to unify its accounting policies with the application of the straight-line method to effectively and efficiently allocate resources among its unified network bases in Japan, North America, Europe and Asia, and to contribute to the construction, maintenance and operation of its global research and development, production and sales organization.

The effect of this change was to increase gross profit by ¥540 million ($5,744 thousand), operating income by ¥3,255 million ($34,624 thousand), and ordinary income and income before income taxes and minority interests by ¥3,424 million ($36,422 thousand), respectively, for the year ended March 31, 2013 from the corresponding amounts which would have been recorded under the previous method.

4. Accounting Standards Issued but Not Yet Effective

On May 17, 2012, the Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replace the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

These standards require that an entity recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or a liability in the consolidated balance sheet and actuarial gains or losses and prior service cost not recognized as part of pension expense are recognized as part of other comprehensive income.

Those amounts recognized in accumulated other comprehensive income in prior periods that are recognized in the consolidated statement of income in the current period as components of pension benefit expense are treated as reclassification adjustments.

The retirement benefit obligation can be attributed to each period by the benefit formula basis or by the straight-line method, and the calculation method for the discount rate shall be changed.

This accounting standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. However, the amendment of the calculation method of the retirement benefit obligation and service costs will be applied effective April 1, 2014.

The Company is currently evaluating the effect that these modifications will have on its consolidated results of operations and financial position.

5. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥94.01 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2013. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

6. Short-Term Investments and Investments in Securities

(1) The information on held-to-maturity debt securities at March 31, 2013 and 2012 has been omitted due to its immateriality.

(2) Marketable securities classified as other securities at March 31, 2013 and 2012 were as follows:

	Millions of yen			
	2013			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	**¥ 78,322**	**¥23,729**	**¥(341)**	**¥101,710**
Government bonds, municipal bonds, etc.	**14,853**	**877**	**(2)**	**15,728**
Other securities	**87,435**	**617**	**—**	**88,052**
	¥180,610	**¥25,223**	**¥(343)**	**¥205,490**

	Millions of yen			
	2012			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	¥28,260	¥11,759	¥(1,673)	¥38,346
Government bonds, municipal bonds, etc.	14,850	425	—	15,275
Other securities	5,051	515	—	5,566
	¥48,161	¥12,699	¥(1,673)	¥59,187

	Thousands of U.S. dollars			
	2013			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	**$ 833,124**	**$252,409**	**$(3,627)**	**$1,081,906**
Government bonds, municipal bonds, etc.	**157,994**	**9,329**	**(22)**	**167,301**
Other securities	**930,061**	**6,563**	**—**	**936,624**
	$1,921,179	**$268,301**	**$(3,649)**	**$2,185,831**

(3) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2013 and 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Proceeds from sales	**¥3,843**	¥4,179	**$40,879**
Gross realized gain	**1,019**	153	**10,839**
Gross realized loss	**—**	—	**—**

(4) Loss on devaluation of investments in securities

Loss on devaluation of investments in securities is recorded for securities whose fair value has declined by 30% or more if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers and other factors.

The Company recognized losses on devaluation of investments in securities of ¥124 million ($1,319 thousand) and ¥426 million for the years ended March 31, 2013 and 2012, respectively.

7. Inventories

Inventories at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise	**¥ 5,076**	¥ 4,230	**$ 53,994**
Finished goods	**16,108**	14,871	**171,344**
Semi-finished goods and work in process	**19,372**	19,601	**206,063**
Raw materials and supplies	**8,772**	11,419	**93,309**
	¥49,328	¥50,121	**$524,710**

8. Short-Term Bank Loans and Long-Term Debt

The annual average interest rate applicable to short-term bank loans at March 31, 2013 was 1.7%.

Long-term debt at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unsecured loans from banks and financial institutions due through 2019 with an average interest rate of 2.0%	**¥ 41,528**	¥ 63,000	**$ 441,740**
Unsecured bonds due in 2012 with an average interest rate of 0.8%	**—**	10,000	**—**
Unsecured bonds due in 2014 with an average interest rate of 1.1%	**20,000**	20,000	**212,744**
	61,528	93,000	**654,484**
Less current portion	**(31,500)**	(24,000)	**(335,071)**
	¥ 30,028	¥ 69,000	**$ 319,413**

Unsecured loans included loans without interest in the amount of ¥28 million ($298 thousand).

The aggregate annual maturities of long-term debt subsequent to March 31, 2013 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	**¥31,500**	**$335,071**
2015	**20,000**	**212,743**
2016	**28**	**298**
2019 and thereafter	**10,000**	**106,372**
	¥61,528	**$654,484**

9. Pledged Assets

Assets pledged as collateral at March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Cash and cash equivalents	**¥7**	**$74**

The corresponding liabilities secured by such collateral at March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Deposits received from employees (included in "other current liabilities")	¥7	$74

10. Contingent Liabilities

The Company was contingently liable for the guarantee of employees' housing loans of ¥10 million ($106 thousand) at March 31, 2013.

11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2013 and 2012 amounted to ¥5,388 million ($57,313 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

In accordance with the Law, a stock option plan for two directors and eleven corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 27, 2012 ("the 2012 plan"). Under the terms of this plan, 79,100 shares of common stock were granted and vested immediately. The options became exercisable on July 13, 2012 and are scheduled to expire on July 12, 2042. Stock option expenses of ¥72 million ($766 thousand) were included in selling, general and administrative expenses for the year ended March 31, 2013.

In the same way, a stock option plan for three directors and nine corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 24, 2011 ("the 2011 plan"). Under the terms of this plan, 52,200 shares of common stock were granted and vested immediately. The options became exercisable on July 12, 2011 and are scheduled to expire on July 11, 2041. Stock option expenses of ¥52 million were included in selling, general and administrative expenses for the year ended March 31, 2012.

Movement in the number of stock options after vesting for the 2011 and 2012 plans and the 2012 plan of the Company during the year ended March 31, 2013 is summarized as follows:

	2011 plan	2012 plan
	Number of options	Number of options
Outstanding as of April 1, 2012	52,200	—
Vested	—	79,100
Exercised	7,200	—
Forfeited	—	—
Outstanding as of March 31, 2013	45,000	79,100

The unit price of the stock options under the 2011 and 2012 plans of the Company during the year ended March 31, 2013 is summarized as follow:

	2011 plan		2012 plan	
	Yen	U.S. dollars	Yen	U.S. dollars
Unit price of stock options:				
Exercise price as of March 31, 2013	¥ 1	$ 0.01	¥ 1	$0.01
Average market price per share upon exercise	1,034	11.00	—	—
Estimated fair value of unit price at grant date	1,129	12.01	916	9.74

Valuation method for estimating fair value was the Black-Sholes model. The major assumptions used were as follows:

Major assumptions	Note	2012 plan
Estimated volatility	(a)	31.43%
Estimated remaining period	(b)	6.6 years
Estimated dividend	(c)	¥40 per share
Risk-free rate	(d)	0.344%

(a) Estimated volatility was computed by the actual stock price of the Company during the period from December 2005 to July 2012.
(b) Estimated remaining period was the average period of stock option holders until retirement in accordance with internal regulations.
(c) The estimated dividend was calculated at the actual amount for the year ended March 31, 2012.
(d) The risk-free rate was based on the average rate of compound interest yield bonds, for which redemption dates were within three months of the estimated remaining period in the statistics data for long-term interest-bearing government bonds published by the Japan Securities Dealers Association.

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects only the actual number of forfeited stock options.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2013 and 2012 are summarized as follows:

	Number of shares			
	2013			
	April 1, 2012	Increase	Decrease	March 31, 2013
Issued shares of common stock	**351,136,165**	**—**	**—**	**351,136,165**
Treasury stock	**16,240,245**	**2,958**	**7,200**	**16,236,003**

	Number of shares			
	2012			
	April 1, 2011	Increase	Decrease	March 31, 2012
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	16,237,775	2,470	—	16,240,245

The Company purchased 2,958 shares and 2,470 shares of common stock from shareholders who had fractional shares of less than one unit during the years ended March 31, 2013 and 2012, respectively.

The Company disposed 7,200 shares of common stock by the exercise of subscription rights to shares during the year ended March 31, 2013.

12. Financial Instruments

(1) Overview

(a) Policies for financial instruments

The Company obtains necessary funding principally by bank borrowings and bond issuance under the business plan for its main business, the production and sales of pharmaceuticals. Temporary surplus funds are managed by low-risk financial assets. Derivatives are utilized for mitigating risks described in the later part of this note and not utilized for speculative purpose.

(b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivable, are exposed to the credit risk of customers. Trade receivables denominated in foreign currencies are exposed to the fluctuation risk of foreign currencies. Short-term investments and investments in securities are exposed to fluctuation risk of market price.

Trade payables, notes and accounts payable, are due within almost one year. Certain trade payables denominated in foreign currencies for the import of raw materials are exposed to the fluctuation risk of foreign currencies. Loans and bonds are utilized principally for necessary financing under the business plan and those maturity dates are due in six years, at the longest, subsequent to March 31, 2013.

Derivative transactions are made for hedging foreign currency fluctuation risk of trade receivables, trade payables and forecasted transactions denominated in foreign currencies by using forward foreign exchange contracts and currency option contracts and for hedging interest rate fluctuation risk of loans by using interest rate swap agreements. Refer to "Hedge accounting" in Note 2 "Summary of Significant Accounting Policies" for information on hedge accounting such as hedging instruments, hedged items, hedging policy and so forth.

(c) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the procedures determined in the Company, the Accounting and Finance Department and related sections of the Company periodically monitor the conditions of major customers, manage collection due dates and balances of each customer and try to identify credit risk of customers with worsening financial conditions at the early stage and mitigate the risk. Consolidated subsidiaries perform the similar credit management in accordance with the internal rules of the Company.

The Company enters into derivative transactions with financial institutions with high credit ratings to mitigate the counterparty risk.

The maximum amount of credit risk at balance sheet date is represented as the carrying value of financial assets exposed to the credit risk.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

The Company utilizes forward foreign currency exchange contracts and currency option contracts for hedging to mitigate fluctuation risk identified by each foreign currency of trade receivables payables and forecasted transactions. The Company also utilizes interest rate swap agreements to control the fluctuation risk of interest rates on loans.

The Company continuously reviews securities holdings by monitoring periodically the market and financial condition of the securities' issuers (companies with business relationships with the Group) and also reviews holding conditions for securities other than held-to-maturities by evaluating the relationship of those companies.

The Accounting and Finance Department enters into derivative transactions under the rules determined in the Company and utilizes forward foreign exchange contracts, currency option contracts and interest-rate swap agreements within the normal range of transactions. The Accounting and Finance Department manages information on transactions by reporting periodically to the Board of Directors' meetings. Consolidated subsidiaries do not utilize derivative transactions.

(iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

The Company manages liquidity risk with the Accounting and Finance Department preparing and updating cash flow plans on a timely basis and keeping necessary funds based on the reports prepared by each department.

(d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 28 do not necessarily indicate the market risk of the derivative transactions.

(e) Concentration of credit risk

At March 31, 2013 and 2012, 59 percent and 56 percent, respectively, of outstanding trade receivables represented receivables due from a specific and large-scale customer.

(2) Fair value of financial instruments

Carrying values of financial instruments on the consolidated balance sheet as of March 31, 2013 and 2012, their fair values and their differences are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2013		
	Carrying value	Fair value	Difference
Cash and cash equivalents	**¥101,543**	**¥101,543**	**¥ —**
Notes and accounts receivable—trade and affiliates	**67,909**	**67,902**	**(7)**
Short-term investments and investments in securities and affiliates	**70,776**	**70,776**	**—**
Total assets	**¥240,228**	**¥240,221**	**¥ (7)**
Notes and accounts payable:			
Affiliates	**¥ 1,434**	**¥ 1,434**	**¥ —**
Trade	**9,301**	**9,301**	**—**
Short-term bank loans	**7,500**	**7,500**	**—**
Current portion of long-term debt:			
Current portion of long-term loans	**31,500**	**31,698**	**198**
Accrued income taxes	**1,079**	**1,079**	**—**
Long-term debt:			
Bonds payable	**20,000**	**20,211**	**211**
Long-term loans	**10,028**	**10,730**	**702**
Total liabilities	**¥ 80,842**	**¥ 81,953**	**¥1,111**
Derivative transactions (*)	**¥ (726)**	**¥ (726)**	**¥ —**

	Millions of yen		
	2012		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥ 98,688	¥ 98,688	¥ —
Notes and accounts receivable—trade and affiliates	65,568	65,548	(20)
Short-term investments and investments in securities and affiliates	60,389	60,389	—
Total assets	¥224,645	¥224,625	¥ (20)
Notes and accounts payable:			
Affiliates	¥ 1,231	¥ 1,231	¥ —
Trade	7,382	7,382	—
Current portion of long-term debt:			
Current portion of long-term loans	14,000	14,005	5
Current portion of long-term bonds	10,000	10,009	9
Accrued income taxes	9,891	9,891	—
Long-term debt:			
Bonds payable	20,000	20,360	360
Long-term loans	49,000	49,866	866
Total liabilities	¥111,504	¥112,744	¥1,240
Derivative transactions (*)	¥ (228)	¥ (228)	¥ —

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Difference
Cash and cash equivalents	**$1,080,130**	**$1,080,130**	**$ —**
Notes and accounts receivable—trade and affiliates	**722,359**	**722,285**	**(74)**
Short-term investments and investments in securities and affiliates	**752,856**	**752,856**	**—**
Total assets	**$2,555,345**	**$2,555,271**	**$ (74)**
Notes and accounts payable:			
Affiliates	**$ 15,254**	**$ 15,254**	**$ —**
Trade	**98,936**	**98,936**	**—**
Short-term bank loans	**79,779**	**79,779**	**—**
Current portion of long-term debt:			
Current portion of long-term loans	**335,071**	**337,177**	**2,106**
Accrued income taxes	**11,478**	**11,478**	**—**
Long-term debt:			
Bonds payable	**212,743**	**214,987**	**2,244**
Long-term loans	**106,670**	**114,137**	**7,467**
Total liabilities	**$ 859,931**	**$ 871,748**	**$11,817**
Derivative transactions (*)	**$ (7,723)**	**$ (7,723)**	**$ —**

(*) Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

a) Methods to determine the fair value of financial instruments, short-term investments and investments in securities and derivative transactions

Assets

· Cash and cash equivalents
Since these items are settled in a short time period, their carrying value approximates fair value.

· Notes and accounts receivable—trade and affiliates
The fair value of accounts receivable that require a longer period for collection is determined based on the present value by each group of receivables classified by collection term computed by discount rates in consideration of the credit risk corresponding to the collection term. Since other accounts receivable are settled in a short time period, their carrying value approximates fair value.

· Short-term investments and investments in securities
With regard to short-term investments and investments in securities, fair value of debt securities is determined by quoted market price or price offered by financial institutions and that of equity securities is determined by quoted market price. Refer to Note 6 "Short-Term Investments and Investments in Securities" for the information of securities by holding purpose.

Liabilities

· Notes and accounts payable, short-term bank loans and accrued income taxes
Since these items are settled in a short time period, their carrying value approximates fair value.

· Current portion of long-term loans and long-term loans
The fair value of the current portion of long-term loans and long-term loans is based on the present value of the total of principal and interest discounted by the estimated interest rates to be applied if similar new loans are made. Long-term loans with floating interest are hedged by interest rate swap agreements and accounted for as loans with fixed interest rates. The fair value of these long-term loans is based on the present value of the total of principal, the interest and cash flows of interest rate swap agreements discounted by the reasonably estimated interest rates to be applied if similar new loans are made.

· Bonds payable
The fair value of bonds payable is based on quoted market prices.

Derivative transactions

Please refer to Note 28 "Derivative Transactions."

b) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unlisted equity securities	**¥56,318**	¥9,476	**$599,064**

Because no quoted market price is available and it is extremely difficult to determine the fair value, these financial instruments are not included in the preceding table.

c) The redemption schedule for monetary assets and marketable securities with maturities at March 31, 2013 and 2012.

	Millions of yen			
	2013			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**¥101,541**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable—trade and affiliates	**67,455**	**454**	**—**	**—**
Short-term investments and investments in securities:				
Government and municipal bonds	**2,000**	**—**	**12,000**	**—**
Other bonds	**20**	**—**	**—**	**—**
Other securities with maturities	**2,432**	**—**	**846**	**—**
Total	**¥173,448**	**¥454**	**¥12,846**	**¥ —**

	Millions of yen			
	2012			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 98,688	¥ —	¥ —	¥ —
Notes and accounts receivable—trade and affiliates	64,154	1,414	—	—
Short-term investments and investments in securities:				
Government and municipal bonds	4,000	2,000	8,000	—
Other bonds	20	—	—	—
Other securities with maturities	2,327	—	739	—
Total	¥169,189	¥3,414	¥8,739	¥ —

	Thousands of U.S. dollars			
	2013			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**$1,080,108**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable—trade and affiliates	**717,530**	**4,829**	**—**	**—**
Short-term investments and investments in securities:				
Government and municipal bonds	**21,274**	**—**	**127,646**	**—**
Other bonds	**213**	**—**	**—**	**—**
Other securities with maturities	**25,869**	**—**	**8,999**	**—**
Total	**$1,844,994**	**$4,829**	**$136,645**	**$ —**

13. Impairment Loss on Fixed Assets

Fixed assets for business use are grouped based on their corresponding management segment, such as product lines. Assets available for rent and idle assets are grouped individually.

Impairment loss on fixed assets for the year ended March 31, 2013 is summarized as follows:

Location	Use	Classification	Millions of yen 2013	Thousands of U.S. dollars 2013
United States of America	Business for ethical pharmaceutical products	Goodwill	**¥26,372**	**$280,523**
United States of America	Exclusive marketing rights for ethical pharmaceutical products	Marketing rights	**14,464**	**153,856**

Upon concluding an agreement concerning anti-HIV drugs with ViiV Healthcare Ltd. ("ViiV"), located in the United Kingdom, the Company considered reallocating management resources of its U.S. operations, and it found an indication of impairment of marketing rights and others associated with products that Shionogi Inc., a wholly-owned subsidiary in United States of America, sells. Shionogi also found an indication of impairment of goodwill due to a change in grouping from the general prescription drug business to U.S. operations. As a result, the Shionogi Group recognized impairment loss equivalent to the difference between the book value and recoverable value of the impaired assets.

Impairment loss on fixed assets for the year ended March 31, 2012 is summarized as follows:

Location	Use	Classification	Millions of yen 2012
United States of America	In-process research and development expenses for compounds developing pharmaceutical	Other assets	¥1,557

The Company concluded that no future value in use existed for certain pharmaceutical compounds, which had been recorded as in-process research and development expenses included in other assets. As a result, the Group reduced the related carrying value of in-process research and development expenses included in other assets to a recoverable value of zero and recognized impairment loss.

14. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 38.0% and 40.6% for the years ended March 31, 2013 and 2012.

The overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates for the years ended March 31, 2013 and 2012 differ from the above statutory tax rates for the following reasons:

	2013	2012
Statutory tax rates	**38.0%**	40.6%
Expenses not deductible for income tax purposes	**0.8**	0.5
Dividends not taxable for income tax purposes	**(0.7)**	(0.5)
Amortization of goodwill	**2.1**	2.8
Tax credits	**0.1**	(12.5)
Inhabitants' per capita taxes	**0.2**	0.3
Difference in statutory tax rates of overseas subsidiaries	**3.2**	2.7
Consolidation adjustment for the sales of a consolidated subsidiary	**(1.1)**	1.2
Decrease in deferred tax assets due to change in statutory tax rates	**(0.1)**	(0.5)
Increase in valuation allowance	**41.0**	—
Loss on valuation of investments in affiliates	**(71.8)**	—
Effect of organization restructuring	**(26.6)**	—
Other	**0.3**	0.1
Effective tax rates	**(14.6)%**	34.7%

The tax effects of temporary differences at March 31, 2013 and 2012 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Deferred tax assets:			
Tax loss carry forwards	**¥ 18,921**	¥ 4,875	**$ 201,266**
Research and development costs	**14,783**	7,191	**157,249**
Accrued expenses and other current liabilities	**3,836**	2,821	**40,804**
Loss on revaluation of investments in securities	**2,904**	557	**30,890**
Allowance for employees' bonuses	**2,685**	2,563	**28,561**
Provision for sales returns	**2,438**	2,034	**25,934**
Retirement benefits	**193**	304	**2,053**
Accrued enterprise taxes	**46**	882	**489**
Other	**4,647**	4,806	**49,431**
Valuation allowance	**(14,463)**	(405)	**(153,845)**
Total deferred tax assets	**35,990**	25,628	**382,832**
Deferred tax liabilities:			
Unrealized gain on other securities	**(8,876)**	(4,269)	**(94,416)**
Prepaid pension costs	**(5,537)**	(4,731)	**(58,898)**
Investments in securities	**(1,492)**	(2,263)	**(15,871)**
Reserve for advanced depreciation of fixed assets	**(1,388)**	(1,423)	**(14,764)**
Other	**(4,688)**	(5,390)	**(49,867)**
Total deferred tax liabilities	**(21,981)**	(18,076)	**(233,816)**
Net deferred tax assets	**¥ 14,009**	¥ 7,552	**$ 149,016**

15. Retirement Benefits

The following table sets forth the retirement benefit obligation, plan assets and the funded status of the Group's defined benefit pension plans at March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Retirement benefit obligation at end of year	¥(86,671)	¥(82,912)	$(921,934)
Fair value of plan assets at end of year	85,763	78,629	912,275
Unfunded status	(908)	(4,283)	(9,659)
Unrecognized actuarial loss	18,460	21,487	196,362
Unrecognized prior service costs	(1,275)	(3,188)	(13,562)
Net retirement benefit obligation	16,277	14,016	173,141
Prepaid pension costs	25,272	22,809	268,822
Accrued retirement benefits for employees	¥ (8,995)	¥ (8,793)	$ (95,681)

The above table does not include special retirement benefit expenses to be paid. Please refer to Note 21 "Special Retirement Benefit Expenses."

The components of retirement benefit expenses for the years ended March 31, 2013 and 2012 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 1,964	¥ 1,919	$ 20,891
Interest cost	1,658	1,696	17,637
Expected return on plan assets	(2,040)	(2,140)	(21,700)
Amortization of actuarial loss	2,442	4,048	25,976
Amortization of prior service costs	(1,913)	(2,420)	(20,349)
Contributions to the defined contribution pension plan	1,113	896	11,839
Retirement benefit expenses	¥ 3,224	¥ 3,999	$ 34,294

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	1.2%	2.0%
Expected rate of return on plan assets	2.8%	2.8%

At the end of the fiscal year ended March 31, 2013, the Company and subsidiaries revised the discount rate of 2.0%, which was applied at the beginning of the fiscal year. As a result, the Company determined that a change in the discount rate would significantly affect the amount of the retirement benefit obligation, and therefore changed the discount rate to 1.2%.

16. Cost of Sales

Cost of sales included loss on devaluation of inventories of ¥1,692 million ($17,998 thousand) and ¥1,143 million for the years ended March 31, 2013 and 2012, respectively.

17. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2013 and 2012 amounted to ¥53,021 million ($563,993 thousand) and ¥53,599 million, respectively.

18. Loss on Sales of Fixed Assets

Loss on sales of fixed assets for the year ended March 31, 2013 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Building and structures	¥205	$2,181
Land	58	617
Furniture and fixtures	66	702
Total	¥329	$3,500

19. Loss on Disaster

Loss on disaster for the year ended March 31, 2013 represented the estimated amount not covered by insurance in connection with the disposal of inventory damaged by fire at a supplier for Shionogi Inc. in 2011.

The Company recorded loss on disaster in connection with the impact of the Great East Japan Earthquake for the year ended March 31, 2012.

20. Litigation Settlement

Litigation settlement principally represents the settlement that was reached between Shionogi Inc. and Lupin Ltd.

21. Special Retirement Benefit Expenses

This expense is attributable to the retirement benefit expenses incurred by Shionogi Inc.

22. Business Structure Improvement Expenses

Business structure improvement expenses represents costs related to the reorganization of Shionogi Inc.

23. Consolidated Statements of Comprehensive Income

The following table presents the analysis of other comprehensive income for the years ended March 31, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Net unrealized holding gain on securities:			
Amount arising during the year	**¥13,792**	¥ 5,542	**$146,708**
Reclassification adjustments for (gain) loss included in net income	**(860)**	177	**(9,148)**
Before tax effect	**12,932**	5,719	**137,560**
Tax effect	**(4,606)**	(1,723)	**(48,995)**
Total	**8,326**	3,996	**88,565**
Deferred (loss) gain on hedges:			
Amount arising during the year	**(218)**	527	**(2,319)**
Reclassification adjustments for gain included in net income	**(281)**	(269)	**(2,989)**
Before tax effect	**(499)**	258	**(5,308)**
Tax effect	**190**	(110)	**2,021**
Total	**(309)**	148	**(3,287)**
Translation adjustments:			
Amount arising during the year	**15,586**	(1,766)	**165,791**
Reclassification adjustments for gain included in net income	**(679)**	—	**(7,223)**
Before tax effect	**14,907**	—	**158,568**
Tax effect	**—**	—	**—**
Total	**14,907**	(1,766)	**158,568**
Other comprehensive income	**¥22,924**	¥ 2,378	**$243,846**

24. Investment and Rental Properties

The Group owns office buildings including land for lease mainly in Tokyo and other areas.

Rental income, net of related expenses relevant to these real estate properties, amounted to ¥1,101 million ($11,711 thousand) and ¥963 million for the years ended March 31, 2013 and 2012. The rental income is principally recorded under net sales and the rental expenses are principally recorded under cost of sales.

The carrying value in the consolidated balance sheet and corresponding fair value of those properties were as follows:

Millions of yen			
Carrying value			Fair value
April 1, 2012	**Net change**	**March 31, 2013**	**March 31, 2013**
¥5,392	**¥(446)**	**¥4,946**	**¥19,533**

Millions of yen			
Carrying value			Fair value
April 1, 2011	Net change	March 31, 2012	March 31, 2012
¥5,643	¥(251)	¥5,392	¥19,257

Thousands of U.S. dollars			
Carrying value			Fair value
April 1, 2012	**Net change**	**March 31, 2013**	**March 31, 2013**
$57,356	**$(4,744)**	**$52,612**	**$207,776**

Carrying value in the table above was presented as the amount of acquisition costs less accumulated depreciation and accumulated impairment loss.

Fair value at March 31, 2013 was primarily calculated based on real estate appraisal standards and, in some cases, the amounts adjusted using indices and other methods.

25. Related Party Transactions

Principal transactions between a subsidiary and a related party for the years ended March 31, 2013 and 2012 are summarized as follows:

Transaction with a director

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Shunjusha Co., Ltd.:			
Rent received—land and office building	**¥ 51**	¥ 51	**$ 542**
Rent expense—building	**166**	147	**1,766**
Management fee for leased property	**3**	3	**32**

Shunjusha Co., Ltd. is directly owned by a director and a relative of the director of the Company and is engaged in the real estate leasing business. The percentages of voting rights owned by these two people were 100% as of March 31, 2013. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥100 million ($1,064 thousand) and ¥701 million as of March 31, 2013 and 2012, respectively.

The prices for the above related party transactions were determined with reference to market value, transactions made in the same area and so on.

There were no outstanding balances in connection with related party transactions outlined above as of March 31, 2013 and 2012.

26. Supplementary Cash Flow Information

(1) Significant non-cash transaction

On October 31, 2012, the Company received shares of ViiV valued at ¥53,718 million ($571,407 thousand) through a contribution in kind involving the transfer of equity ownership in Shionogi-ViiV Healthcare L.P., which had been an equity-method affiliate.

(2) Summary of assets and liabilities of a former unconsolidated subsidiary that became newly consolidated subsidiary due to an acquisition of shares

On September 19, 2011, the Company acquired shares of C&O and initially consolidated the accounts of C&O and its consolidated subsidiaries as of December 31, 2011 and for the six-month period then ended. The assets and liabilities included in consolidation were summarized as follows:

	Millions of yen
	2012
Current assets	¥ 5,386
Non-current assets	5,634
Goodwill	8,196
Current liabilities	(1,461)
Non-current liabilities	(626)
Minority interests	(3,026)
Acquisition cost	14,103
Cash and cash equivalents of C&O	(1,336)
Accounts payable	(128)
Cash disbursement	¥12,639

27. Amounts per Share

Amounts per share as of and for the years ended March 31, 2013 and 2012 were as follows:

	Yen		U.S. dollars
	2013	2012	**2013**
Net income	**¥ 199.25**	¥ 80.93	**$ 2.12**
Diluted net income	**199.17**	80.91	**2.12**
Net assets	**1,254.44**	1,027.83	**13.34**
Cash dividends applicable to the year	**42.00**	40.00	**0.45**

Net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of common shares outstanding during the year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of basic net income per share and diluted net income per share for the years ended March 31, 2013 and 2012 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Information used in computation of basic net income per share:			
Net income	**¥66,728**	¥27,102	**$709,797**

	Thousands of shares	
	2013	2012
Weighted-average number of shares of common stock outstanding	**334,900**	334,897
Increase in common stock	**125**	52
(Share subscription rights)	**(125)**	(52)

The financial data used in the computation of net assets per share at March 31, 2013 and 2012 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Total net assets	**¥423,633**	¥347,198	**$4,506,255**
Amounts deducted from total net assets	**3,522**	2,982	**37,464**
(Amounts attributable to share subscription rights in total net assets)	**(123)**	(59)	**(1,308)**
(Amounts attributable to minority interests in total net assets)	**(3,399)**	(2,923)	**(36,156)**
Net assets used in the calculation of net assets per share	**¥420,111**	¥344,216	**$4,468,791**

	Thousands of shares	
	2013	2012
Number of shares used in the calculation of net assets per share	**334,900**	334,895

28. Derivative Transactions

1. Derivative transactions for which hedge accounting does not apply

Information on derivative transactions for which hedge accounting does not apply was omitted since all outstanding derivative positions qualified for hedge accounting.

2. Derivative transactions to which hedge accounting applies

(1) Currency-related transactions

Millions of yen

		2013		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	Fair value
Forward foreign currency exchange contracts Selling: USD	Forecasted transactions	**¥6,059**	**¥ —**	**¥(926)**
Forward foreign currency exchange contracts Buying: USD	Forecasted transactions	**¥6,059**	**¥ —**	**¥ 309**
Currency options Selling call options: USD	Forecasted transactions	**¥1,731**	**¥ —**	**¥(157)**
Currency options Buying put options: USD	Forecasted transactions	**¥1,731**	**¥ —**	**¥ 48**

Millions of yen

		2012		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	Fair value
Forward foreign currency exchange contracts Selling: USD	Forecasted transactions	¥22,996	¥5,749	¥(154)
Forward foreign currency exchange contracts Buying: USD	Forecasted transactions	¥ 1,643	¥ —	¥ (18)
Currency options Buying call options: USD	Forecasted transactions	¥21,354	¥ —	¥ 48
Currency options Selling put options: USD	Forecasted transactions	¥21,354	¥ —	¥ (89)
Currency options Selling call options: USD	Forecasted transactions	¥ 9,034	¥ —	¥ 20
Currency options Buying put options: USD	Forecasted transactions	¥ 9,034	¥ —	¥ (34)

Thousands of U.S. dollars

		2013		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	Fair value
Forward foreign currency exchange contracts Selling: USD	Forecasted transactions	**$64,451**	**$ —**	**$(9,850)**
Forward foreign currency exchange contracts Buying: USD	Forecasted transactions	**$64,451**	**$ —**	**$ 3,287**
Currency options Selling call options: USD	Forecasted transactions	**$18,413**	**$ —**	**$(1,670)**
Currency options Buying put options: USD	Forecasted transactions	**$18,413**	**$ —**	**$ 511**

Note: 1. Fair values are calculated based on the prices provided by counterparty financial institutions.
2. The currency option contracts are zero-cost options and no premium is received or paid.

(2) Interest rate-related transactions

Method of hedge accounting	Transaction	Principal hedged item	Millions of yen 2013 Contract value: Notional amount	Contract value: Portion of notional amount over one year	Fair value
Special accounting treatment	Interest rate swaps Pay: fixed/Receive: floating	Short-term bank loans and long-term debt	**¥25,000**	**¥25,000**	**(*)**

Method of hedge accounting	Transaction	Principal hedged item	Millions of yen 2012 Contract value: Notional amount	Contract value: Portion of notional amount over one year	Fair value
Special accounting treatment	Interest rate swaps Pay: fixed/Receive: floating	Long-term debt	¥25,000	¥25,000	(*)

Method of hedge accounting	Transaction	Principal hedged item	Thousands of U.S. dollars 2013 Contract value: Notional amount	Contract value: Portion of notional amount over one year	Fair value
Special accounting treatment	Interest rate swaps Pay: fixed/Receive: floating	Short-term bank loans and long-term debt	**$265,929**	**$265,929**	**(*)**

(*): Since interest rate swaps are accounted for by special accounting treatment (refer to Note 2(p)), their fair value is included in that of the short-term bank loans and the long-term debt disclosed in Note 12 "Financial Instruments."

29. Segment Information

1. Segment information for the years ended March 31, 2013 and 2012

The Group operates as single business segment related to prescription drugs involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. While analyses of sales by products and evaluation of performance by group companies is performed, decisions of business strategy and allocation of management resources, especially allocation of research and development expenses, are made on a Group-wide basis. Therefore, disclosure of segment information for the years ended March 31, 2013 and 2012 was omitted.

2. Related information

(1) Information on sales by product and service

As the amount of sales to third parties of only one type of product and service in a single segment accounted for more than 90% of net sales in the consolidated statement of income for the years ended March 31, 2013 and 2012, information on sales by product and service was omitted.

(2) Geographical information

(a) Net sales

	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Japan	**¥185,227**	¥184,085	**$1,970,291**
Europe	**64,730**	65,884	**688,544**
(United Kingdom)	**(63,027)**	(65,096)	**(670,429)**
North America	**22,960**	11,358	**244,229**
(United States of America)	**(22,957)**	(11,353)	**(244,197)**
Other	**9,987**	5,948	**106,233**
Total	**¥282,904**	¥267,275	**$3,009,297**

Net sales information above is classified by countries and or regions based on locations of customers. The main countries and regions included in each category are as follows:

(1) Europe: United Kingdom, Switzerland, Germany and other

(2) North America: United States of America and other

(3) Other: Asia and other

(b) Property, plant and equipment

As the balances of property, plant and equipment located in Japan accounted for more than 90% the balances of property, plant and equipment recognized in the consolidated balance sheet at March 31, 2013 and 2012, information of property, plant and equipment by geographical segment was omitted.

(3) Information by major customer

Customer name	Net sales: Millions of yen 2013	Net sales: Millions of yen 2012	Net sales: Thousands of U.S. dollars 2013	Related segment name
SUZUKEN CO., LTD.	**¥65,746**	¥68,230	**$699,351**	Pharmaceuticals
AstraZeneca UK Limited	**¥62,671**	¥64,463	**$666,642**	Pharmaceuticals
TOHO PHARMACEUTICAL CO., LTD.	**¥39,246**	¥36,915	**$417,466**	Pharmaceuticals

3. The Group is primarily engaged in research and development, merchandising, manufacturing and marketing of ethical pharmaceuticals and related businesses.

Accordingly, information regarding impairment losses on fixed assets, amount of amortization of goodwill and remaining balance and gain on negative goodwill by reportable segment at March 31, 2013 and 2012 and for the years then ended was omitted.

30. Business Combinations

Transfer of equity ownership in Shionogi-ViiV Healthcare L.P.

1. Summary of equity ownership transfer

(1) Name of equity ownership transferee

ViiV Healthcare Ltd.

(2) Details of the transferred equity ownership

The Shionogi Group transferred equity ownership (50 percent) in Shionogi-ViiV Healthcare L.P., which had been an equity-method affiliate ("JV"). The JV was established under a joint venture agreement between the Shionogi Group and ViiV in the United Kingdom.

(3) Reason for transfer of equity ownership

The Shionogi Group established the JV for the purpose of developing and marketing products. Development focused on the HIV integrase inhibitor dolutegravir (generic name; Shionogi code: S-349572; "DTG") and related products (including combinations of DTG and other integrase inhibitors S-265744 and S-247303).

However, combination treatments of various drugs are expected to be the mainstream for treating HIV. Therefore, the management of JV with DTG as a single asset would face difficulties. In addition, because the Shionogi Group acquired Sciele Pharma, Inc. (currently, Shionogi Inc.) in 2008, the JV is not necessary for establishing a base for sales in United States, which originally was expected when the JV was formed. Furthermore, Shionogi Inc. had marketing models that were not aligned with selling an HIV drug. Accordingly, changing circumstances over time led the Shionogi Group to initiate discussions on creating a new framework.

The acquisition of clinical trial data required for NDAs was completed in October 2012. With the submission of NDAs for DTG planned for 2012, the Shionogi Group concluded an agreement under which it transferred all of its equity in the JV to ViiV in exchange for a 10 percent state in ViiV. For information purposes, the NDAs for DTG were submitted in December 2012.

(4) Date of equity ownership transfer

October 31, 2012

(5) Outline of transaction including legal form

Contribution in-kind

ViiV received equity ownership in the JV. In return, the Shionogi Group received shares of ViiV.

2. Outline of accounting treatment

The transfer was accounted for as a transfer of assets in exchange for shares of the transferee (excluding business divestitures) based on the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

(1) Gain on exchange: ¥40,434 million ($430,103 thousand)

The Shionogi Group recognized the difference between the carrying value of its equity position in the JV and the market value (fair value) of a 10 percent equity position in ViiV as gain on exchange of investment securities.

(2) Carrying value of the transferred equity ownership:

Investment securities ¥7,278 million ($77,417 thousand)

3. Name of corresponding reportable segment

Prescription drugs

4. Income associated with the transfer of equity ownership reported on the consolidated statement of income for the fiscal year ended March 31, 2013 is as follows:

	Millions of yen	Thousands of U.S. dollars
Net sales	**¥ —**	**$ —**
Operating income	**3,515**	**37,390**
Ordinary income	**2,966**	**31,550**

31. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2013, was approved at a shareholders' meeting held on June 26, 2013:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥22.00 = U.S.$0.23 per share)	**¥7,368**	**$78,375**

Independent Auditor's Report

The Board of Directors
Shionogi & Co., Ltd.

We have audited the accompanying consolidated financial statements of Shionogi & Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

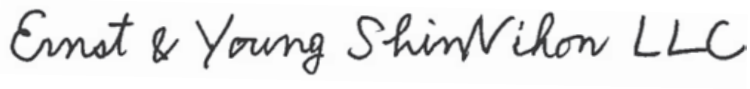
Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shionogi & Co., Ltd. and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.



June 26, 2013
Osaka, Japan

Shionogi Group Directory (As of August 19, 2013)

Major Business Locations

Head Office / Branch Offices

❶ **Head Office**
1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6202-2161 Fax: +81-6-6229-9596

❷ **Tokyo Branch Office**
Shionogi Shibuya Bldg., 17-5, Shibuya 2-chome,
Shibuya-ku, Tokyo 150-0002, Japan
Tel: +81-3-3406-8111

Nagoya Branch Office
SKY OASIS SAKAE, 9, Shinsakaemachi 2-chome,
Naka-ku, Nagoya, Aichi 460-0004, Japan
Tel: +81-52-957-8271

Fukuoka Branch Office
Shin KBC Bldg., 1-35, Nagahama 1-chome, Chuo-ku,
Fukuoka City, Fukuoka 810-0072, Japan
Tel: +81-92-737-7750

Sapporo Branch Office
Nissay Sapporo Bldg., 1-1, Kitasanjo-Nishi 4-chome,
Chuo-ku, Sapporo, Hokkaido 060-0003, Japan
Tel: +81-11-252-2290

Development Office

Global Development Office
12F, Hankyu Terminal Bldg., 1-4, Shibata 1-chome,
Kita-ku, Osaka 530-0012, Japan
Tel: +81-6-6485-5055

Laboratories

❸ **Shionogi Pharmaceutical Research Center**
1-1, Futaba-cho 3-chome, Toyonaka, Osaka 561-0825, Japan
Tel: +81-6-6331-8081

Shionogi Innovation Center for Drug Discovery
Kita 21, Nishi 11, Kita-ku, Sapporo, Hokkaido 001-0021, Japan
Tel: +81-11-700-4700

Plants

❹ **Settsu Plant**
5-1, Mishima 2-chome, Settsu, Osaka 566-0022, Japan
Tel: +81-6-6381-7341

❺ **Kanegasaki Plant**
7, Moriyama, Nishine, Kanegasaki-cho, Isawa-gun, Iwate 029-4503, Japan
Tel: +81-197-44-5121

Administration Offices

❻ **Kuise Site**
1-3, Kuise Terajima 2-chome, Amagasaki, Hyogo 660-0813, Japan
Tel: +81-6-6401-1221

Aburahi Facilities
1405, Gotanda, Koka-cho, Koka, Shiga 520-3423, Japan
Tel: +81-748-88-3281

Distribution Centers

Shionogi Osaka Distribution Center
Mitsubishi Logistics Corporation Ibaraki No. 3 distribution centers in.,
1-7, Fujinosato 2-chome, Ibaraki, Osaka, 567-0054, Japan
Tel: +81-72-640-4856

Shionogi Tokyo Distribution Center
Mitsubishi Logistics Corporation Misato No. 2 distribution centers in.,
117, Hikoe 2-chome, Misato, Saitama, 341-0058, Japan
Tel: +81-48-910-0158

Overseas Offices (Outside Japan)

Shionogi & Co., Ltd. Taipei Office
4F, No. 2, Sec. 2, Nanking East Road, Taipei 10457, Taiwan
Tel: +886-2-2551-6336

Shionogi & Co., Ltd. Shanghai Office
Far East International Plaza 3F, 318A, No. 319 Xian Xia Road,
Shanghai 200051, People's Republic of China
Tel: +86-21-6235-1311

Major Consolidated Subsidiaries

Shionogi Pharma Chemicals Co., Ltd.
224-20, Ebisuno Hiraishi, Kawauchi-cho, Tokushima 771-0132, Japan
Tel: +81-88-665-2312

Shionogi Analysis Center Co., Ltd.
5-1, Mishima 2-chome, Settsu, Osaka 566-0022, Japan
Tel: +81-6-6381-7271

Saishin Igaku Co., Ltd.
Shionogi Doshomachi Bldg. 7-6, Doshomachi 4-chome, Chuo-ku, Osaka
541-0045, Japan
Tel: +81-6-6222-2876

Shionogi Techno Advance Research Co., Ltd.
3-1-1, Futaba-cho, Toyonaka, Osaka 561-0825, Japan
Tel: +81-6-6331-8605

Shionogi General Service Co., Ltd.
Shionogi Doshomachi Bldg. 7-6, Doshomachi 4-chome, Chuo-ku, Osaka
541-0045, Japan
Tel: +81-6-6227-0815

❼ **Taiwan Shionogi & Co., Ltd.**
4F, No.2, Sec. 2, Nanking East Road, Taipei 10457, Taiwan
Tel +886-2-2551-6336

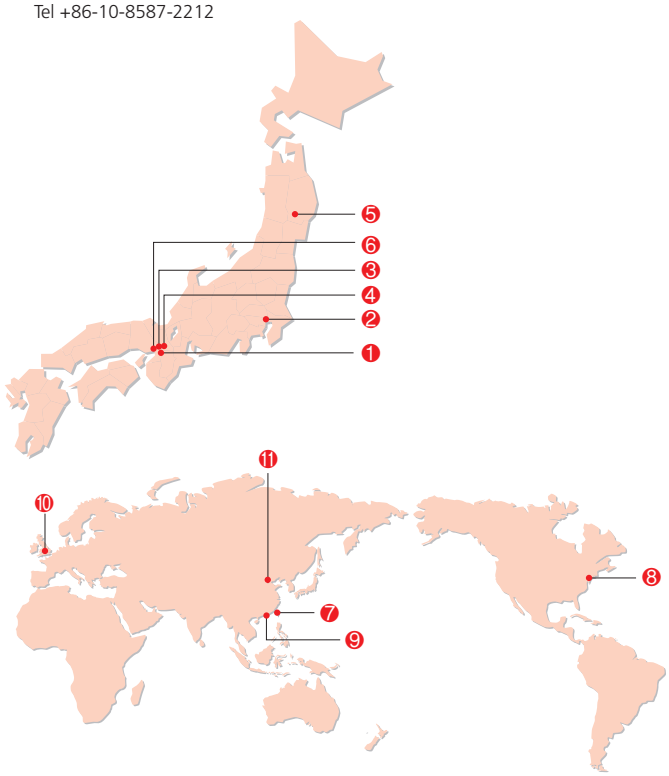
❽ **Shionogi Inc.**
300 Campus Drive, Florham Park, NJ 07932, U.S.A.
Tel +1-973-966-6900

Ezose Sciences Inc.
25 Riverside Drive, Pine Brook, NJ 07058, U.S.A.
TEL +1-862-926-1950

❾ **C&O Pharmaceutical Technology (Holdings) Limited**
911-12, Silvercord Tower 2, 30 Canton Road,
Tsim Sha Tsui, Kowloon, Hong Kong
Tel +852-2806-0109

❿ **Shionogi Limited**
3 Shortlands, Hammersmith, London W6 8DA, United Kingdom
Tel +44-20-3609-8660

⓫ **Beijing Shionogi Pharmaceutical Technology Limited**
Room 2443, Level 24, Tower 3, China Central Place 77 Jianguo Road,
Chaoyang District, Beijing, 100025
Tel +86-10-8587-2212



Corporate Information (As of March 31, 2013)

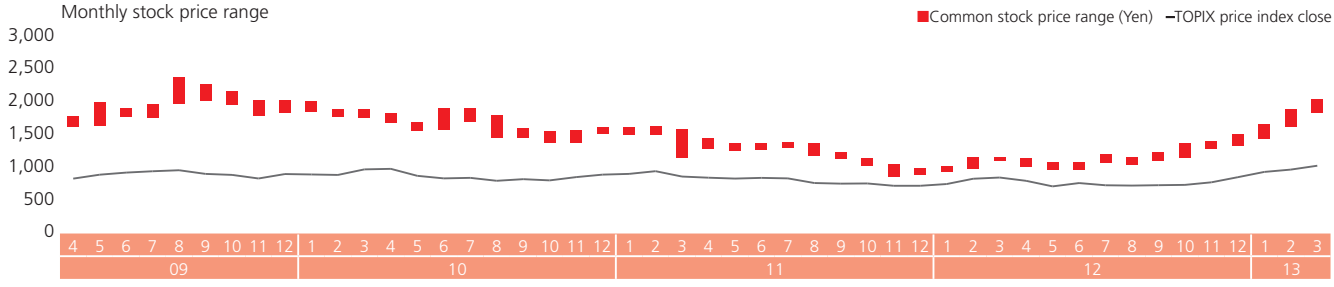
Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,280 million
Website	http://www.shionogi.co.jp/index_e.html
Head Office	1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan Tel: +81-6-6202-2161 Fax: +81-6-6229-9596
Number of Employees	Consolidated: 6,082
Category of Business	Marketing and manufacturing of drugs
Type of Business	Manufacturing and distribution of pharmaceuticals, diagnostic reagents and medical devices, etc.
Fiscal Year-End	March 31
Net Sales	Consolidated: ¥282,904 million (Year ended March 31, 2013)
Stock (Securities) Listings	Tokyo (#4507)
Common Stock	Authorized: 1,000,000,000 shares Issued: 351,136,165 shares Number of shareholders: 37,751
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department, 5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

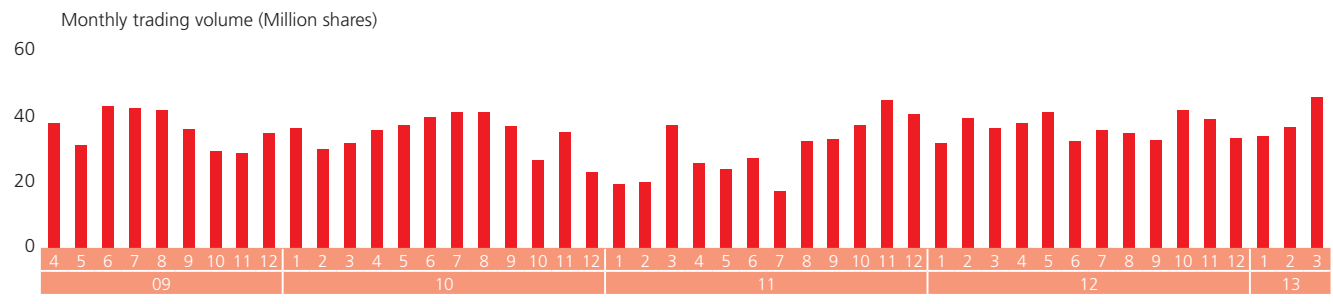
Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares
The Master Trust Bank of Japan, Ltd. (as a trustee)	23,593	7.04
Sumitomo Life Insurance Company	18,604	5.55
Japan Trustee Services Bank, Ltd. (as a trustee)	16,855	5.03
JP MORGAN CHASE BANK 385147	12,066	3.60
Nippon Life Insurance Company	10,511	3.13
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	9,743	2.90
Japan Trustee Services Bank, Ltd. (as a trustee for (i) Sumitomo Mitsui Trust Bank Ltd. and (ii) retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485	2.83
Sumitomo Mitsui Banking Corporation	6,564	1.96
STATE STREET BANK AND TRUST COMPANY 505225	4,600	1.37
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	4,349	1.29

(Notes) 1. The Company holds 16,236,003 shares of treasury stock. However, this shareholding is not included in the list of top-10 shareholders.
2. The percentage of total shares is calculated as a proportion of 334,900,162 shares, which is the total number of issued shares less treasury stock.

Stock Price Range and Trading Volume (Tokyo Stock Exchange)





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