SGS 2020

SHIONOGI GROWTH STRATEGY

The Company Policy of Shionogi

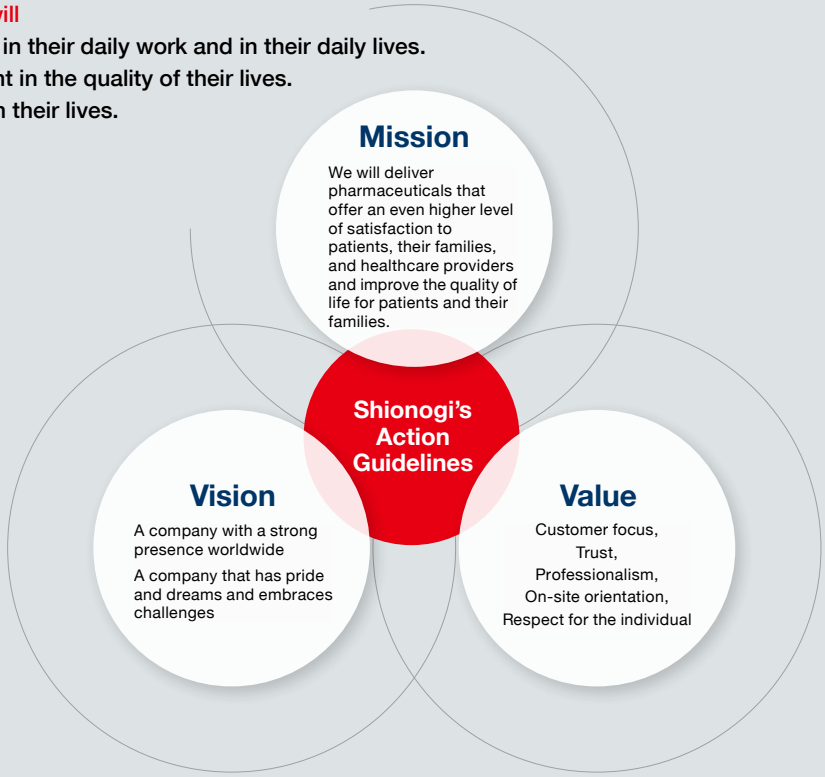
Shionogi's purpose
Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

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)



Editorial Policy
This Annual Report provides a wide range of information to give shareholders, investors and other stakeholders a deeper understanding of the Shionogi Group's corporate value. In addition to financial data, readers can access information about management strategy and the Group's environmental, social and corporate governance activities.

Period Under Review
Fiscal 2013 (April 1, 2013–March 31, 2014)
Certain activities continuing after fiscal 2013 are also included.

Scope and Organization
This Annual Report encompasses the activities of Shionogi & Co., Ltd. and 43 companies (37 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.

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Under the new Medium-Term Business Plan, our aim is to grow globally as a drug discovery-based pharmaceutical company.

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To Our Stakeholders

Shionogi is implementing a New Medium-Term Business Plan, Shionogi Growth Strategy 2020 (SGS2020). Under the plan, our aim is to grow globally as a drug discovery-based pharmaceutical company.

Motozo Shiono
Chairman of the Board
and Representative Director

Isao Teshirogi, Ph.D.
President and CEO

New Medium-Term Business Plan SGS2020: Positioning

In advanced economies, structural fiscal deficits caused by the global financial crisis are improving, but governments continue to step up policies to strengthen the finances of national healthcare systems. Meanwhile, emerging markets, which have enjoyed rapid growth in recent years, are starting to see signs of a slowdown. In the domestic pharmaceutical market, the government is encouraging innovation in healthcare provision to counter the challenges of Japan's rapidly aging society. However, it is also promoting wider use of generic drugs, reducing drug reimbursement prices and taking other steps to curb healthcare costs. All these developments point to far-reaching changes in the pharmaceutical sector's global operating environment, which is likely to fuel escalating competition among the world's drug companies.

The Shionogi Group began implementing its Third Medium-Term Business Plan in fiscal 2010, covering a five-year period through to fiscal 2014. The main objective of the plan was to deliver sustained growth by overcoming the "Crestor Cliff," which refers to the expected drop in royalty income from the expiration of patents on mainstay product Crestor in 2016 and 2017.

As part of that process, we worked to build an earnings base that will support sustained growth despite drastic changes in the operating environment, such as deterioration in the global economy, severe fluctuations in exchange rates and intensifying competition from rival products. Specifically, we established a new business scheme for anti-HIV drugs and modified the Crestor royalty structure. However, during that process, the issues we had to tackle as a company changed. As a result, we decided to bring the Third Medium-Term Business Plan to an end one year early and revise our business targets. In April 2014, we launched our New Medium-Term Business Plan, Shionogi Growth Strategy (SGS2020), which clearly sets out our growth strategy for the Group through to fiscal 2020.

SGS2020: Vision

Our vision in SGS2020 is to grow as a drug discovery-based pharmaceutical company. Specifically, we want to be a global pharmaceutical company that creates innovative proprietary medicines and supplies them to patients worldwide. We believe we can only grow globally by realizing the stated purpose of our Company Policy: Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve. In order to realize our vision, we will invest more than ¥100 billion in drug research and development by fiscal 2020, targeting a ratio of research and development costs to sales of 20%.

To achieve our fiscal 2020 targets and also respond to rapid changes in the operating environment, we will implement our business plan on a rolling basis over the next three years, clearly defining the areas we need to tackle each year while assessing performance and identifying issues. This will allow the whole Shionogi Group to grow as a global drug discovery-based pharmaceutical company.

SGS2020 Vision

GROW AS A DRUG DISCOVERY-BASED PHARMACEUTICAL COMPANY

FIC
First-in-Class
Innovative medicines with particularly high novelty and efficacy that can significantly change the existing therapeutic paradigm.

LIC
Last-in-Class
Unrivaled medicines with clear superiority over others that have the same mechanism of action.

Our vision

- Conduct drug discovery research focused on First-in-Class and Last-in-Class medicines
- Operate development and sales bases in Japan, the U.S., Europe and Asia
- Supply the world with new drugs and medical information generated by the above research and development activities

Investing to realize our vision for fiscal 2020

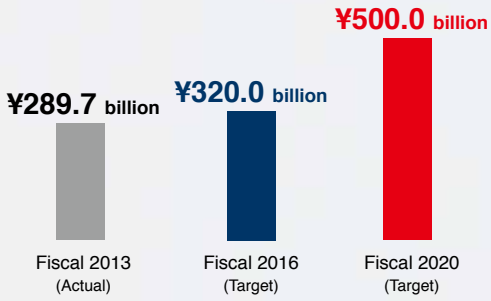
R&D expenses
Over **¥100 billion**

R&D expenses ratio
20%

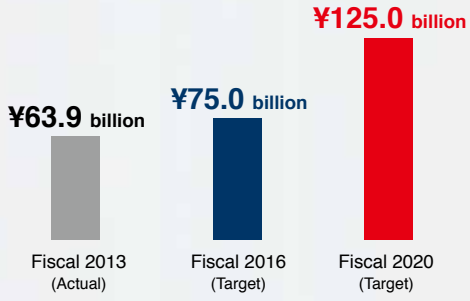
VISION & STRATEGY

Quantitative Targets

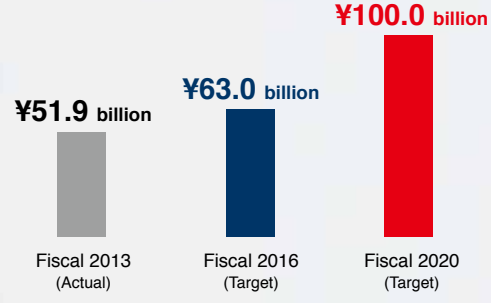
Net Sales



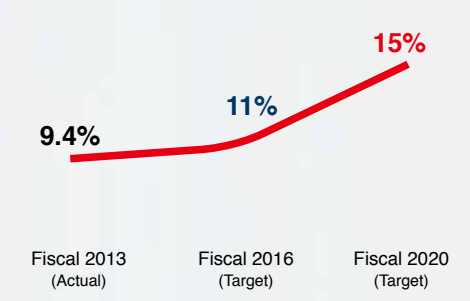
Ordinary Income



R&D Expenses

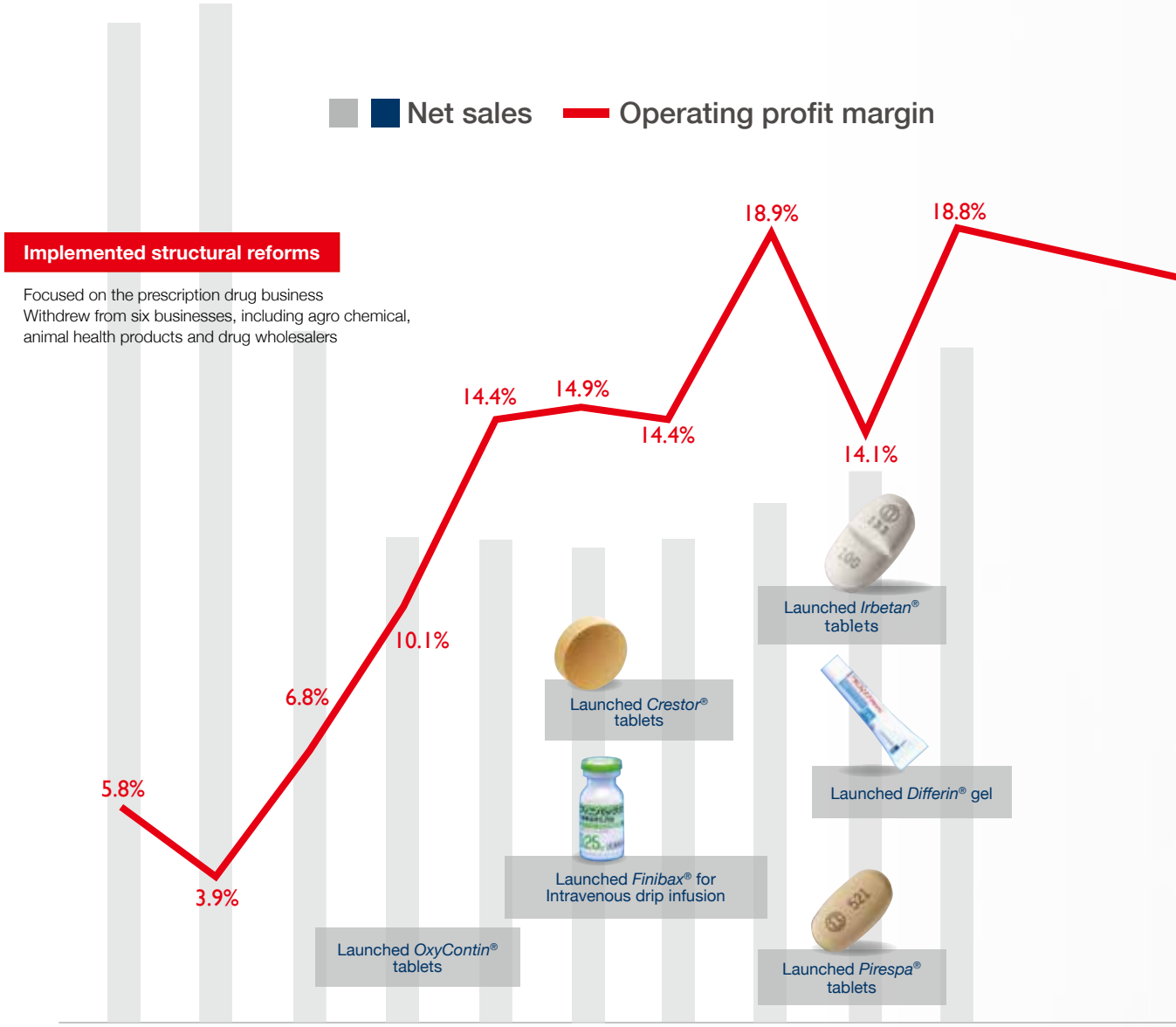


ROE



Business Performance Under Previous Medium-Term Business Plans

Increased profitability while consistently maintaining R&D investment



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Cost of sales ratio (%)	63.9	65.1	53.8	39.8	37.2	35.0	33.8	32.0	31.2	27.4
R&D expenses (Billions of yen)	29.3	30.6	31.3	29.8	29.4	32.3	37.5	40.3	52.8	51.8
R&D expenses ratio (%)	7.1	7.3	11.0	14.9	14.8	16.4	18.8	18.8	23.2	18.6

First Medium-Term Business Plan

"Laying the foundation"

- Focused on the prescription drug business
- Built infrastructure for global development

Second Medium-Term Business Plan

"Accelerating toward significant strides"

- Focused on priority therapeutic areas (infectious diseases, pain and metabolic diseases)
- Acquired US-based Sciele Pharma, Inc.

Third Medium-Term Business Plan

"SONG for the Real Growth"

Performance under the Third Medium-Term Business Plan

Research & Development

- Launched *Osphena* and *Tivicay*
- Initiated a global Phase III program
- 12 internally-discovered drug candidates progressed into clinical development, with greater than 50% success in early to late clinical phase transition

Domestic Sales

- Increased sales of 8 strategic products; they now account for higher share of our domestic prescription drug sales

28.9% Fiscal 2009 ▶ **55.2%** Fiscal 2013

- Made *Crestor* and *Cymbalta* top-selling brands
- Improved profitability (annual sales per MR)

¥1.1 million Fiscal 2009 ▶ **¥1.3 million** Fiscal 2013

Global Business Operations

- US operations shifted to a focus on innovative new drugs; business performance stabilized
- Established footholds in Europe and China
- Created global governance structure, including GDO*1, Overseas Business Division and GSCM*2 division

*1 GDO: Global Development Office
*2 GSCM: Global Supply Chain Management

Earnings Structure

- Established a new business scheme for HIV integrase inhibitor franchise products
- Modified the Crestor royalty structure

Details of changes to royalty structure

- Effective royalty rate for 2014-16 reduced by a low single-digit number
- Period of royalty payments extended by seven years, from patent expiry in 2016 to 2023
- Guaranteed minimum annual royalties to Shionogi will be the low hundreds of millions of dollars from 2014 until 2020

Impact for changes to royalty structure

- Secure stable profits to support medium- to long-term growth
- Avoid sharp decline in corporate performance by blunting the "Crestor Cliff"

- Improved cost management

Pipeline

Code No. (Generic name) 【Product name】	Indication	Territories	Stage (As of August 2014) Phase Ⅰ	Phase Ⅱa	Phase Ⅱb	Phase Ⅲ	Submission / Approval	Progress Targets in FY2014 (As of March 2014)
Infectious Diseases								
S-649266	Infection	Global						Phase Ⅱ First patient in
Pain / CNS								
LY248686 Duloxetine hydrochloride [*Cymbalta*®]	Fibromyalgia	Japan					NDA Submission (June 2014)	NDA Submission
	Chronic low back pain	Japan						NDA Submission
Oxycodone hydrochloride hydrate [*OxyContin*®]	Moderate to severe chronic pain	Japan						——
S-297995 (Naldemedine)	Alleviation of opioid-induced adverse effects	Global						——
		Japan						——
S-877503 (Guanfacine hydrochloride)	Attention deficit hyperactivity disorder	Japan						Phase Ⅱ / Ⅲ completed
S-877489 (Lisdexamfetamine)	Attention deficit hyperactivity disorder	Japan						Phase Ⅱ / Ⅲ initiated
S-117957	Neuropathic pain	US		POM (Proof of Mechanism)				Go / no-go decision
S-120083	Inflammatory pain	Japan						——
S-010887	Neuropathic pain	Japan						Phase Ⅰ completed, go / no-go decision
Metabolic Disorder								
S-556971	Dyslipidemia	Japan						Phase Ⅱb initiated
S-707106	Type 2 diabetes	US						——
S-237648	Obesity	Japan						Phase Ⅰ completed, go / no-go decision
Peptide Vaccine								
S-588410	Bladder cancer	Japan / Europe						——
S-488210	Head and neck squamous cell carcinoma	Europe						——
S-646240	Age-related macular degeneration	Japan						Go / no-go decision
Frontier								
Ospemifene	Post-menopausal vaginal atrophy	US					Approval (Feb. 2013)	——
		Europe					NDA Submission (Mar. 2013)	——
S-524101	Allergic rhinitis caused by house-dust mite allergen	Japan					NDA Submission (Apr. 2014)	NDA Submission
S-555739	Allergic rhinitis	Japan						——
		US						——
		Europe		POM (Proof of Mechanism)				——
S-888711 (Lusutrombopag)	Thrombocytopenia	US / Europe						Phase Ⅱ initiated
		Japan						NDA Submission
S-222611	Malignant tumor	Europe						——
S-525606	Allergic rhinitis caused by Japanese cedar allergen	Japan						——
Out-Licensing Activity								
S/GSK1349572 (Dolutegravir)	HIV infection	Global: NDA submission (Dec. 2012) US: Approval (Aug. 2013) Europe: Approval (Jan. 2014) Japan: Approval (Mar. 2014) Other: Approval in 11 countries						——
Dolutegravir / Abacavir / Lamivudine	HIV infection	US / Europe					NDA Submission (Oct. 2013)	Approval
S/GSK1265744 LAP*	HIV infection	US						——
S-0373	Spinocerebellar ataxia	Japan						——
Janssen/Shionogi BACE inhibitor	Alzheimer's disease	Europe						——

* LAP: Long acting parenteral formulation

(As of August 2014)

	Category (Administration)	Origin	Development
	Cephem antibiotic (Injection)	In-house	In-house
	Serotonin and noradrenaline reuptake inhibitor (Oral)	Eli Lilly (US)	Shionogi / Eli Lilly Japan K.K.
	Natural opium alkaloids (Oral)	Napp Pharmaceuticals Limited (UK)	In-house
	Peripheral opioid receptor antagonist (Oral)	In-house	
	Alpha-2A-adrenergic receptor agonist (Oral)	Shire (Ireland)	Shionogi / Shire
	DA and NE reuptake inhibitor/Releaser of DA, NE (Oral)		
	Analgesic agent for neuropathic pain (Oral)	Shionogi / Purdue Pharma L.P. (US)	Shionogi / Purdue Pharma L.P.
	Analgesic agent for inflammatory pain (Oral)		
	Analgesic agent for neuropathic pain (Oral)	In-house	In-house
	Cholesterol absorption inhibitor (Oral)	Kotobuki Pharmaceutical Co., Ltd. (Japan)	Shionogi / Kotobuki Pharmaceutical Co., Ltd.
	Insulin sensitizer (Oral)	In-house	In-house
	Neuropeptide Y Y5 receptor antagonist (Oral)		
	Cancer peptide vaccine (Injection)	OncoTherapy Science, Inc. (Japan)	In-house
	Cancer peptide vaccine (Injection)		
	Peptide vaccine (Injection)		
	Selective estrogen receptor modulator (Oral)	QuatRx Pharmaceuticals Company (US)	Shionogi / QuatRx Pharmaceuticals Company
	Sublingual tablet of house-dust mite allergen extracts for immunotherapy	Stallergenes SA (France)	In-house
	Prostaglandin D2 receptor antagonist (Oral)	In-house	
	Small molecule TPO mimetic (Oral)		
	HER2 / EGFR dual inhibitor (Oral)		
	Sublingual tablet of Japanese cedar allergen extracts for immunotherapy	Stallergenes SA (France)	
	Integrase inhibitor (Oral)	Shionogi-ViiV Healthcare LLC	ViiV Healthcare Ltd. (UK)
	Integrase inhibitor / Nucleoside reverse transcriptase inhibitor (Oral)		
	Integrase inhibitor (Injection)		
	Non-peptide mimetic of TRH (Oral)	In-house	Kissei Pharmaceutical Co., Ltd. (Japan)
	BACE inhibitor (Oral)		Janssen Pharmaceuticals, Inc. (US)

Key Development Compounds

S-297995
(Alleviation of opioid-induced adverse effects)

Mechanism of action
Peripheral opioid receptor antagonist (Oral)

Features
An oral medication that has minimal CNS effect by peripherally acting opioid receptors. Effectively alleviates opioid-induced constipation without interfering with the centrally mediated analgesic effect of opioidos.

Marketability
Global opioid analgesic market: $14.8 billion*1
US, UK, Germany, Canada and France account for nearly 80% of the global market.
Number of patients receiving long-term administration of opioid analgesics in those five markets: 70 million*2

*1 Calculated based on IMS Health MIDAS MAT-2Q12

*2 Calculated based on IMS patient level data MAT-2Q09

S-888711
(Thrombocytopenia)

Mechanism of action
Small molecule thrombopoietin mimetic (Oral)

Features
A wide-acting drug due to good dose proportionality but with minimal risk of hepatic dysfunction or cataracts. An easy-to-use medication without significant food effect. Drug effects are also similar between Japanese and non-Japanese subjects.

Marketability
Blood platelet counts decline in patients with liver disease as the disease becomes more serious. Roughly 24% of people with chronic hepatitis C have thrombocytopenia (<150,000 per microliter)*1, while around 1% have severe thrombocytopenia (<50,000 per microliter)*2.
An estimated 150 million people worldwide suffer from chronic hepatitis C virus infections. For hepatitis B the number is 240 million*3. Over half of all liver cirrhosis cases are caused by chronic hepatitis C or B virus infection.

*1 Loiue KS, et al., J Vir Hep 2011, 18:1-7

*2 Poordad, F, Aliment Pharmacol Ther 2007, 26 (Suppl 1), 5-11

*3 WHO Campaign, World Hepatitis Day 28 July 2013

S-649266
(Infection)

Mechanism of action
Growth inhibition of Gram-negative bacteria by inhibiting cell wall synthesis (Injection)

Features
An injectable siderophore cephalosporin with potent activity against Gram-negative bacteria including multidrug-resistant strains. S-649266 is highly effective against metallo-β-lactamases producing bacteria, which are already resistant to many carbapenem and cephem antibiotics, as well as against multidrug-resistant *Pseudomonas aeruginosa*, *Acinetobacter baumannii* and Enterobacteriaceae.

Marketability
Each year in the US, around 2 million people acquire serious infections from bacteria that are resistant to antibiotics, with roughly 20,000 people dying each year as a direct result of these antibiotic-resistant infections*. Infection from highly resistant Gram-negative bacteria is also now a serious issue in Eastern Europe, Latin America and Asia.

* US Centers for Disease Control and Prevention

Major Products

Prescription Drugs

Osphena®

(Treatment for postmenopausal vulvar and vaginal atrophy)

- Launched June 2013 (US)
- Fiscal 2013 sales: ¥1.1 billion

The Shionogi Group's first global drug
Osphena is the only non-estrogen oral treatment for dyspareunia (pain during sexual intercourse), which is caused by vaginal atrophy in post-menopausal women. *Osphena* is a selective estrogen agonist / antagonist and works by binding with estrogen receptors. The drug offers the potential for significant improvements in quality of life for post-menopausal women.

Eight strategic products in Japan

Shionogi will work steadily to expand its share in the Japanese market, focusing on 8 strategic products.
(All products shown below are sold in Japan)

Crestor® tablets

(Hyperlipidemia treatment)

- Launched April 2005
- Fiscal 2013 sales: ¥41.1 billion

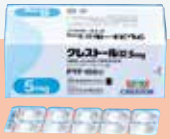
Shionogi-developed product
The statin therapy *Crestor* has been proven highly effective in lowering LDL cholesterol and is a leader among dyslipidemia treatments in Japan and overseas.
It reduces the risk of atherosclerotic diseases, and affords physicians and patients a greater sense of satisfaction and reliance.

Irbetan® Tablets, *AIMIX*® Combination Tablets *IRTRA*® Combination Tablets (*Irbetan* family of drugs)

(Antihypertensive)

- *Irbetan*® Tablet launched July 2008, *AIMIX*® Combination Tablets launched December 2012, *IRTRA*® Combination launched September 2013
- Fiscal 2013 sales: ¥13.9 billion

Irbetan is a long-acting angiotensin II receptor blocker (ARB) with a powerful hypotensive effect lasting 24 hours and anti-metabolic organ protecting effects. Shionogi also sells the drug as part of combination formulations, such as *AMIX* Combination Tablets with calcium antagonist amlodipine, and *IRTRA* Combination Tablets with diuretic trichlormethiazide, contributing to the treatment of hypertension through a family of *Irbetan* products.



Cymbalta® Capsules

(Treatment for depression, depressive condition, and diabetic neuropathic pain)

- Launched April 2010
- Fiscal 2013 sales: ¥11.4 billion

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.

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

(Cancer pain analgesic)

- *OxyContin*® tablet launched July 2003, *OxiNorm*® powder launched February 2007, *OxiFast*® injection launched May 2012
- Fiscal 2013 sales: ¥10.6 billion

A combination of 12-hour sustained-release *OxyContin* tablet and immediate-release *OxiNorm* powder enables cancer pain to be relieved more effectively.
OxiFast injection can be used for pain relief in patients with difficulty taking oral drugs.

Over-the-Counter (OTC) Drugs — Fiscal 2013 sales: ¥4.5 billion

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 lineup of multivitamin supplements that give people the daily energy.

Popon-S:
- Launched 1952

Long-selling multivitamin supplement.

Popon-S Plus:
- Launched 2012

Multivitamin supplement that also contains the iron, folic acid and calcium which are in high need for healthy life.

Popon-S Royal:
- Launched 2013

Multivitamin supplement containing the longan extract and royal jelly for maintaining healthy life.

Sedes® Line

A line of analgesic antipyretics that can be chosen according to pain.

Sedes Hi:
- Launched 1993

Powerful analgesic with isopropylantipyrine and acetaminophen for the treatment of acute and unbearable pain.

Sedes First:
- Launched 2010

Analgesic for headache, fever and cramps which does not contain ingredients that cause drowsiness and is gentle on the stomach.

Tivicay® tablets

(HIV treatment)

- Launched August 2013 (US), April 2014 (Japan)

Co-researched with GlaxoSmithKline plc. (developed by Shionogi and ViiV Healthcare Ltd.)
Tivicay is a new HIV integrase inhibitor with high levels of efficacy and safety and limited risk of drug resistance. In the US and Japan, HIV treatment guidelines recommend *Tivicay* as one of the first-choice drugs for treatment-naïve patients. *Tivicay* is likely to become an important new treatment option for all HIV-1 positive patients.

Fiscal 2013 sales: ¥92.9 billion

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

(Carbapenem-type antibiotic)

- Launched September 2005 (kit: launched June 2006)
- Fiscal 2013 sales: ¥4.7 billion

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
- Fiscal 2013 sales: ¥4.4 billion

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
- Fiscal 2013 sales: ¥4.8 billion

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
- Fiscal 2013 sales: ¥2.0 billion

Rapiacta is the world's first neuraminidase 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.

Diagnostics

Fiscal 2013 sales: ¥2.0 billion

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.

Quick influenza testing kit *Brightpoc*® Flu

- 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.

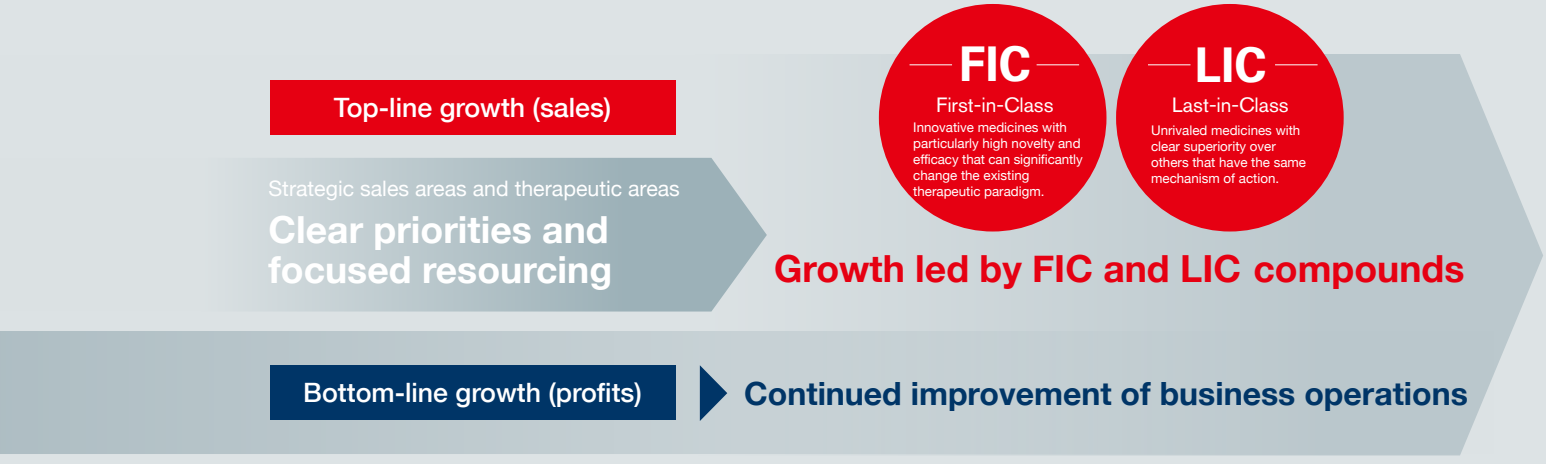
Interview with the President

A conversation with Isao Teshirogi, President and CEO about the Shionogi Growth Strategy 2020 (SGS2020)

VISION & STRATEGY

SGS2020 Growth Strategies

Under SGS2020, we plan to roll out measures that drive top-line and bottom-line growth. Specifically, we will boost sales by channeling business resources into strategic sales areas and into therapeutic areas to create innovative new drugs. We will grow profits by continuing to enhance the Group's business operations.



Question 1

First, could you provide a recap of the Third Medium-Term Business Plan and summarize the outcomes of initiatives implemented in fiscal 2013, which you positioned as the first year of the Group's globalization.

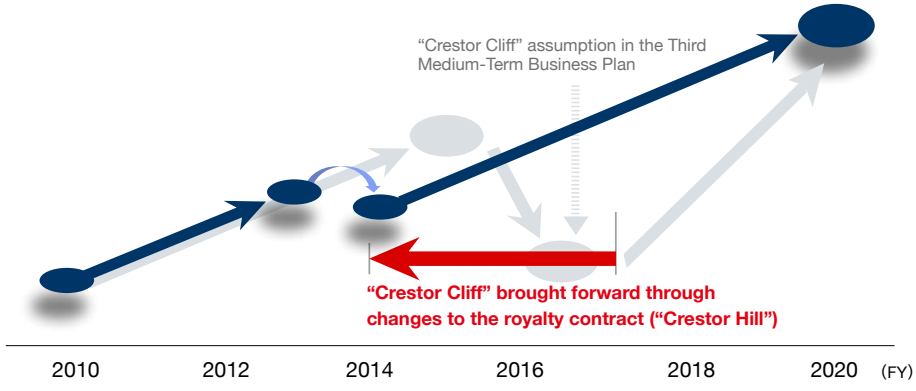
Answer

POINTS

- **Launched *Tivicay* and *Osphena*, two new global drugs as the outcomes of research and development activities**
- **Improved cost management across the Group through structural reforms and changes to corporate culture**
- **Created a more stable earnings structure by modifying the *Crestor* royalty contract**

Under our Third Medium-Term Business Plan, launched in fiscal 2010, we have rolled out a range of measures to overcome the "Crestor Cliff" from fiscal 2016 and generate further growth. Specifically, we have stepped up business restructuring and reformed our corporate culture to improve cost management, and reinforced our R&D system to create a steady stream of new drugs. These efforts have paid off. In research, which holds the key to the future of the Shionogi Group, we discovered 12 highly innovative new drug candidates in-house by building on our existing strengths in small-molecule drug discovery and by using cutting-edge technologies to uncover promising new large-molecule drugs. In development, we improved our ability to implement late-stage clinical trials (Phase IIb trials and later) and secure regulatory approvals worldwide. This helped us to secure approval for two new drugs, *Osphena* and *Tivicay*, which are likely to become growth drivers for the Group in the future. We also established new business sites in the US, Europe and Asia as part of efforts to build a business base that supports Shionogi's global shift. In Japan, we focused on eight new strategic drugs, which resulted in higher sales of prescription drugs.

In fiscal 2013, which we positioned as the first year of the Group's globalization, we worked to strengthen Shionogi's corporate structure to realize our goal of becoming a global company. This included setting clear priorities for allocating costs across the Group, channeling investment into Shionogi Group's first new global drug, *Osphena*, as well as changing how we do business and increasing productivity, mainly in domestic sales. Fiscal 2013 was also a year when all Shionogi employees worked together to improve the Group's cost management capabilities. In addition, we succeeded in creating a more stable earnings structure for the medium and long term by modifying the contract for royalties we receive for *Crestor*.



Question 2

Please tell us about the sales areas and therapeutic areas you are targeting with business resources under SGS2020.

Answer 【Sales Areas】

POINTS

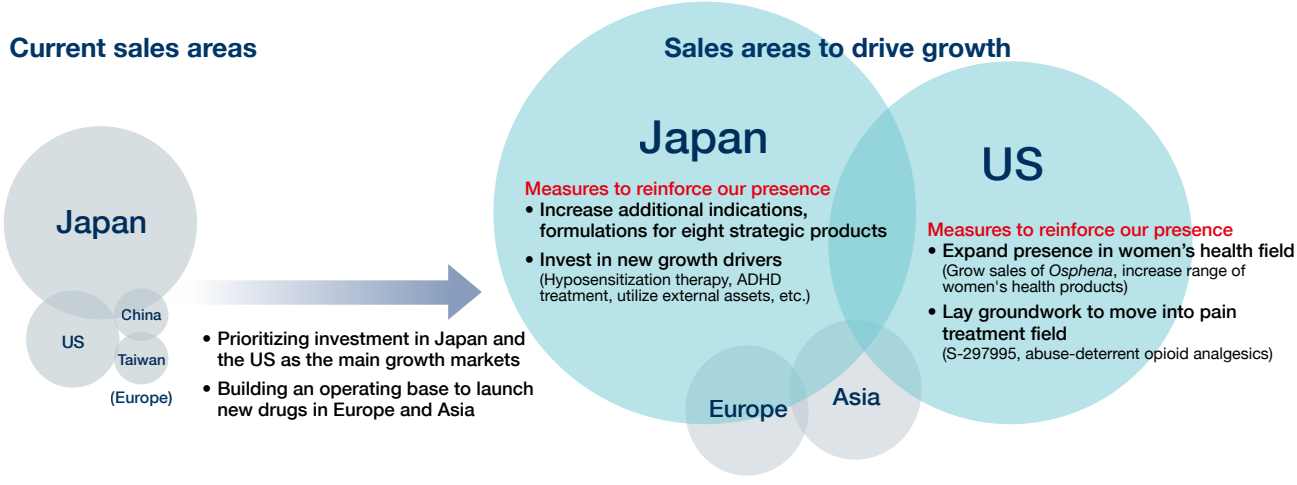
- **Prioritizing investment in Japan and the US as the main growth markets for the next three years**
- **Building an operating base to launch new drugs in Europe and Asia**

We have positioned Japan and the US as markets that will drive the Shionogi Group's growth over the next three years. We will focus on strengthening operations in our home market and on the US business, which has switched its focus to developing and selling new drugs.

In Japan, we will channel our resources into eight strategic products. We will reinforce our ability to systematically respond to customer needs, as well as maximize the value of three key strategic products – *Crestor*, the *Irbetan* franchise and *Cymbalta* – by strengthening product lifecycle management, including the development of additional indications. Also, we plan to target resources on other new drugs to reinforce our portfolio and drive growth in the future, including a hyposensitization therapy (S-524101) for the treatment of allergic rhinitis related to house dust mites, which is waiting for regulatory approval, and an attention deficit hyperactivity disorder (ADHD) treatment currently undergoing late-stage clinical trials.

In the US, our most important goal will be to grow sales of *Osphena*. We plan to increase our presence in the women's health field by continuing to actively promote *Osphena* and by leveraging sales synergies through the co-promotion of menopausal hot flashes treatment *Brisdelle* with Noven Pharmaceuticals, Inc., the US subsidiary of Hisamitsu Pharmaceutical Co., Ltd. In the pain treatment field, we are working toward the launch of S-297995, a drug that alleviates the adverse effects of opioid analgesics and is currently undergoing global Phase III trials. Also, through a technical alliance with Egalet Corporation, we plan to develop new treatments that deter the abuse of prescription narcotics.

We aim to achieve our management targets for fiscal 2016 by maximizing the value of existing products and by launching new products in Japan and the US, and we will work toward our vision for the Shionogi Group in fiscal 2020 by building an operating base in Europe and Asia.



Answer 【Therapeutic areas】

POINTS

- **Target areas with unmet medical needs in the present, near term and long term**
- **Maximize synergies with existing products**

We will channel management resources into key therapeutic areas that are likely to have unmet medical needs in the present, the near term and the long term.

In the near term (5-10 years), we will target two main areas with unmet medical needs. First, the infectious disease field. We already have a strong presence in this field, but we plan to expand our range of anti-viral drugs and severe infectious disease treatments, as well as contribute to the development of new treatments for emerging infectious diseases. Second, the pain and central nervous system disease field, including opioid analgesics, related products and treatments for chronic pain. From fiscal 2014, the Discovery Research Laboratory for Core Therapeutic Areas will work on maximizing the potential of existing drugs and on strengthening the product lineup. In the long term (10-20 years), we plan to target promising growth fields arising from the emergence of rapidly aging societies. Specifically, our Discovery Research Laboratory for Innovative Frontier Medicines will focus on research into treatments for obesity and geriatric metabolic diseases and oncology and immunological diseases. By creating new drugs in those areas, I believe we can generate sustained growth well beyond fiscal 2020.

To ensure we satisfy unmet medical needs, it is vital that we actively and dynamically reinforce our drug pipeline using our own research capabilities and by making use of external R&D resources and drug discovery technologies.

Target areas with unmet medical needs in the present, near term and long term

	Present	Near term (5-10 years)	Long term (10-20 years)
	Sales	**Development**	**Research**
Key therapeutic areas	**Address current needs by maximizing existing products**	**Address near-term needs with new drugs in development**	**Address long-term needs by responding to changes in the environment**
Infectious diseases	• Community-acquired infections • Hospital-acquired infections • Viral infections	• Viral infections • Severe infections	• Viral infections • Severe infections
Pain and central nervous system disorders	• Depression • Cancer pain • Diabetic neuropathic pain	• Cancer pain • Chronic pain • Central nervous system disorders	• Chronic pain • Central nervous system disorders
Metabolic diseases	• Hyperlipidemia • Hypertension	• Obesity	• Obesity • Geriatric metabolic diseases
Frontier treatments	• Women's health • Idiopathic pulmonary fibrosis • Common acne	• Malignant tumors • Allergies	• Cancer and immunological diseases

Question 3

What are your strategies for reinforcing the drug pipeline, including plans for collaborations with academia and other companies?

Answer

POINTS

- **Reinforce in-house drug discovery research in areas where Shionogi is already strong**
- **Utilize ongoing partnerships**

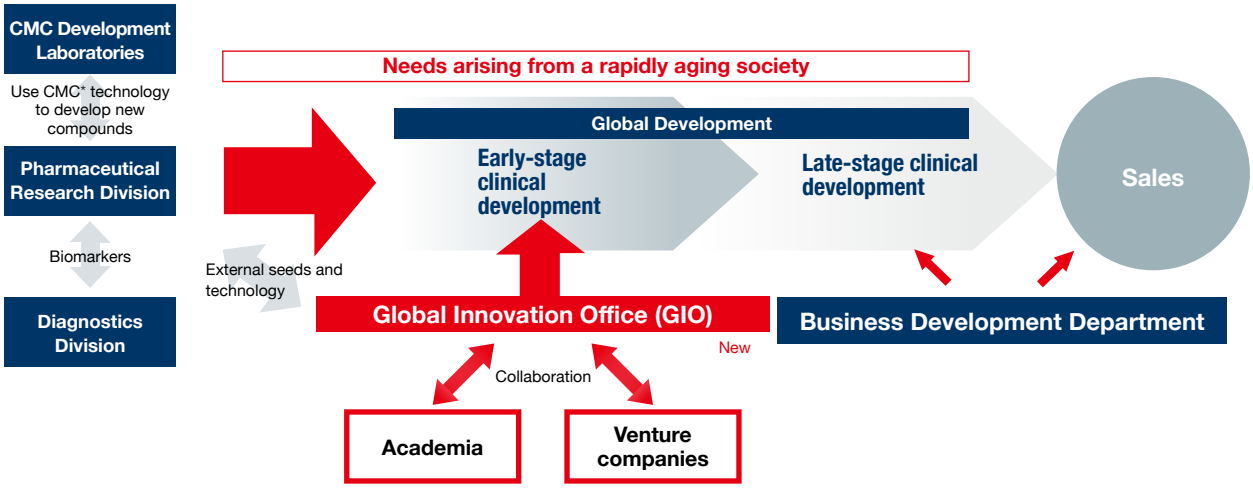
We plan to actively tap into the vast range of know-how, personnel and networks built up so far through two ongoing programs: the Pharma-Innovation Discovery competition Shionogi (FINDS*1), which is a domestic collaboration between business and academia launched in 2007, and the Shionogi Science Program (SSP*2), a similar program launched in 2011 but with a more international focus.

We also established the Global Innovation Office (GIO) in April 2014. This new office integrates all our efforts to identify and acquire promising drug discovery seeds and technologies, helping us to extend our reach in the search for drug seeds with real potential.

The Shionogi Group will leverage its existing strengths in drug discovery research, while also reinforcing its capabilities by drawing on the expertise and technologies of external assets. In this way, we plan to create a steady stream of innovative and highly effective FIC and LIC drugs to drive growth over the medium and long term.

*1 FINDS: Domestic drug discovery competition (PHarma-INnovation Discovery competition Shionogi)
*2 SSP: Overseas drug discovery competition (SHIONOGI Science Program)

Reinforcing our drug discovery capabilities supported by a network of partnerships



*CMC (Chemistry, Manufacturing and Control): Drug substance manufacturing process studies, pharmaceutical development studies, and quality control studies

Question 4

Reinforcing business operations is key to achieving your vision for the Group in fiscal 2020. What measures do you plan to implement in this area?

Answer

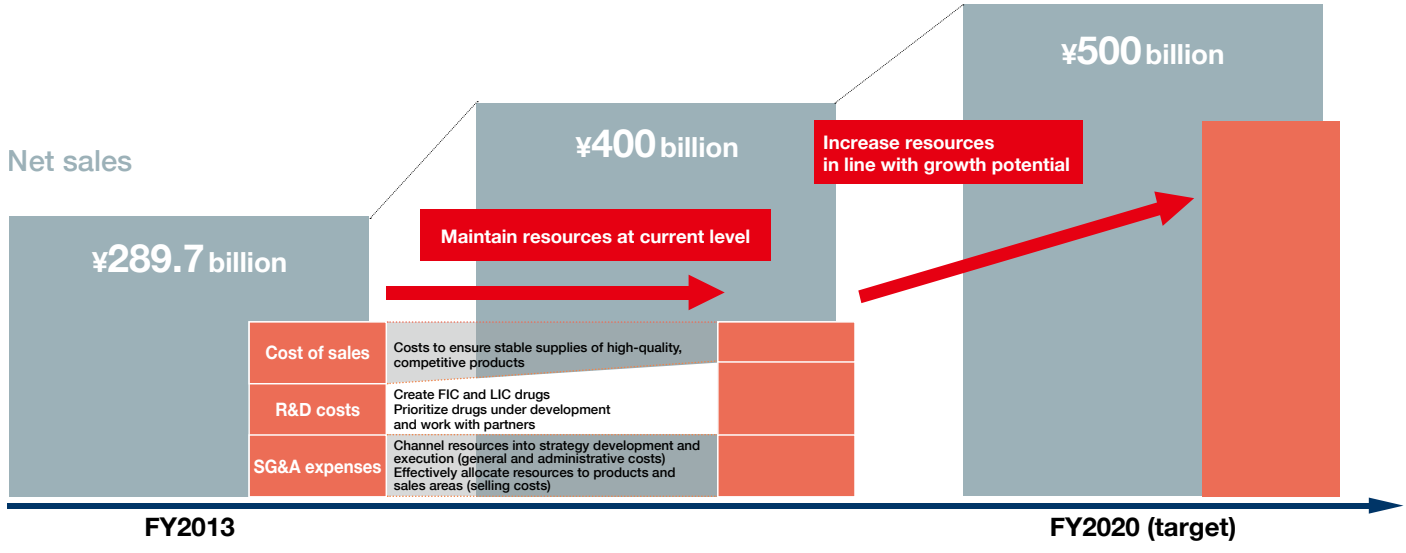
POINTS

- **Allocate resources appropriately according to each growth stage**
- **Focus on strategic cost allocation and personnel development**

Allocating the right amount of resources such as personnel and costs to each growth stage will be crucial. In the near term, we plan to maintain resource allocation at the current level while boosting productivity per employee. Then we intend to increase resources in line with growth potential.

At the same time, we will continue to reinforce our global supply chain management (GSCM) system, set up in 2013, in order to reduce costs while ensuring stable supplies of high-quality products. We will maintain our focus on manufacturing in-house to ensure the highest levels of quality, but we will also work to cut costs by reducing our growing number of global suppliers and by using efficient outsourcing management to secure high-quality raw materials at low prices. We aim to reduce the cost of sales ratio from 26.9% in fiscal 2013 to lower than 25%, and cut inventory turnover from 7.3 months to 5.5 months.

We also recognize that we have to reinforce the Group's head office functions to support faster growth. In particular, we will strengthen our strategy development and execution capabilities, aiming to create a system that allows the top management to rapidly make the best decisions. Reinforcing our ability to push through reforms and strengthening business management capabilities that are more attuned to the issues faced by society today will also be key areas going forward. People are our most important asset, and senior managers will play a direct role in training them to become the Group's future leaders as part of seamless personnel training programs tailored to different age groups.



Question 5

What is your stance on shareholder returns?

Answer

POINTS

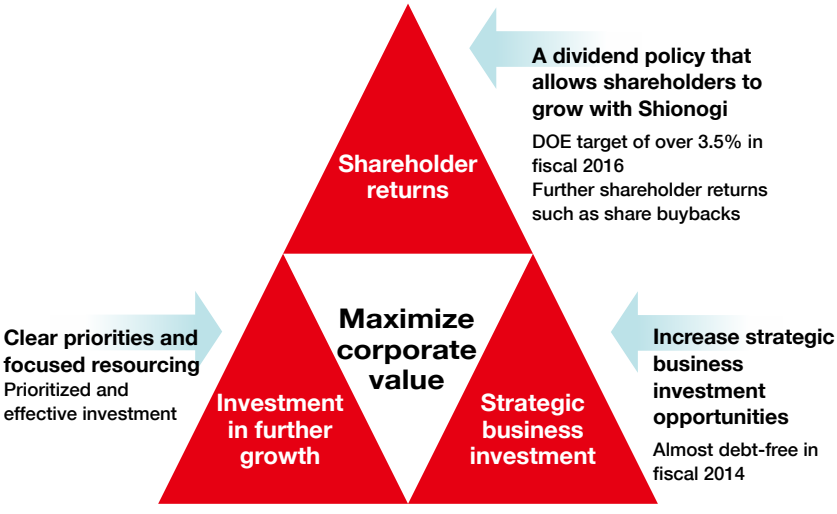
- **Implement a dividend policy that allows shareholders to grow with Shionogi**
- **Steadily raise dividends in line with growth, referencing DOE**

We plan to pay stable dividends to shareholders using profits generated from consistent improvements to our business operations. Funds will also be used in a balanced manner to invest in future growth, such as R&D spending, and to make strategic business investments in alliances and other areas, further reinforcing the Group's operating base and maximizing corporate value.

In line with this policy, we have switched our benchmark for shareholder returns from a dividend ratio of 40% to DOE* of at least 3.5%, aiming to steadily increase the dividend in line with growth. We also raised the dividend to ¥46 per share for fiscal 2013. In fiscal 2014 and beyond, we will remain focused on returning profits to shareholders so that they can share in Shionogi's growth.

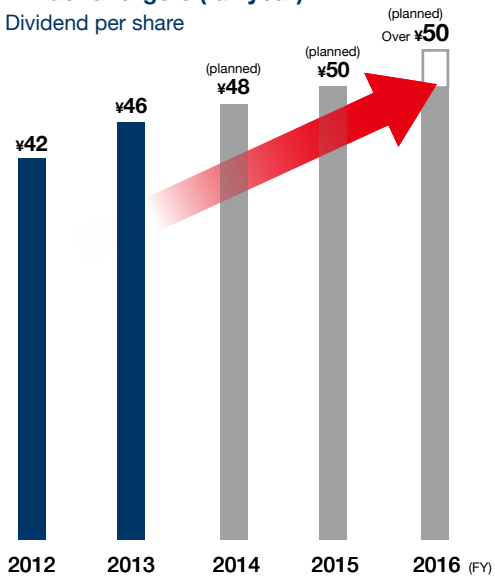
* DOE (Dividend on equity ratio): An indicator of the amount of profits returned to shareholders as a proportion of capital procured from shareholders
Total dividends / shareholders' equity (average for start and end of fiscal year)

Maximizing corporate value while balancing three factors



Dividend targets (full year)

Dividend per share



Question 6

The initiatives you have implemented so far have resulted in a leaner, fitter Shionogi. To close, please tell us about your resolve to overcome the expected drop in sales and profits in fiscal 2014 and put the Group back on the path to growth from fiscal 2015.

Answer

POINTS

- **Fiscal 2014 positioned as an important year to demonstrate preparation and transformed capabilities**
- **Overcome the "Crestor Hill" and take the Group into a true phase of growth**

We forecast sales and profits will decline in fiscal 2014, as the “Crestor Cliff” (Crestor Hill) has arrived sooner than we anticipated due to modifications to our royalty contract with AstraZeneca. The Shionogi Group will therefore need to prepare itself for this challenge and transform our capabilities in fiscal 2014.

Osphena and *Tivicay* are both in their early phase of sales and we expect to launch S-297995 and other global development compounds from fiscal 2017 after securing regulatory approval. We therefore need to reinforce our global sales capabilities for new drugs and improve our ability to develop new growth drivers to follow on from those products. We also know that we have to build an earnings structure in the near term that does not rely on royalty income. We will work to resolve these issues as early as possible in fiscal 2014. Then, in order to transition into a new growth phase from fiscal 2015, we will channel business resources into strategic sales areas, products and development compounds that have the potential to drive growth, aiming to achieve our targets.

We will also clearly set out the issues we have to tackle over the next three years in order to deliver sustained growth as a company that responds dynamically to rapid changes in the operating environment. This will also involve closely and rigorously monitoring progress and issues with our business plan through a rolling annual review aimed at achieving steady progress each fiscal year.

All the Group’s employees will do what they can as individuals and as part of a committed team to implement our reforms. With this backing, I am confident we can overcome the temporary drop in sales and profits in fiscal 2014 and progress toward our fiscal 2020 targets.

12 NMEs

12 development compound candidates (small-molecule and large-molecule) discovered in the four years from fiscal 2010

Over 50%

More than 50% of in-house NMEs were successful in clinical POC studies

Research

PERFORMANCE

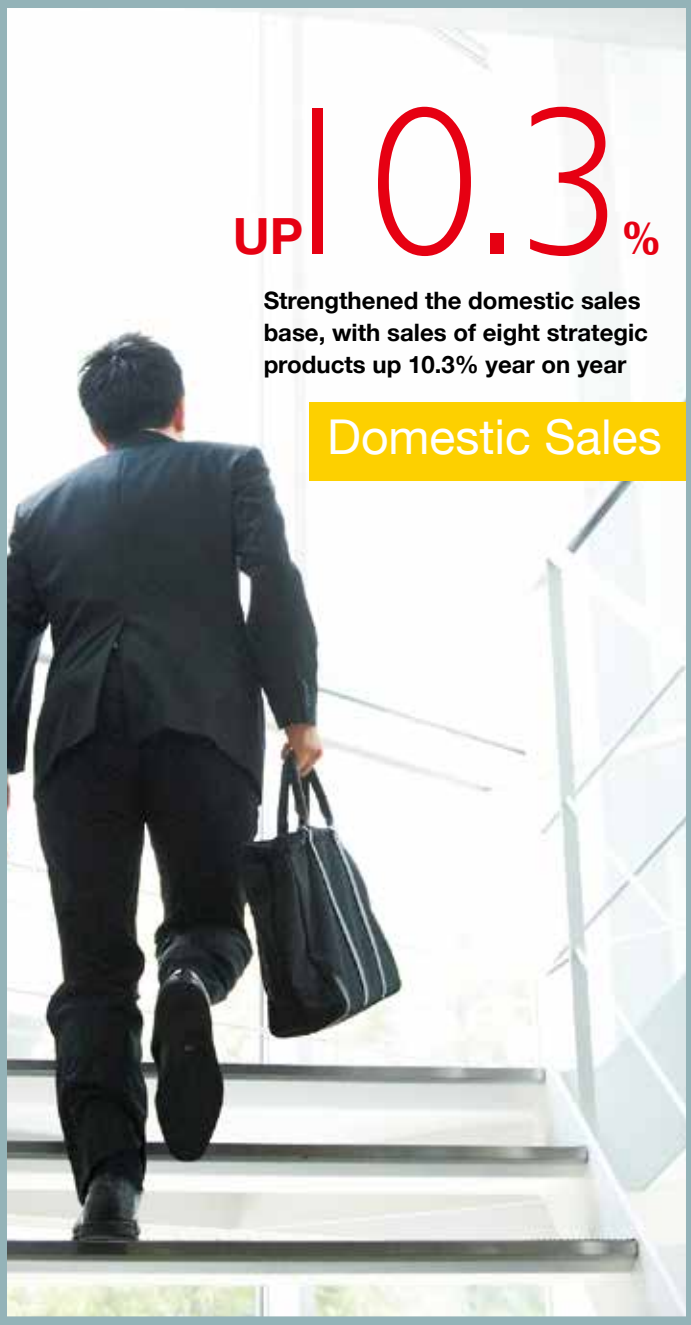
Dolutegravir

Anti-HIV drugs developed by Shionogi and ViiV Healthcare Ltd. granted approval

S-297995

Alleviates opioid-induced adverse effects (constipation); entered global Phase III clinical trials for cancer and non-cancer patients

Development



UP 10.3%

Strengthened the domestic sales base, with sales of eight strategic products up 10.3% year on year

Domestic Sales

Manufacturing and Supply Chain

26.9%

Cost of sales ratio down to 26.9% on sustained efforts to reduce manufacturing costs

Record profits

Record operating income and ordinary income, supported by sales growth and sustained cost reductions

Financial Results

First new global drug

Shionogi Group's first global drug, *Osphena*, launched in June 2013. *Osphena* is a treatment for postmenopausal vulvar and vaginal atrophy (VVA)

Global Business Operations

Performance Highlights

	Millions of yen					Thousands of U.S. dollars*1
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2013
For the years ended March 31:						
Net sales	¥278,503	¥282,350	¥267,275	¥282,904	**¥289,717**	**$2,816,067**
Cost of sales	76,264	81,737	77,753	78,575	**77,993**	**758,097**
Selling, general and administrative expenses	149,801	153,721	142,519	144,764	**148,167**	**1,440,192**
Operating income	52,438	46,892	47,003	59,565	**63,557**	**617,778**
Income before income taxes and minority interests	58,541	33,135	41,495	58,307	**64,870**	**630,540**
Net income	38,626	20,027	27,102	66,728	**41,831**	**406,600**
Research and development expenses	51,808	50,921	53,599	53,021	**51,925**	**504,714**
Capital investments	12,547	17,967	13,233	11,447	**8,962**	**87,111**
Depreciation and amortization	18,048	17,966	16,282	11,912	**12,913**	**125,515**
Net cash provided by operating activities	52,902	56,528	54,724	59,276	**79,496**	**772,706**
Net cash used in investing activities	(826)	(13,947)	(38,290)	(19,960)	**(20,040)**	**(194,790)**
As of March 31:						
Property, plant and equipment, net	¥ 62,448	¥ 70,221	¥ 74,282	¥ 78,474	**¥ 78,977**	**$ 767,662**
Total assets	540,762	523,242	522,162	574,882	**584,803**	**5,684,322**
Total long-term liabilities	131,956	115,326	92,900	53,042	**33,721**	**327,770**
Total net assets	341,976	328,096	347,198	423,633	**472,413**	**4,591,884**
Per share amounts:	Yen					**U.S. dollars**
Net income	¥ 115.33	¥ 59.80	¥ 80.93	¥ 199.25	**¥ 124.91**	**$ 1.21**
Net assets	1,019.71	979.69	1,027.83	1,254.44	**1,398.78**	**13.60**
Dividends	36.00	40.00	40.00	42.00	**46.00**	**0.45**
Other:						
Equity ratio (%)	63.2	62.7	65.9	73.1	**80.1**	
Return on equity [ROE] (%)	11.9	6.0	8.1	17.5	**9.4**	
Return on assets [ROA] (%)	9.7	8.5	8.8	10.7	**11.0**	
Payout ratio (%)	31.2	66.9	49.4	21.1	**36.8**	
Dividend on equity ratio (%)	3.7	4.0	4.0	3.7	**3.5**	
Non-Financial Data						
Employees (Number)	5,887	5,277	6,132	6,082	**6,165**	
CO_2 emissions (Thousand tons – CO_2)	104	87	93	89	**84**	
Amount of waste generated (t)	6,218	4,961	4,744	4,564	**4,275**	
Ratio of hybrid and electric vehicles (%)*2	–	39.7	48.9	80.0	**90.7**	

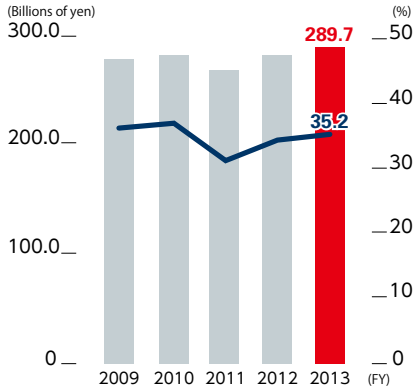
*1 U.S. dollar figures have been calculated, for convenience only, at the rate of ¥102.88 = US$1.00, the approximate rate of exchange on March 31, 2014.
*2 Excludes cold regions of Japan

Record operating income and ordinary income

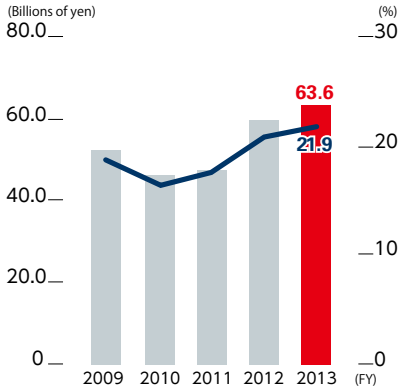
Shionogi reported record operating income of ¥63.6 billion. This reflected higher gross profit due to sales growth and efforts to improve the cost of sales ratio, as well as continued efforts to reduce costs, which outweighed higher costs in US operations related to investment in new products. Shionogi also reported record ordinary income* of ¥63.9 billion, partly due to foreign exchange gains arising from the weak yen.

* Ordinary income is an item in financial statements based on Japanese GAAP.

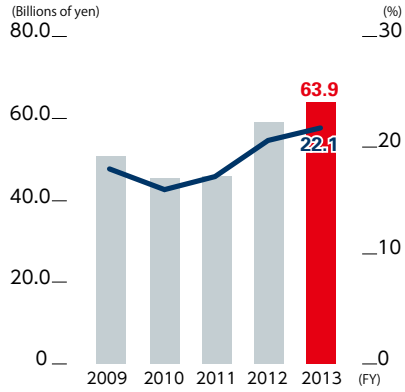
■ Net Sales
– Overseas Net Sales Ratio



■ Operating Income
– Operating Income Ratio

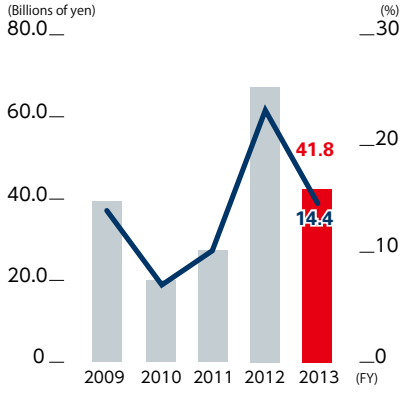


■ Ordinary Income*
– Ordinary Income Ratio

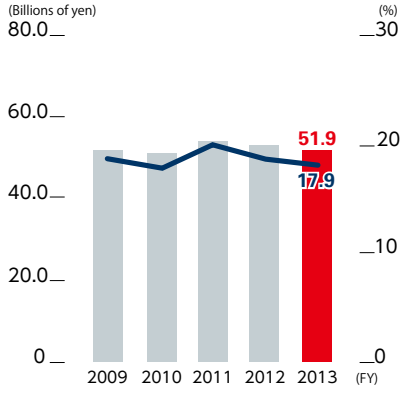


* Ordinary income is an item in financial statements based on Japanese GAAP.

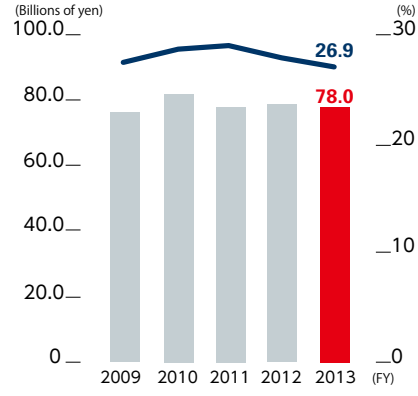
■ Net Income
– Net Income Ratio



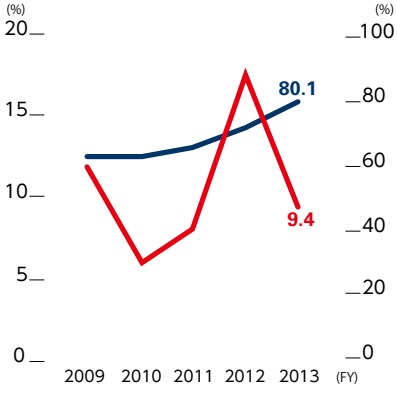
■ Research and Development Expenses
– Research and Development Expenses Ratio



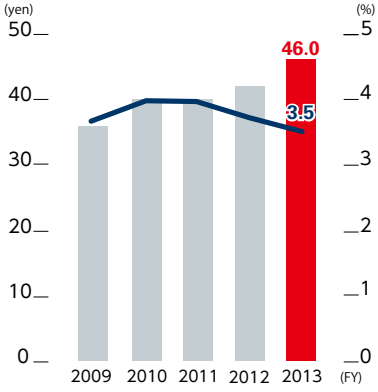
■ Cost of Sales
– Cost of Sales Ratio



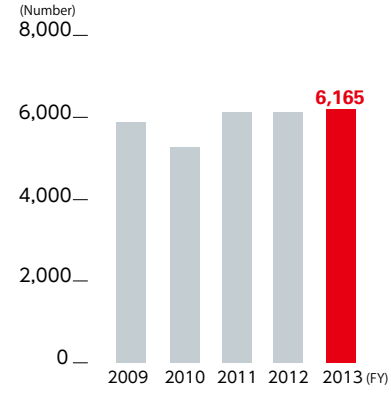
– ROE
– Equity Ratio



■ Dividends per Share
– Dividend on Equity Ratio



■ Employees



Outlook for fiscal 2014

We revised the *Crestor* royalty income agreement with AstraZeneca in December 2013. The changes to the agreement extend the contract period, but royalty income will decline steeply in fiscal 2014. We will continue to focus on our eight strategic products in the domestic prescription drug market, but we forecast a modest drop in sales due to drug price revisions implemented in April 2014. Due to the above factors, we expect sales overall to decline year on year.

The steep fall in royalty income from *Crestor* will weigh on profits, but we plan to minimize the decline by continuing to invest in research and development while controlling costs, including cost of sales.

FY2014 (Forecasts)

	(Billions of yen)
Net sales	269
Operating income	45
Ordinary income	50
Net income	33

Research

We will leverage our drug discovery capabilities to develop globally competitive FIC and LIC drugs, driving Shionogi's growth as a drug discovery-based pharmaceutical company.

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

FIC
First-in-Class
Innovative medicines with particularly high novelty and efficacy that can significantly change the existing therapeutic paradigm.

LIC
Last-in-Class
Unrivaled medicines with clear superiority over others that have the same mechanism of action.

Progress in Fiscal 2013

Fiscal 2013, the final year of our Third Medium-Term Business Plan, was an epoch-making year when we successfully delivered anti-HIV agent *Tivicay* (generic name: *dolutegravir*) to patients worldwide. This new drug was developed jointly with the UK's GlaxoSmithKline plc. Using our expertise in antiviral drug research, acquired through the development of *dolutegravir*, we created an oral anti-influenza agent with a new mechanism of action as a new drug candidate. We also moved into clinical trial stages for two new drugs: S-010887, an analgesic agent for neuropathic pain that has the potential to become an in-house FIC, and S-237648, an anti-obesity agent that offers prospects for high levels of efficacy and safety for patients with metabolic disorders.

In addition to accelerating in-house drug discovery efforts, we actively worked on joint research projects with universities and other research groups in Japan and overseas in order to create a steady stream of innovative new drugs.

Research outcomes under the Third Medium-Term Business Plan

12 NMEs

Over 50%

In the last four years, the Pharmaceutical Research Division has been targeting world-leading levels of productivity in new drug creation in terms of quality and quantity, creating a stream of 12 novel drug candidates over the same period. By selecting high-quality candidates, we have taken the 12 development compounds to the clinical trial stage and achieved our target success rate of 50% or more in POC* studies of our development drug candidates.

These successes show how we are reaping the benefits of a wide range of initiatives implemented in recent years. For example, we consolidated research functions at the Shionogi Pharmaceutical Research Center (SPRC) in 2011 and focused on research areas based on Shionogi's strengths in small-molecule drug discovery. We also cultivated new drug seeds by working closely with partners in academia and other pharmaceutical companies, and improved predictive performance for clinical efficacy using assets such as the PET Molecular Imaging Center.

In addition to small-molecule drugs, our efforts to build a development platform for large-molecule drugs such as antibody medicines and vaccines have also led to the production of development compounds.

*POC (Proof of Concept): Human clinical trials designed to identify early signs of a product's efficacy.

SGS2020 Research Strategies

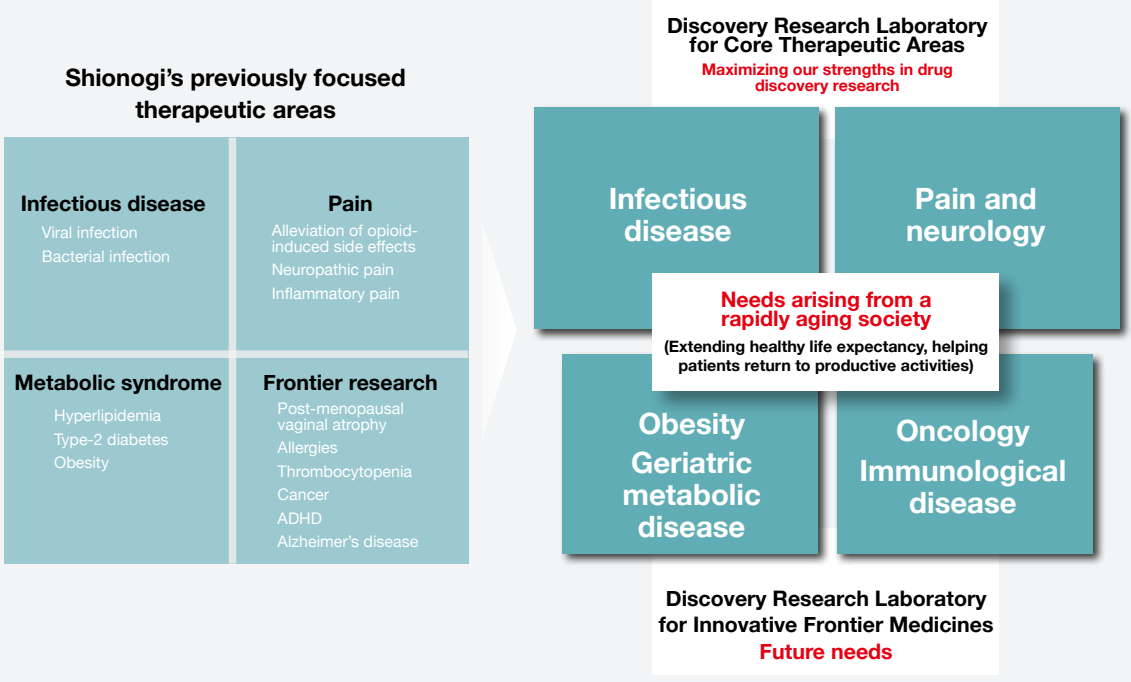
Our vision in SGS2020 is to grow as a drug discovery-based pharmaceutical company. Guided by this vision, we have positioned infectious diseases, pain and neurology as our core therapeutic areas, where we already have strengths in research and development. We plan to create a strong pipeline that produces a steady stream of new drugs in these areas. Also, in order to address the growing heathcare needs of rapidly aging societies, we plan to focus on obesity, geriatric metabolic diseases, oncology and immunological diseases as frontier therapeutic areas. In addition to these areas, we will step up our applied research using induced pluripotent stem cells (iPS), molecular imaging, biomarkers and PGx*, and boost clinical predictive performances in drug efficacy, safety and pharmacokinetics. We reorganized our research structure in April 2014 in order to focus our resources on these areas of research. We now have three research laboratories: the Discovery Research Laboratory for Core Therapeutic Areas, the Discovery Research Laboratory for Innovative Frontier Medicines and the Research Laboratory for Development.

In addition to in-house drug discovery efforts, we will work with the newly established Global Innovation Office (GIO), which now handles all Shionogi's alliance activities with external research organizations, in order to promote open innovation, step up new drug discovery based on external seeds and reinforce efforts to secure new technologies. The Pharmaceutical Research Division will work closely with the internal research and development organizations such as the CMC Development Laboratories and the Diagnostics Division, consolidated subsidiary Shionogi Techno Advance Research Co., Ltd. (STAR), and Shanghai Sun-sail Pharmaceutical Science & Technology Co., Ltd., the research arm of subsidiary C&O Pharmaceutical Technology (Holdings) Limited to develop new high-quality FIC and LIC drugs that address patient needs. These efforts will remain focused on the SPRC, guided by the slogan "SPRC for the patients."

*PGx (Pharmacogenomics): The use of genetic information in drug discovery research to create more effective medicines with fewer adverse effects.

FUTURE

A New Research Framework Based on Target Needs



Development

Developing new drugs rapidly and efficiently to help patients worldwide access the treatments they need as quickly as possible

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

Progress in Fiscal 2013

Postmenopausal vulvar and vaginal atrophy (VVA) treatment *Osphena* (generic name: *ospemifene*) was launched in the US in June 2013 and the drug is now on the path to regulatory approval in Europe.

After its launch in the US in August 2013, anti-HIV agent *Tivicay* (generic name: *dolutegravir*) received regulatory approval in Canada and Europe, and co-developer ViiV Healthcare Ltd. is planning to steadily extend the sales area into other markets. *Tivicay*'s success is based on the results of clinical and non-clinical studies implemented as part of joint development activities between Shionogi and ViiV. In October 2013, ViiV also filed new drug applications in the US and Europe for a three-drug combination formulation that includes *dolutegravir*.

In September 2013, Shionogi began global Phase III clinical studies (COMPOSE Program) for S-297995, which are designed to alleviate the adverse effects of opioid analgesics. This is the first ever global Phase III study conducted by the Shionogi Group. We currently have other drugs in Phase III trials, including thrombocytopenia treatment S-888711, which started Phase III trials in Japan in autumn 2013. We are now looking to start Phase II trials for S-888711 in the US and Europe.

In addition to the above two development drugs, a number of other potential global development compounds are currently progressing through clinical trials. These include S-649266, a treatment for severe infections caused by Gram-negative bacteria, now in Phase II trials in the US; anticancer compound S-222611, a dual tyrosine kinase inhibitor targeting HER2 and EGFR, currently in Phase I / II trials in Europe; and S-588410, a cancer peptide vaccine for the treatment of bladder cancer, which has entered Phase II trials in Japan and Europe.

Outcomes under the Third Medium-Term Business Plan

Dolutegravir
(S/GSK1349572)

Developed jointly with ViiV, *dolutegravir* has received regulatory approval in a number of markets after being approved in the US, Canada and Europe. The drug was also approved in Japan in March 2014. ViiV has now started global sales of the drug, which is winning support in the market. The U.S. Department of Health & Human Services has recommended *dolutegravir* as one of the first-choice drugs for treatment-naïve patients in its HIV treatment guidelines. These factors are likely to support sales growth going forward.

S-297995

S-297995 is designed to alleviate the adverse effects of opioid analgesics (constipation). The compound has entered global Phase III trials for the treatment of cancer and non-cancer patients. The global market for opioid analgesics was worth $14.8 billion in 2012, with the US, UK, Germany, Canada and France accounting for nearly 80% of global demand. Of the roughly 70 million patients receiving long-term administration of opioid analgesics in those five countries, approximately 40–50% (28–35 million) suffer from constipation.

SGS2020 Development Strategies

In fiscal 2014, we will push ahead with our large-scale global Phase III trials for S-297995, the first ever global study conducted independently by the Shionogi Group. Looking further ahead to our objectives for fiscal 2020, we will continue to develop compounds that will support the Group in the future. Right from early-stage development, we will work closely with the commercial and market access teams to create new therapies that address unmet medical needs and that take into health economics, while also developing new drugs that patients truly need.

In November 2013, we signed a deal with Mundipharma to co-develop abuse deterrent formulations of opioid analgesics, and we are also developing attention deficit hyperactivity disorder (ADHD) treatments with Shire. We have brought forward the development schedule for both treatments in order to address significant medical needs. Shionogi's CMC Development Laboratories are also helping to bolster our pipeline, using its product commercialization capabilities such as drug formulation techniques and chemical synthetic technologies to add significant value to development compounds and existing products.

Deteriorating drug development efficiency is an issue faced by the whole pharmaceutical industry. The Shionogi Group is devoting substantial time and effort to delivering improvements in this area. Development teams focus on productivity in all their activities, working to increase the efficiency and speed of drug development by channeling maximum resources into priority projects, cooperating with external partners in academia and business, and actively using external funding. Our overriding goal is to deliver medicines to patients worldwide as quickly as possible.

FUTURE

CMC Development Laboratories

CMC* capabilities are set to play an increasingly important role in realizing our vision for SGS2020 – to grow as a drug discovery-based pharmaceutical company.

To achieve Shionogi's SGS2020 objectives, the CMC Development Laboratories will endeavor to reduce the time needed to commercialize new products and increase the success rate of drug development activities, aiming to play an even greater role in enhancing the value of Shionogi's products worldwide.

We plan to switch to a hybrid business model that introduces other approaches to complement our existing focus on new compounds in drug development. This will mean developing new drugs based on recognized compounds, using new channels for product launches and developing drugs with new indications. We intend to actively develop CMC technologies that will become our core competences in the future.

Leveraging our CMC technologies, we will drive forward the development of innovative new drugs in-house to help patients access the best possible medicines as soon as possible.

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

*CMC (Chemistry, Manufacturing and Control): Drug substance manufacturing process studies, pharmaceutical development studies, and quality control studies

A Strong Pipeline

(As of August 2014)

Phase I	Phase II	Phase III	Submission / approval
7 compounds	11 compounds	8 compounds	6 compounds

Domestic Sales

We will contribute to Shionogi's global growth by boosting productivity through new approaches

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

Progress in Fiscal 2013

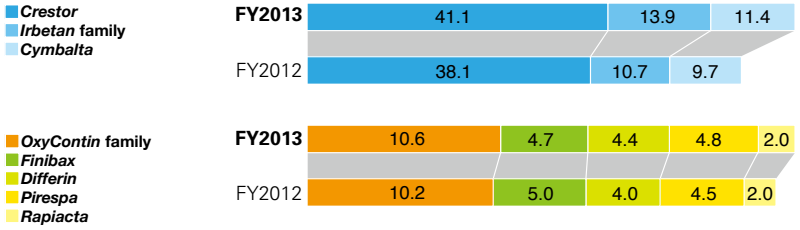
In fiscal 2013, we reviewed our domestic sales operations from scratch through a program called "Reborn 2013". In information provision activities, we went back to basics and refocused our activities on medical representatives (MRs). Specifically, we stepped up efforts to provide information from the standpoint of patients, launching a program called "TRINITY"* that distributes information, mainly about patients with diabetes. These efforts reinforced the domestic sales base, with sales of our 8 strategic products rising more than 10% year on year. These drugs now account for 55% of total domestic prescription drug sales. Although we still face a number of challenges, our new cost control methods are gradually gaining progress. By switching to better methods of information provision to boost efficiency, we have increased productivity per MR to ¥130 million.

Moreover, we are focusing on training and capability development to ensure our sales teams can continue to provide and collect high-quality information. We are strategically positioning our personnel from a long-term perspective, aiming to create powerful organizations with diverse human resources in optimum positions.

* TRINITY: A patient-focused initiative implemented across our operations aimed at enhancing information provision

Sales Target for 8 Strategic Products (Billions of yen)

FY2012 84.2 **UP 10.3%** **FY2013** 92.9



Outcomes under the Third Medium-Term Business Plan

Realizing 3 key strategies

Under the Third Medium-Term Business Plan, the domestic sales operations department realized 3 key strategies: focusing on new drugs, stepping up marketing to hospitals and improving productivity.

In the first area, focusing on new drugs, we channeled our efforts into 8 new strategic products, which led to steady sales growth each year. As a result, in fiscal 2009, around 60% of our sales activities were focused on 8 products, but this had risen to nearly 90% in fiscal 2013.

In the second area, stepping up marketing to hospitals, we established a hospital marketing team. We achieved some success by making a clear commitment to hospitals, helping them to improve cooperation with other hospitals.

In the third area, improving productivity, we increased productivity per MR from around ¥110 million in fiscal 2009 to ¥130 million in fiscal 2013.

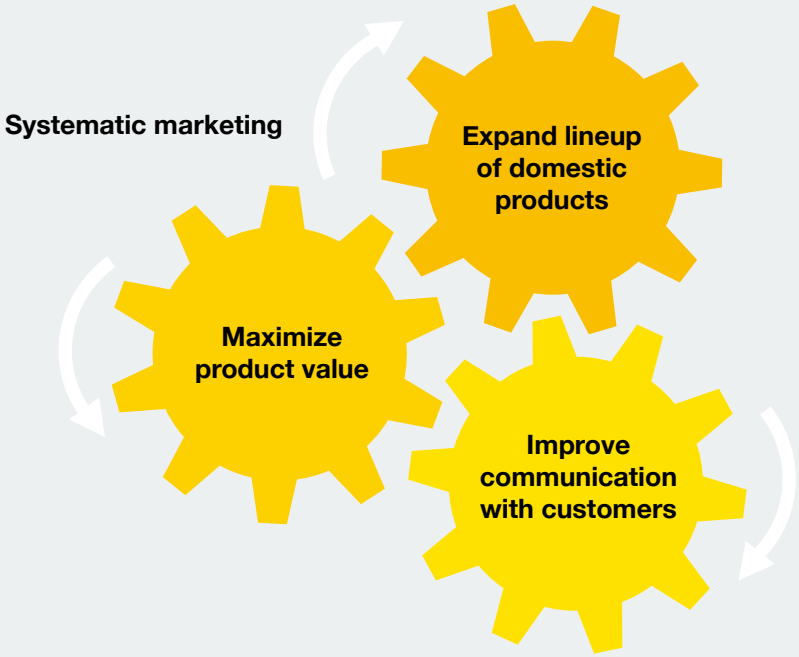
SGS2020 Sales Strategies

In the domestic sales department, we are responsible for the sales area that is driving Shionogi's growth. We therefore make an important contribution to the Group's profits. Our vision in 2020 is to become the best medical partner for patients and healthcare providers, aiming to deliver dramatic growth in sales and MR productivity. To realize this vision, we will expand our lineup of domestic products and reinforce lifecycle management to maximize the value of our products. Moreover, given rapid changes in the market environment, we will have to improve the way we communicate with customers. Using the communication channels requested by customers, we will provide patient-focused information and create internal systems that allow us to rapidly share information from frontline sales teams. Also, we intend to strengthen the medical affairs team to contribute to healthcare provision from an academic standpoint and enhance our capabilities as an organization to address customer needs, aiming to increase the quality of information provision.

Fiscal 2014 will be a challenging year due to the impact of drug price revisions and the front-loaded "Crestor Cliff." However, supported by the cost control capabilities we developed under the Third Medium-Term Business Plan, we will work toward our targets by stepping up our focus on the 8 strategic products and by reinforcing our ability to systematically respond to customer needs in order to maximize the value of our products.

FUTURE

2020 Vision: The best medical partner for patients and healthcare providers



Training and capability development

Manufacturing and Supply Chain

Combining stable supplies of high-quality products with competitive cost control to achieve a cost of sales ratio of under 25% and an inventory turnover of less than 5.5 months

Manufacturing

Takuo Fukuda
Executive Officer,
Senior Vice President,
Manufacturing Division

Progress in Fiscal 2013

We launched a number of new drugs in fiscal 2013, including *Irbetan* 200mg tablets in June 2013, *Metreleptin* for subcutaneous injection 11.25mg 'SHIONOGI' in July 2013, *Irtra* combination tablets LD/HD in September 2013, and *OxyContin* PTP20 tablets in February 2014. All our manufacturing plants played a key role in supplying these new products. We also started production of cephem antibiotic injection products at our Kanegasaki Plant as part of plans to transfer manufacturing of all cephem-based products from our Settsu Plant in fiscal 2014. After clearly defining the roles of each of our production sites, the Settsu and Kanegasaki plants have been tasked with ensuring stable supplies of high-quality products to customers worldwide. In fiscal 2013, we also continued to implement cost reduction measures, helping us to reduce the cost of sales ratio to 26.9%.

Supply Chain

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

Progress in Fiscal 2013

Centered on the Global SCM Division, which was established in fiscal 2013, we implemented a number of bold initiatives aimed at reducing variable expenses such as raw material costs and processing costs. These efforts helped us to find significant cost savings of ¥1.8 billion in fiscal 2013. We also launched a new project, led by the Global SCM Division, to reduce domestic inventories to more appropriate levels. Although this caused a temporary spike in the cost of sales, we ultimately cut inventories by ¥2.0 billion compared with the previous fiscal year. We plan to extend these efforts to overseas subsidiaries in fiscal 2014, supported by our efforts to create an internal inventory management system as part of efforts to improve cash flow.

FUTURE

SGS2020 Manufacturing Strategies

Under SGS2020, our focus will be on enhancing manufacturing technologies at proprietary facilities. Specifically, we aim to improve productivity in manufacturing processes and reduce costs while building a system with the capability to supply high-quality products that are competitive worldwide.

As we bring new drugs onstream, we plan to transfer the production of long-listed drugs to contract manufacturing organizations (CMOs). We will transfer manufacturing technology from our own plants to CMOs to ensure the quality of drugs remains just as high as when we made them in-house.

Going forward, the Manufacturing Division will strive to become a group of elite engineers with advanced skills in manufacturing technology, working with related divisions in the Group to play a key role in achieving two key targets in SGS2020: a cost of sales ratio of under 25% and an inventory turnover of less than 5.5 months.

SGS2020 Supply chain Strategies

The Global SCM Division will continue to work on building a global management system that allows us to continuously reduce costs and maintain inventories at healthy levels.

Establishing a global supply chain is vital to creating a stronger system that enables continuous cost reduction, one of our goals for fiscal 2020. We are targeting a cost of sales ratio of 25% by integrating suppliers and establishing a global inventory control system, while at the same time ensuring stable supplies of high-quality products.

We will also work to strengthen cash flow management, including reducing inventory turnover to 5.5 months, allowing the Group to actively invest so that it can grow as a drug discovery-based pharmaceutical company.

Global Business Operations

Focusing on expanding sales of *Osphena* in the US to drive growth in our global business in the US, Europe and Asia

Masaaki Takeyasu
Corporate Officer,
Senior Vice President,
Global Business Division

Progress in Fiscal 2013

Operations at US subsidiary Shionogi Inc. have stabilized following its successful shift to a business model centered on new drugs. In June 2013, the company launched the Shionogi Group's first new global drug, postmenopausal vulvar and vaginal atrophy (VVA) treatment *Osphena* (generic name: *ospemifene*). Women's health is an area with significant unmet medical needs. In fiscal 2013, we channeled the Group's management resources into providing information about *Osphena*, aiming to grow it into a major new treatment option for women living with VVA. Although *Osphena* sales fell short of our first-year targets, prescriptions are rising steadily, supported by the provision of safety and efficacy data to physicians and the impact of TV commercials and other activities aimed at raising awareness among VVA sufferers.

In Europe, we pushed ahead with global drug development through cooperation with teams in Japan and the US. *Ospemifene* is currently awaiting regulatory approval in Europe and we are preparing to launch the drug in the EU. In order to maximize the value of *ospemifene*, the Group is taking steps to ensure the drug contributes to the Group's growth over the medium- and long-term, such as cultivating demand in Asia and other markets based on local needs.

FUTURE

SGS2020 Global Business Strategies

Under SGS2020, we will target management resources on the priority markets of the US and Japan, which have been flagged as the Group's growth markets for the next three years. In the US, our main goal is to rapidly boost sales of *Osphena*, which we have positioned as a key growth driver in our global business operations. Of the roughly 10 million women in the US diagnosed with VVA, only about 2.3 million have been prescribed medication, suggesting that a large number of women are still untreated. Due to the extremely sensitive nature of the condition, we have launched awareness activities targeting allied healthcare providers* to ensure patients can accurately explain their symptoms to physicians. Looking ahead, we plan to build a stronger presence for *Osphena* in the women's health field by leveraging sales synergies through the co-promotion of menopausal hot flashes treatment *Brisdelle* with Noven Pharmaceuticals, Inc. We will also work to realize our vision for Shionogi in 2020 by establishing a presence in the pain treatment field. Specifically, we intend to launch development compounds as early as possible, such as S-297995, now in global Phase III trials, and new formulations for prescription narcotics that are currently under development.

Europe and Asia, including China and Taiwan, have been positioned as the Group's growth markets from fiscal 2020. We intend to reinforce our operating base in those markets to prepare for the launch of drugs such as *ospemifene* and carbapenem antibiotic *doripenem*. In terms of new developments in Asia, we started full-scale operations at Shionogi Singapore Pte. Ltd. in April 2014 and began working to secure approval for drugs such as *ospemifene*. We will also look at moving into other ASEAN countries after assessing the healthcare systems, market conditions and economics of each market.

* Healthcare providers who are not doctors but work with them in healthcare provision

Global Business Operations

GLOBAL STRATEGY

Shionogi Head Office
- Create innovative new drugs
- Reinforce domestic sales capabilities
- Carry out global business management

Shionogi Limited
- Accelerate global development
- Select European sales partners

Shionogi Inc.
- Complete transition to new drug business model
- Rapidly expand sales of *Osphena*

C&O Pharmaceutical Technology (Holdings) Limited
- Build Shionogi's operating base in China
- Strengthen new drug development and sales

Transform Shionogi into a company that can develop proprietary products and sell them worldwide

Shionogi Inc.

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

Progress in fiscal 2013 and SGS2020 strategies for US

Fiscal 2013 was a year of milestones, the most significant being the launch of *Osphena*, the first new chemical entity filed, approved and introduced by Shionogi Inc. As the only oral, non-estrogen treatment for dyspareunia, a symptom of VVA due to menopause, *Osphena* addresses a significant unmet patient need. With our dedicated sales force and bold direct-to-consumer advertising campaign, we have laid the groundwork for consistently expanding awareness and deepening understanding of *Osphena*'s profile and the science supporting it. Our efforts are resulting in consistent month-over-month sales gains, providing a solid foundation for continued growth.

Achieving traction for *Osphena*, and encouraging open physician-patient dialogue regarding this area of women's sexual health, has established Shionogi's reputation as a committed innovator in a field that has been too long neglected. In fiscal 2014, maximizing the growth of *Osphena* will continue to be Shionogi Inc.'s primary focus. As we embark on this second year of the launch plan, we have strong programs in place, and new plans to further augment them, to meet our objectives of providing positive outcomes for the patients we serve and contributing as a core member of the Shionogi Group. With respect to Shionogi Inc.'s plans to achieve the goals set forth in SGS2020, realizing *Osphena*'s full potential remains central, supported by our intention to further expand our presence in the women's health area. We took the first step toward that expansion in fiscal 2013, with the establishment of our co-promotion agreement with Noven for *Brisdelle*, the first and only FDA-approved oral, non-estrogen treatment for moderate to severe hot flashes associated with menopause. We intend to further expand our women's health portfolio through additional partnerships.

Our experience in launching *Osphena*, particularly with respect to encouraging full and open communication between physicians and patients and driving innovation to offer new solutions to meet key medical needs, will serve us well as we prepare for future product launches and entry into new therapeutic areas. Consistent with its position in SGS2020 as one of Shionogi's pipeline therapeutic focus areas, we expect that pain will be the next therapeutic area into which Shionogi Inc.'s commercial activities will expand in the future. The pain-related potential therapies in our development pipeline continue to progress well, including naldemedine, in Phase III for opioid-induced constipation, and our collaborative efforts with Egalet for the development of abuse-deterrent oral hydrocodone products.

We believe that Shionogi Inc. is well positioned to achieve both our goals for fiscal 2014 and the longer-term objectives described in SGS2020, and look forward to making an ever greater contribution to Shionogi globally.

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

US women population
157 million
×41%

Postmenopausal (>45 years)
64 million
×50%

Number of women with VVA 32 million
× 30%

VVA-diagnosed patients
9.6 million
× 24%

Patients treated with prescription drugs
2.3 million

Unmet medical need
Estimate more than 60% of women are not treated with prescription drugs

Potential Patients

Takashi Takenoshita
CEO
Shionogi Limited

Shionogi Limited

Progress in fiscal 2013 and SGS2020 strategies for Europe

UK subsidiary Shionogi Limited was established in February 2012 as one of Shionogi's development centers. In fiscal 2013, the company's second year, we built proprietary drug development capabilities and pushed ahead with global development projects such as S-297995, S-222611 and cancer peptide vaccines. Shionogi Limited has also filed for regulatory approval for *ospemifene* in Europe.

Under SGS2020, we are working to transform Europe into one of Shionogi's four key markets to contribute to the Group. That will mean developing new global drugs, working with alliance partners and building a sales network in Europe's main markets to grow sales.

Xu Yan
President
C&O Pharmaceutical
Technology (Holdings) Limited

C&O Pharmaceutical Technology (Holdings) Limited

Pharmaceutical market in China

China's revised Good Supplying Practice for Pharmaceutical Products (revised GSP standards) came into effect in June 2013, and we were also required to comply with new Good Manufacturing Practices (GMP standards) for injectable drugs from January 2014. Also, in July 2013, a drug company operating in China was alleged to have used bribery to boost drug sales. Against this backdrop, we decided to implement activities to raise awareness among our employees about compliance with laws and regulations in order to further improve the quality of our operations.

SGS2020 strategies for China

Price competition is becoming more severe in China's pharmaceutical market and the government has switched the focus of economic policies to "quality" growth. As a result, the pharmaceutical industry is starting to see drug companies fall by the wayside through natural attrition. In order to grow as a new drug development company, we have positioned fiscal 2014 – the first year of SGS2020 – as a key period to shift to an operating structure that enables us to compete on price even with limited resources. In addition to the continued promotion of existing antibiotics *Amolin* and *Flumarin*, we plan to launch *rabeprazole* as an injectable treatment for stomach and duodenal ulcer bleeding when oral treatment is not available and switch to a sales system focused on new drugs, aiming to play our part in achieving the SGS2020 objectives.

Cheng Chih-fang
President
Taiwan Shionogi & Co., Ltd.

Taiwan Shionogi & Co., Ltd.

Pharmaceutical market in Taiwan

Taiwan's pharmaceutical market is currently worth around NT$130 billion (around ¥450 billion). However, in order to control rising drug costs, the government has announced that it will reduce drug reimbursement prices each year from fiscal 2014. The authorities have already started introducing this new policy using a trial-and-error approach. Also, PIC/S* GMP standards are due to be fully implemented from 2015. These developments mean it will be increasingly important to reliably supply products that meet the new standards at low cost.

* PIC/S: The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme

SGS2020 strategies for Taiwan

Taiwan Shionogi is marking its 50th anniversary in 2014. Over the last 50 years, we have expanded sales of antibiotics and other Shionogi products in Taiwan. Looking ahead, we intend to play a key role in promoting the adequate use of anti-infective agents in Asia. Building on our success with antibiotic *Finibax*, we will actively work to secure regulatory approval for drugs such as *Rapiacta*, an antiviral drug for influenza, and *Pirespa*, an idiopathic pulmonary fibrosis treatment.

Corporate Governance

Members of Boards (As of June 25, 2014)

Directors

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
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)

Attended 11 of 12 Board of Directors' meetings

Message from Outside Director (Akio Nomura)

Since my appointment as an outside director in 2009, 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 ensure transparency in its own decision-making and actively disclose information. Shionogi's Board of Directors makes open and fair management decisions, always mindful of its accountability.

Placing importance on my neutrality as an outside director, I contribute to highly transparent management by providing advice that draws on my experience as a business manager and my expertise in the financial sector in the Kansai region. I am doing my part to ensure Shionogi is a widely trusted company.

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)

Attended 11 of 12 Board of Directors' meetings

Message from Outside Director (Teppei Mogi)

As a lawyer, I have been involved in many compliance cases related to anti-trust law, anti-corruption law and environmental law. With Japanese companies now expanding their global presence, managers need to be fully aware of their legal obligations when conducting business overseas, not just in Japan. Also, from a risk management perspective, companies have to identify potential risks early on and conclude contracts that spread risk appropriately among all related parties.

In my role as outside director, I contribute to appropriate decision-making by drawing on my extensive experience of international legal affairs to offer expert advice about global legal compliance and risk management.

Outside Director
Katsuhiko Machida

1998 President, Sharp Corporation
2007 Chairman, Sharp Corporation
2008 Outside Director, Sekisui House, Ltd.
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)

Attended all 12 Board of Directors' meetings

Message from Outside Director (Katsuhiko Machida)

The manufacturing sector, including pharmaceuticals and electronics, is a vital sector that plays an extremely important role for a resource-poor country like Japan. The Japanese government views pharmaceuticals as an especially important growth industry, but amid increasing uncertainty surrounding the global economy and escalating competition in Japan and overseas, corporate management teams are under growing pressure to make faster decisions that take into account all potential risks and rewards.

As an outside director, I contribute to the management of Shionogi by helping to reinforce business oversight and by providing a broader perspective to management decisions based on an objective stance that emphasizes the interests of shareholders and other external stakeholders.

Members of the Board of Auditors

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, Finance & Accounting Department
2004 Corporate Officer and General Manager, Finance & Accounting Department
2004 Corporate Officer and General Manager, Finance & Accounting Department and General Manager, International Business Department
2006 Corporate Officer and Corporate Business Management Executive and General Manager, Finance & Accounting Department
2007 Executive Officer and Corporate Business Management Executive
2008 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
2008 Outside Member of the Board of Auditors of the Company (incumbent)
2010 Outside Corporate Auditor, Sumitomo Chemical Co., Ltd. (incumbent)
2014 Director, Corporate Advisor, Sumitomo Life Insurance Company (incumbent)

Attended all 12 Board of Directors' meetings
Attended all 7 Board of Auditors' meetings

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)

Attended 10 of 12 Board of Directors' meetings
Attended all 7 Board of Auditors' meetings

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.
2012 Outside Director, Gurunavi, Inc. (incumbent)
2013 Outside Member of the Board of Auditors of the Company (incumbent)

Attended all 10 Board of Directors' meetings
Attended all 5 Board of Auditors' meetings
(Attendance since appointment on June 26, 2013)

Corporate Officers

Senior Executive Officer
Takuko Sawada

Executive Officers
Takuo Fukuda
Ryuichi Kume, Ph.D.
Yoshiaki Kamoya

Corporate Officers
Hirosato Kondo, Ph.D.
Kohji Hanasaki, Ph.D.
Takayuki Yoshioka, Ph.D.
Kiyoshi Nagata, Ph.D.
Masaaki Takeyasu
John Keller, Ph.D.
Shinya Matsuzawa
Kazuhiro Hatanaka

Corporate Governance

The Shionogi Group recognizes that its social mission is to continually discover, develop and provide useful and safe medicines that help improve the health and medical treatment of people around the world, as well as their quality of life. Shionogi also recognizes that continuously and faithfully accomplishing this mission will help to enhance 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 Structure (As of March 2014)

Annual General Meeting of Shareholders

In order to create a more actively engaged shareholder body and ensure resolutions pass smoothly, Shionogi sends out shareholder convocation notices three weeks before the Annual General Meeting of Shareholders to give shareholders time to carefully consider the resolutions proposed by the Company. Shionogi has also introduced an electronic voting system to allow shareholders to exercise their voting rights using digital media such as the Internet.

Appointment / Dismissal

Appointment / Dismissal

Independent Accounting Auditors

Report

The members of the Board of Auditors receive reports on the details of accounting audits from the independent accounting auditors, exchange opinions and take other actions in response to the reports.

Board of Auditors / Members of the Board of Auditors

Audit

Report

The Board of Auditors has five members, including three outside members. The members of the Board of Auditors attend important management meetings, such as meetings of the Board of Directors and Corporate Executive Meetings, providing their opinions as necessary. Also, in accordance with the corporate auditing standards, members of the Board of Auditors conduct business and accounting audits to verify whether directors and corporate officers responsible for business execution are carrying out their duties in a legally compliant and appropriate manner.

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

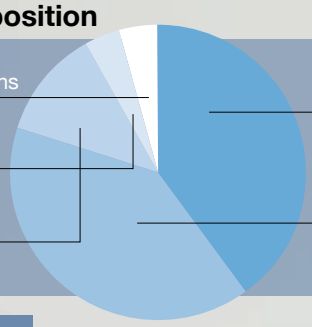
- There are no conflicts of interest between the Company and individual outside directors and outside members of the Board of Auditors and no risk of conflicts of interest with stakeholders.
- Selected individuals have outstanding insight and ability based on experience and specialist expertise relating 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 the Company's management team 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.

Internal Control Department

Audit

To ensure organizations in the Company conduct their duties in a legally compliant and appropriate manner, the Internal Control Department, which is responsible for conducting internal audits, carries out audits of business execution as necessary. There is also a system in place to implement necessary responses through reports to the representative directors and information sharing with members of the Board of Auditors.

Shareholder Composition



Other Japanese corporations
4.03%

Securities firms
4.13%

Individuals
11.77%

Financial institutions
40.15%

Foreign investors
39.90%

Note: Calculated excluding treasury stock

Appointment / Dismissal

Board of Directors / Directors

The Board of Directors has five members, including three outside directors in order to enhance management transparency and improve accountability to stakeholders. In principle, the Board of Directors meets every month to make decisions on matters that affect Shionogi's business and to oversee business execution.

Election / Dismissal / Supervision

Representative Directors

Corporate Executive Meeting

The Corporate Executive Meeting was established as a body to discuss business execution. In principle, the body meets each week and is composed of the directors and corporate officers responsible for business execution. The Corporate Executive Meeting discusses issues related to business execution and key management issues.

Corporate Officers
Departments / Group Companies

Nominating Advisory Committee

The Nominating Advisory Committee is an advisory body supporting the Board of Directors. The committee is chaired by an outside director and is tasked with assessing the appropriateness of candidates for the position of director.

Compensation Advisory Committee

The Compensation Advisory Committee is an advisory body supporting the Board of Directors. The committee is chaired by an outside director and assesses appropriate levels of compensation for directors in accordance with their duties.

Amount of Remuneration for Directors and Members of the Board of Auditors (Fiscal 2013)

Category	Amount of remuneration paid (¥ millions)				
	Persons remunerated	Base remuneration	Bonus	Stock options	Total
Directors	5	180	21	32	234
(Outside directors among directors)	(3)	(36)	(-)	(-)	(36)
Members of the Board of Auditors	6	92	-	-	92
(Outside members of the Board of Auditors among members of the Board of Auditors)	(4)	(36)	(-)	(-)	(36)
Total	11	273	21	32	326

Compliance Committee

The Compliance Committee, which is chaired by the President, formulates and implements a range of measures to enhance legal compliance and ethical behavior in the Group's business activities.

Corporate Governance

Risk Management

For major risks that could have a particularly large impact on the Group's operations, such as natural disasters, accidents and corporate scandals, the Shionogi Group follows the Compendium for countermeasures against such risks and Business Continuity Plan Guidelines based on its Crisis Management Policy, implementing crisis management processes that emphasize respect for human life, consideration and support for local communities and mitigation of damage to corporate value. The Group also identifies intrinsic risk factors in each of its organizational units and formulates response strategies to avoid or mitigate those risks.

Protecting Intellectual Property

Intellectual property is an extremely important business asset for pharmaceutical companies. Under our intellectual property strategy, we protect various innovations, such as drug compounds, indications, crystalline forms, manufacturing methods, formulations, drug discovery targets and basic research technologies. As part of drug in-licensing and out-licensing activities, we conduct due diligence with respect to intellectual property and take every possible step to prevent the Group's business activities from infringing a third party's intellectual property. We also carry out brand design activities aimed at building trust in the Shionogi brand and preventing counterfeiting. Shionogi works to protect its intellectual property, taking all legal means necessary if the Group's intellectual properties appears to have been infringed.

Rigorous Compliance

Fiscal 2013 was a year that again highlighted the need to ensure compliance and the importance of transparency, amid growing public concern about the reliability of physician-led clinical research, particularly with respect to the role of drug companies and the veracity of the research data.

Our business activities are underpinned by a corporate philosophy based on the high ideal of "everything we do is for patients." Needless to say, compliance is vital to ensure companies remain viable and continue to develop.

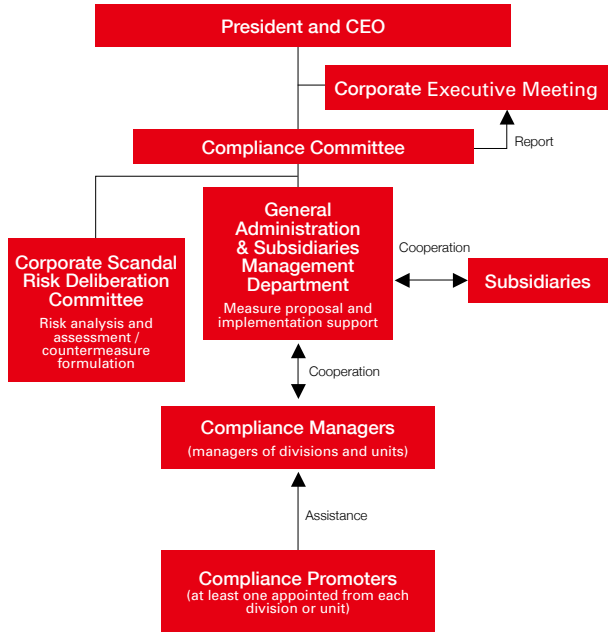
At the Shionogi Group, compliance goes beyond legal compliance to include ethical behavior as a member of society. To ensure legal compliance and ethical behavior in our business activities, we have developed the Shionogi Group Compliance Policy, which is based on a number of key tenets that we call the 2 Fundamentals & 5 Essentials. This policy has been released both internally and publicly. We use the policy to raise awareness in our workforce of the importance of compliance and require all our employees to implement its statements in practice.

In April 2013, we formulated the Shionogi Code of Practice, setting out standards expected of everyone in the Shionogi Group in their dealings with stakeholders. By enforcing this code, Shionogi will ensure the highest ethical standards and transparency and earn society's trust as a global company.

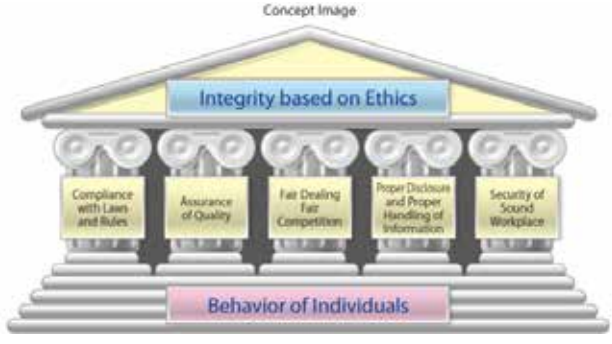
Also, in April 2014, we released the Shionogi Group Anti-Corruption / Anti-bribery Policy, stating our commitment to honest business transactions and competition.

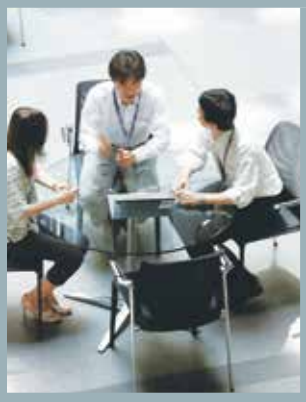
Led by the Compliance Committee, which is chaired by the President, we will implement various initiatives and conduct ongoing training to ensure all our employees always hold themselves to the highest ethical standards in order to support the Group's growth.

Compliance Promotion Structure (As of March 2014)



2 Fundamentals & 5 Essentials





HUMAN RESOURCES

Human Resources —Supporting Shionogi's Growth—

Research

Taking on the challenge of FIC drug discovery

A growing number of patients suffer from chronic pain in a rapidly aging society. At Shionogi, our efforts for the creation of new FIC*s have led to the discovery of development compound S-010887, an analgesic with a new mechanism of action. To achieve world-class speed and innovation in FIC drug discovery, we have combined the strengths of Shionogi's research activities including chemical synthesis and drug candidate evaluation at one location, the Shionogi Pharmaceutical Research Center (SPRC). This integrated approach was vital to discovering this new development compound. S-010887 demonstrates high levels of efficacy and safety and has moved into the clinical trial phase. We are working to ensure this new drug rescues the patients as quickly as possible, and also taking on the challenge for the discovery of next FICs.

*FIC: First-in-Class, Innovative medicines with particularly high novelty and efficacy that can significantly change the existing therapeutic paradigm.

Takayuki Kameyama
Pharmaceutical
Research Division

Development

Drug development with a global outlook

Under SGS2020, we are working to reduce drug development times and boost cost efficiency to global levels, in addition to ongoing efforts to carefully evaluate drug compound profiles and maximize value using clinical trial data. In order to achieve those global levels of competitiveness, we are focusing closely on what data is required from clinical trials and whether we can use new and more efficient methods of evaluation.

We take those points into consideration in the development of S-297995 (naldemedine), a treatment to alleviate opioid-induced adverse effects. My team is also working as one to ensure the drug reaches patients as quickly as possible.

Masatsugu Arai
Global Development
Clinical Research
Department

Global Business Operations

Fully committed to expanding sales of *Osphena*

I am excited to see what the future holds for Shionogi, *Osphena*, and the patients we serve. We will build on fiscal 2013, during which we experienced the opportunity and the challenges of bringing a first-in-class oral treatment for dyspareunia to a market unaccustomed to change. As a result of our efforts, we have made a solid start in the process of introducing a new alternative to the existing treatment paradigm for this condition. We have seen steady increases in the openness of providers to *Osphena* and in their level of confidence in prescribing it. Our direct to patient communications are encouraging patients to discuss dyspareunia and options for its treatment with their physicians. It is also rewarding to hear that Shionogi is perceived as a true advocate for patients. Post-menopausal women experiencing painful intercourse welcome an alternative to existing modalities. Their treatment success stories are our stories. Looking ahead, our focused and passionate sales team is well positioned and prepared for the next year in our launch plan. We have the momentum and are on our way.

Lee Smith
Shionogi Inc.
Regional Sales
Director

Future Shionogi Leaders – Human Resource Training Schemes –

Shionogi's basic stance on human resource development is that people are the source of the Company's competitiveness. With regard to the identification and development of leaders capable of supporting and accelerating our future growth, our senior executives are committed to human resource development and dedicated to the continuous education of our employees, in order to bring forth new leaders who can drive business innovation while maintaining full commitment to our mission to meet the challenges and needs of the society we serve.

Domestic Sales

We will consistently achieve our targets

Shionogi's vision in SGS2020 is to grow as a drug discovery-based pharmaceutical company. Our medical representatives (MRs), who are responsible for sales in Japan, are well aware that they play a crucial role in generating the profits we need to realize that vision. Given this role, we are looking closely at what areas we need to refocus our resources and efforts on to achieve our goals.

Our strengths lie in providing and collecting information from the perspective of patients, but all of our MRs need to raise their game further in this area in order to transform our organization into one that consistently achieves its targets.

Our new challenges are only just beginning.

Shingo Sotokawa
Human Health Care Division
Pharmaceutical
Promotion
Department

Manufacturing

Ensuring reliable supplies of medicines

We are implementing a project to build a new manufacturing wing at our Settsu Plant in order to increase production of strategic products and give us the capacity to supply new products. Supplying patients with drugs made at this facility, which has been designed with quality, speed and cost in mind, will give us immense satisfaction, but also a real sense of responsibility. To support the Group's future growth, we will continue to leverage all our proprietary manufacturing technologies while constantly working to ensure reliable supplies of Shionogi products.

Kouji Honda
Manufacturing Division
Engineering Technology
Department

Supply Chain

Never-ending cost reduction

As part of the global procurement group, we will work to achieve the head office objective of never-ending cost reduction through rigorous price negotiations with all our suppliers worldwide. Low prices are not our only objective. Our mission is to secure stable supplies of raw materials so that we can consistently supply medicines with the highest confidence. The current business environment makes price negotiations very challenging, but based on our belief that adversity brings opportunity, we will look at every option to secure price reductions of even one yen as we work to achieve our cost of sales ratio target of 25%.

Shoichi Kobayashi
Global SCM Division
Production Strategy
Department

Training courses for future Shionogi leaders

CSR

Fundamental Policy on CSR

In its Company Policy instituted in 1957, 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.” 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 corporate social responsibility (CSR). 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, society and the environment, and to earn the trust and understanding of society as a good corporate citizen.

Yoshiaki Kamoya
Executive Officer

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

(Established in April 1998. Revised in April 2012.)

Quality Assurance

In order to earn the trust of society, Shionogi is channeling all its efforts into ensuring the quality, safety and credibility of Shionogi-branded products.

Pharmaceutical products impact directly on human lives, so we constantly pay careful attention to risk management, working to ensure strict quality control in all activities involving Shionogi products – not just manufacturing, but also areas such as raw material procurement, based on the Shionogi Group's Procurement Policy. 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 leading products worldwide.

In recent years, product quality, customer satisfaction and appropriate usage of medicines have become increasingly important issues for pharmaceutical manufacturers, while new regulations such as ICH-Q10[*1] have been developed globally, requiring even closer monitoring of drug manufacturing activities through the establishment of pharmaceutical quality systems and management review processes.

Based on its mission of supplying pharmaceutical products of reliable efficacy, safety, and quality, the Shionogi Group works to ensure patients around the world can use Shionogi products with peace of mind. To realize this goal, the Group complies with the Shionogi Product Policy and strictly adheres to the Pharmaceutical Affairs Law and all other regulations governing processes from R&D through to product launch (GxP[*2]), actively working to enhance the reputation of the Shionogi brand.

Going forward, the Shionogi Group will work to deliver a sustained increase in corporate value to earn even higher levels of trust from medical professionals and other stakeholders.

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

*1 ICH-Q10 is a pharmaceutical quality system based on quality concepts developed by the International Organization for Standardization (ISO).

*2 GxP is a general abbreviation for Good Practice Standards – namely, GLP (Good Laboratory Practice), GMP (Good Manufacturing Practice), GCP (Good Clinical Practice), GVP (Good Pharmacovigilance Practice) and GPSP (Good Post-marketing Study Practice).

Shionogi Product Policy

In order to provide the highest quality of medicine essential for protection of the health of people,
the entire quality of activities relating to the products must be superior. To this end,
Shionogi hereby establishes the Shionogi Product Policy and executes it.

Pursuit of Product Quality
In order to contribute to the enhancement of people's health and medical treatment,
Shionogi continuously pursues globally acceptable and excellent product quality based on sound science,
throughout the stages from research and development to manufacturing and sales.

Customer Satisfaction
Shionogi considers what is needed by customers such as patients and gives them reassurance
by steadily supplying medicine that is reliable.

Appropriate Use
By providing accurate information, Shionogi promotes appropriate use of Shionogi products.

To realize the above,

Assurance of Reliability
Shionogi shall aim to provide superior products,
always operate based on virtuous moral standards, and comply with laws and regulations.
Shionogi shall reinforce risk management from a long-term viewpoint
and assume the social accountability as a pharmaceutical corporation.
Shionogi shall be supportive of environmental protection and promote activities friendly to the earth.
Shionogi shall confirm that all operations related to the product are appropriate,
and that the reliability of Shionogi products is assured.

Management Resources
Shionogi shall appropriately distribute management resources,
and construct and maintain a system necessary for this purpose.

(Established in November 2010)

CSR

Our Commitments to the Community

Working to control infectious diseases in developing countries

The Shionogi Group has started developing treatments for tuberculosis and malaria through the Global Health Innovative Technology (GHIT) Fund, aiming to play its part in improving healthcare and patient treatment in developing countries.

For Shionogi, a company that has focused on drug research in the infectious disease field for many years, this is a very important initiative to help save the lives of the many people who suffer from infections today. Roughly one-third of the world's population has a latent tuberculosis infection, with 8.8 million new cases each year and 1.4 million associated deaths.

Amid limited progress worldwide in combating tuberculosis, we have also teamed up with the international non-profit organization TB Alliance* to start a screening program aimed at identifying promising candidates for effective tuberculosis treatments from our library of drug compounds.

Based on our strong partnership with the TB Alliance, we are leveraging the Group's experience and strengths in the infectious disease field to deliver new drugs to tuberculosis patients as soon as possible. This is part of our wider mission as a pharmaceutical company to contribute to the health of people in developing countries and around the world.

* The Global Alliance for TB Drug Development (TB Alliance) is an international non-profit organization that plays an important role in the development of tuberculosis treatments. It receives funding from the Bill & Melinda Gates Foundation and other sources.

Global Health Innovative Technology Fund

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

Currently, there are over 1 billion people worldwide, mainly in developing countries, who are affected by diseases that can only be controlled with new drugs. The GHIT Fund was set up to utilize Japan's expertise and unused medical technologies to create new drugs, vaccines and diagnostic agents more quickly and reliably, delivering them to people in real need, especially in developing countries where the diseases are endemic. Through these efforts, the fund also aims to stimulate innovation in Japan, helping the country to become one of the leader players in the global health field.

Investor Relations that Address Equity Market Needs

Shionogi was selected in third place in the pharmaceuticals category of the 2013 Awards for Excellence in Corporate Disclosure, which are presented by the Securities Analysts Association of Japan (SAAJ). The selection process is carried out by securities analysts, who examine the investor relations (IR) activities of listed companies. Corporate disclosure is assessed using a range of criteria, including the quality, quantity and timing of disclosures.

Shionogi was praised for its disclosure of useful information that meets the needs of shareholders and investors, and for its active IR program. The program includes results briefings involving senior managers who clearly explain the Group's management strategies, individual IR meetings that provide further information, and specific briefings to explain developments in R&D and the HIV business. Building on this positive and objective feedback from securities analysts, who are familiar with companies in many sectors, the whole Group, including senior managers, will work to increase Shionogi's corporate value by promoting even closer communication with shareholders and investors and by conducting IR activities that address the needs of the equity market.

IR Program

Our Commitments to Employees

We are cultivating an autonomous workforce through our Career Development Program, based on the belief that people are the source of the Company's competitiveness.

Shionogi has introduced a human resources system that places great emphasis on producing results and behavior modification, with the aim of developing strong individuals and growing an organization that can compete globally. Our performance evaluation system is based on grading according to duties and remuneration that reflects wage rates. This promotes the development of our personnel while contributing to the achievement of organizational goals. In this way, we are encouraging all our employees to grow as individuals as they work towards achieving challenging targets.

Our basic stance on human resource development is that people are the source of the Company's competitiveness. Guided by this thinking, we help employees to build their careers at Shionogi from the moment they join us until they retire through our Career Development Program.

Going forward, we will continue to focus on cultivating autonomous employees, seeking to develop personnel who can grow as individuals and contribute to the growth of the organization through their own behavior modification. This will mean harnessing the strengths of all our employees and emphasizing their individuality so that work is rewarding and motivating for them every day.

Promoting Work-Life Balance

Shionogi believes that achieving work-life balance is vital to realizing its Company Policy and is thus promoting work-life balance 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 in order to supply the best possible medicines, our employees can feel satisfied and fulfilled and find greater richness in their lives by meeting their responsibilities and enhancing their skills and qualities as a human being. In June 2013, Shionogi was granted "Kurumin" certification by the Ministry of Health, Labour and Welfare's Osaka Labour Bureau under the Act on Advancement of Measures to Support Raising Next-Generation Children*1. This certification, which recognizes Shionogi as a company that supports child raising, was awarded in light of our efforts to increase support for child raising based on the General Employer Action Plan.

Maintaining and Improving Employee Health Based on the Shionogi Health Declaration

Under the Company Policy of Shionogi, our purpose is "to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." As part of our efforts to realize this goal, we have formulated the Shionogi Health Declaration, which states our overriding commitment to maintaining and improving the health of all our employees, as well as their families, who give them support. Specifically, we have teamed up with our health insurance association to provide a wider range of measures aimed at maintaining and promoting the health of our employees.

In terms of mental health initiatives, Shionogi has specialized physicians working as onsite industrial physicians and has established a counseling system that includes an outside employee assistance program (EAP)*2. 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 healthcare and external resource-based care.

*1 This law sets out the roles of the state, local public agencies, companies and citizens in order to create healthy environments for raising future generations of children.

*2 A program that provides support for employees' mental health.

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

"KURUMIN" CERTIFICATION

CSR

Our Commitments to the Environment

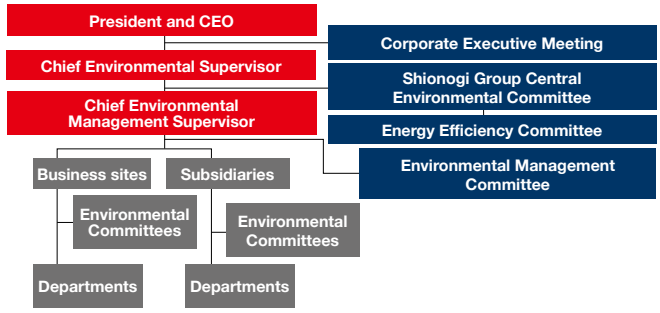
Efforts to Preserve the Environment

In conducting its business activities, the Shionogi Group is aware that it has an important corporate social responsibility to give appropriate consideration to the global and local environments. To reduce the environmental impact of all 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

Shionogi has acquired ISO 14001 certification for four business sites with a large environmental impact, namely manufacturing divisions and a research division. Shionogi Analysis Center Co., Ltd., a subsidiary that has operations at those business sites, has also secured ISO 14001 certification. In addition, Shionogi Pharma Chemicals Co., Ltd., a domestic manufacturing subsidiary, has secured this certification. We conduct internal environmental audits to confirm the status of environmental management systems, ensure compliance with environment-related laws and regulations and check whether environmental risk is being managed appropriately.

In fiscal 2013, in order to appropriately manage the environmental impact of our overseas manufacturing sites, we assigned an environmental manager and an environmental risk control manager at our Chinese pharmaceutical company, C&O Pharmaceutical Technology (Holdings) Limited (C&O), and worked to assess the company's environmental impact.



Compliance with Environmental Laws and Regulations

Shionogi is required to comply with a wide range of environmental regulations covering areas such as industrial waste management, energy management, prevention of atmospheric and water pollution and the handling of chemical substances. All our business sites share information about revisions to these regulations and ensure compliance with them through training and manual-based procedures. In fiscal 2013, an internal investigation revealed that some waste fluid was handled without confirming whether it contained genetically modified organisms. In another case, the concentration of sodium azide in a reagent was not accurately verified. In both cases, we reported the incidents to the relevant authorities and reinforced our training and management systems to prevent further incidents.

C&O Nanking Plant

Waste generated	CO_2 emissions	Water usage
288 tons	6,748 tons	161,000 tons

TOPICS

Our main Kanegasaki Plant, which carries out the entire spectrum of production, is rebuilding its onsite energy supply facility. The facility's steam boiler is currently powered by heavy fuel oil A. The upgrade will convert the boiler to natural gas, reducing emissions of the greenhouse gas CO_2 by 25%. An increase in onsite power generation capacity and the installation of special high-voltage transmission equipment will also ensure stable supplies of energy even during a disaster.

Benefits of upgrades to the plant's energy supply facility:

- **Overcome the issue of reduced electricity supplies from power companies**
- **Ensure stable supplies of energy due to special high-voltage transmission equipment that is highly reliable**
- **Achieve low-carbon society targets set by the Federation of Pharmaceutical Manufacturers' Associations of Japan***
- **Increase energy efficiency by 10%**
- **Eliminate the risk of prolonged power outages**

*Pharmaceutical manufacturers are aiming to reduce CO_2 emissions by 23% compared with the fiscal 2005 benchmark year by fiscal 2020.

Kanegasaki Plant LNG supply facility

Third-party Opinion

To improve the reliability and transparency of our environmental activity disclosures, we have asked experts at the Institute for Environmental Management Accounting (IEMA) to assess our environmental stance and environmental management status and to provide advice about future activities.

Professor Dr. Katsuhiko Kokubu
Dean of Graduate School of Business Administration, Kobe University and Director of IEMA

Eriko Nashioka
Representative Director of IEMA and Certified Public Accountant/Certified Tax Accountant

Targets of Phase 4 of the Shionogi Group Environmental Protection Plan: Fiscal 2013 Results

We are currently working to reduce the Group's total environmental impact by implementing initiatives under Phase 4 of the Shionogi Group Environmental Protection Plan (fiscal 2011 to fiscal 2015). The results of activities in fiscal 2013 are as follows:

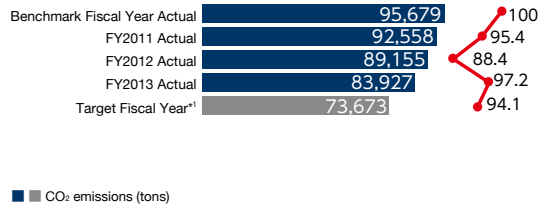
Targets	Fiscal 2013 Environmental Protection Plan Targets and Results

01 Promote measures to conserve energy and counter global warming

- **Reduce CO_2 emissions by 23% compared with 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.**

Measures to conserve energy and counter global warming

Emissions of CO_2 were reduced by 12% below the benchmark year level by switching to a different fuel at the Kanegasaki Plant, reviewing the use of cooling and air conditioning systems, upgrading transformers and heat pumps to highly efficient models and outsourcing the operation of distributions centers. The Basic Unit for Energy was adjusted to reflect current business operations, resulting in an improvement of 2.8% compared with the benchmark year.



■ ■ CO_2 emissions (tons)
— Basic Unit for Energy*2 (vs. FY2009)

*1 Fiscal year targets: fiscal 2020 for emission volumes, fiscal 2015 for the Basic Unit for Energy

*2 Basic Unit for Energy is calculated by dividing energy usage (crude oil basis) by total floor area

02 Strengthen conservation of resources and waste disposal measures

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

Conservation of resources and waste disposal measures

Building on efforts in the previous fiscal year, we worked to improve manufacturing processes, recover valuable materials from waste liquids and waste plastic, and reduce the volume of waste liquids and other materials through the application of the 3Rs: reduce, reuse and recycle. As a result, the volume of waste generated was reduced by 14% compared with the benchmark year and the landfill disposal rate improved to 1.4%.

■ ■ Waste generated (tons)
— Landfill disposal rate (%)

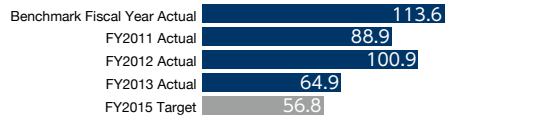
03 Strengthen management of chemical substances

- **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).**

Management of chemical substances

At the Kanegasaki Plant, we took a number of steps to reduce atmospheric emissions of dichloromethane, such as introducing detection devices to prevent leaks and adjusting the desorption settings for adsorption recovery equipment.

All PCB waste was treated in high-level waste facilities and supervisors were selected to appropriately manage low-level waste facilities.



■ ■ Atmospheric emissions of dichloromethane (tons)

04 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.**

Biodiversity

We carried out appropriate management of endangered plant species at the Company's botanical gardens at the Aburahi Facilities.

We also used visual training aids to raise awareness of biodiversity and conducted training at the research division about the Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms.

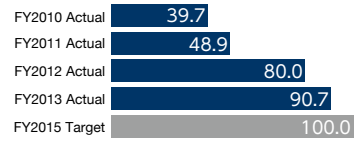
Aburahi Gardens

05 Promote the introduction of low-emission vehicles

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

Introduction of low-emission vehicles

Building on progress in the previous fiscal year, we continued to introduce hybrid vehicles. In fiscal 2013, hybrid vehicles accounted for 90.7% of all vehicles lent to MRs (excluding cold regions in Japan).



■ ■ Ratio of EVs and HVs (%)

11-Year Consolidated Financial Highlights

	Millions of yen				
	2004	2005	2006	2007	2008
For the years ended March 31:					
Net sales	¥200,485	¥199,365	¥196,389	¥ 199,759	¥214,268
Cost of sales	79,856	74,069	68,708	67,542	68,594
Selling, general and administrative expenses	100,337	96,567	98,455	103,354	105,275
Operating income	20,292	28,729	29,226	28,863	40,399
Income before income taxes and minority interests	5,178	31,655	38,798	31,723	39,963
Net income	2,204	18,942	22,735	18,595	25,064
Research and development expenses	29,808	29,409	32,257	37,456	40,290
Capital investments	5,853	5,001	11,132	11,107	13,069
Depreciation and amortization	9,705	9,412	8,653	8,798	10,666
As of March 31:					
Property, plant and equipment, net	¥ 71,993	¥ 68,191	¥ 64,251	¥ 67,815	¥ 70,378
Total assets	376,161	396,999	427,683	429,569	413,704
Total long-term liabilities	49,005	27,783	38,371	36,282	29,024
Total net assets	292,387	300,065	337,434	345,752	342,236
Per share amounts:					
Net income	¥ 6.06	¥ 54.64	¥ 66.55	¥ 54.61	¥ 74.21
Net assets	844.53	879.79	989.76	1,014.73	1,020.31
Dividends	8.50	12.00	16.00	16.00	22.00
Other:					
Equity ratio (%)	77.7	75.5	78.8	80.4	82.7
Return on equity [ROE] (%)	0.8	6.4	7.1	5.4	7.3
Payout ratio (%)	140.3	22.0	24.0	29.3	29.6

Notes:

1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥102.88 = US$1.00, the approximate rate of exchange on March 31, 2014.
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
2009	2010	2011	2012	2013	**2014**	**2014**
¥ 227,512	¥278,503	¥282,350	¥ 267,275	¥ 282,904	**¥ 289,717**	**$ 2,816,067**
70,929	76,264	81,737	77,753	78,575	**77,993**	**758,097**
124,568	149,801	153,721	142,519	144,764	**148,167**	**1,440,192**
32,015	52,438	46,892	47,003	59,565	**63,557**	**617,778**
30,786	58,541	33,135	41,495	58,307	**64,870**	**630,540**
15,661	38,626	20,027	27,102	66,728	**41,831**	**406,600**
52,822	51,808	50,921	53,599	53,021	**51,925**	**504,714**
10,875	12,547	17,967	13,233	11,447	**8,962**	**87,111**
13,468	18,048	17,966	16,282	11,912	**12,913**	**125,515**
¥ 71,812	¥ 62,448	¥ 70,221	¥ 74,282	¥ 78,474	**¥ 78,977**	**$ 767,662**
501,853	540,762	523,242	522,162	574,882	**584,803**	**5,684,322**
114,955	131,956	115,326	92,900	53,042	**33,721**	**327,770**
310,094	341,976	328,096	347,198	423,633	**472,413**	**4,591,884**
					Yen	U.S. dollars
¥ 46.75	¥ 115.33	¥ 59.80	¥ 80.93	¥ 199.25	**¥ 124.91**	**$ 1.21**
924.43	1,019.71	979.69	1,027.83	1,254.44	**1,398.78**	**13.60**
28.00	36.00	40.00	40.00	42.00	**46.00**	**0.45**
61.7	63.2	62.7	65.9	73.1	**80.1**	
4.8	11.9	6.0	8.1	17.5	**9.4**	
59.9	31.2	66.9	49.4	21.1	**36.8**	

Management's Discussion and Analysis

Overview of Results

In fiscal 2013, ended March 31, 2014, sales from existing products declined due to drug price revisions and government efforts to promote wider use of generic drugs. However, sales from the Company's eight strategic products increased and the Group as a whole reported higher sales year on year. In addition, Shionogi reported record operating income and ordinary income for the second consecutive period, supported by stabilizing operations overseas and success in holding down Groupwide cost increases.

Net Sales and Profits

Net Sales

Net sales increased 2.4% year on year to ¥289,717 million.

1. Domestic Sales of Prescription Drugs

Domestic sales of prescription drugs increased year on year. Sales of the Company's eight strategic products, centered on hyperlipidemia treatment *Crestor*, hypertension treatment *Irbetan* and antidepressant drug *Cymbalta*, increased 10.3% to ¥92,897 million, offsetting lower sales from existing products.

2. Exports and Overseas Subsidiaries

Sales from exports and overseas subsidiaries increased ¥3,413 million year on year. This reflected a steady contribution to sales from existing products and the launch of *Osphena* at US subsidiary Shionogi Inc. In addition, the subsidiary sold the rights to its non-steroidal anti-inflammatory drug *Naprelan* ahead of its imminent patent expiration.

3. Royalty Income

AstraZeneca's global sales of *Crestor* declined year on year, but royalty income increased on a yen basis due in part to a weaker yen.

Total royalty income increased year on year to ¥70,688 million.

Gross Profit

The cost of sales declined 0.7% to ¥77,993 million and the cost of sales ratio improved from 27.8% in fiscal 2012 to 26.9% in the fiscal year under review.

As a result, gross profit increased 3.6% year on year to ¥211,724 million.

Operating Income and Net Income

Operating income rose 6.7% year on year to ¥63,557 million. This reflected growth in net sales and the increase in gross profit due to efforts to improve the cost of sales ratio. In addition, an increase in costs from investment in new products at Shionogi Inc. was limited by ongoing Groupwide costs reductions.

Net income declined 37.3% year on year to ¥41,831 million. In the previous fiscal year, taxes and other expenses were much lower in the non-consolidated financial statements due to a loss on devaluation of investment in securities related to Shionogi Inc.

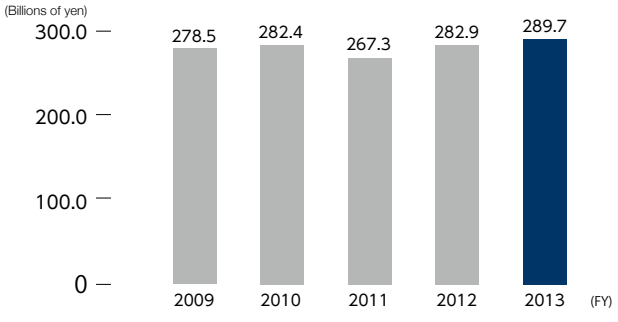
Segment Information

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. Although Shionogi analyzes sales for individual products and profits for each Group company, decisions on business strategy and the allocation of management resources, especially research and development expenses, are conducted on a Groupwide basis. Accordingly, segment information for the fiscal year under review has been omitted.

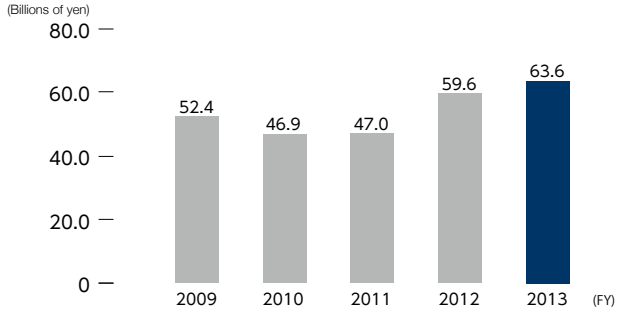
Research and Development Expenses

Under the Third Medium-Term Business Plan, the Shionogi Group worked to achieve world-class research productivity and deliver drugs rapidly to global markets through its research and development (R&D) activities. The Group made solid progress toward these goals. Shionogi continues to introduce new products and technologies that will support the Group's development in the future.

Net Sales



Operating Income



1. Research Activities

SPRC, the backbone of the Shionogi Group's research functions, has continued to energetically conduct activities aimed at strengthening cooperation within Shionogi's research organization, increasing candidates for development and improving the success rate in moving from non-clinical to clinical trials. As concrete results, S-010887, an analgesic agent for neuropathic pain with a novel mechanism of action, and S-237648, which is expected to demonstrate a high level of efficacy and safety as the successor product of obesity treatments S-2367 and S-234462, both advanced into new clinical stages. In addition, SPRC created an oral anti-influenza treatment with a novel mechanism of action as a development candidate using the know-how on antiviral drug research cultivated in the creation of *dolutegravir*. 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

In October 2013, ViiV filed for approval in the United States and Europe for a single-tablet regimen containing the anti-HIV drug *dolutegravir*, an HIV integrase inhibitor approved globally in 2013, and the anti-HIV drugs *abacavir* and *lamivudine*, which have different mechanism of action from *dolutegravir* (both are nucleoside reverse transcriptase inhibitors). 3 drugs combination therapy that includes two nucleoside reverse transcriptase inhibitors is a first-line treatment option in the current HIV treatment guidelines. Therefore, this single-tablet combination drug, which enables treatment with once-daily dosing, is expected to improve convenience for patients and contribute substantially to HIV treatment, which requires long-term adherence to therapy.

The Shionogi Group is steadily moving forward with development of compounds in its strong pipeline, including S-297995, which is in late-stage development for alleviation of opioid-induced adverse effects, and S-888711 for thrombocytopenia. The Shionogi Group will continue to move forward with faster, more effective development in Japan, the United States, Europe and Asia to enable the rapid supply of medicines that patients need to global markets.

3. In-Licensing of Products and Technologies

In the area of pain, one of the targeted therapeutic areas in the Third Medium-Term Business Plan, the Shionogi Group concluded a license agreement with Mundipharma in November 2013 for the exclusive rights to develop, manufacture and commercialize that company's opioid pain treatments (prescription narcotics) tamper-resistant *OxyContin* tablets and *Oxycodone/Naloxone* Combination tablets in Japan. Tamper-resistant *OxyContin* tablets are a formulation of the prescription narcotic *OxyContin* that has been modified to prevent it from being used improperly for non-medical uses. *Oxycodone/Naloxone* Combination tablets are an abuse-deterrent formulation that provides the pain relief of oxycodone while alleviating its adverse effects on the digestive system.

In a similar initiative, the Shionogi Group concluded a license agreement with U.S. company Egalet Corporation in November 2013 for the development and commercialization of hydrocodone opioid drugs that use Egalet's abuse-deterrent technology. Shionogi is in-licensing this technology for the purpose of fortifying its pipeline of pain medications in its overseas business. The technology is expected to have a synergistic effect in development and commercialization of S-297995, on which Shionogi is currently conducting multiple global Phase III clinical trials as a medicine that alleviates the side effects commonly induced by opioid pain medications.

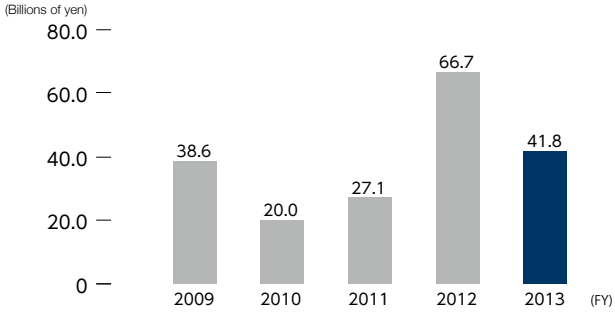
As a result of these activities, the Group's R&D expenses for fiscal 2013 totaled ¥51,925 million.

Cash Flows

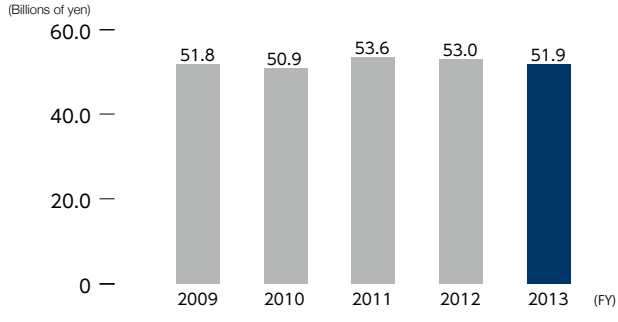
In fiscal 2013, net cash provided by operating activities totaled ¥79,496 million, an increase of ¥20,220 million compared with the previous fiscal year. This mainly reflected an increase in income before income taxes and minority interests and income taxes refunded.

Net cash used in investing activities totaled ¥20,040 million, an increase of ¥80 million year on year. Although capital expenditures were booked in the previous fiscal year for the construction of a beta-lactam injectable drug facility and a new production facility for high-potency active pharmaceutical ingredients, in the fiscal year under review, cash was mainly used for the purchase of government bonds.

Net Income



R&D Expenses



Net cash used in financing activities totaled ¥53,799 million, an increase of ¥16,112 million year on year, mainly reflecting the repayment of debt.

As a result, cash and cash equivalents as of March 31, 2014 totaled ¥108,338 million, an increase of ¥6,795 million compared with the end of the previous fiscal year.

Capital Investments

In fiscal 2013, capital investments by the Shionogi Group totaled ¥8,962 million, down ¥2,485 million, or 21.7%, year on year.

Of this amount, the Company invested ¥6,843 million, mainly in the construction of a new animal breeding facility at the Aburahi Facilities, while consolidated subsidiaries invested ¥2,119 million, mainly C&O Pharmaceutical Technology (Holdings) Limited in the construction a new injectable drug facility.

Assets, Liabilities and Net Assets

As of March 31, 2014, total assets stood at ¥584,803 million, an increase off ¥9,921 million from the end of the previous fiscal year. Current assets declined ¥13,715 million from the end of the previous fiscal year, mainly reflecting an increase in cash and cash equivalents and a decline in deferred income taxes. Investments and other assets increased ¥23,133 million from the end of the previous fiscal year, mainly due to an increase in investments in securities amid gains in valuations.

As of March 31, 2014, total liabilities stood at ¥112,390 million, a decline of ¥38,859 million from the end of the previous fiscal year. Current liabilities decreased ¥19,538 million, mainly reflecting a decline in short-term bank loans. Long-term liabilities decreased ¥19,321 million, mainly due to a drop in long-term debt.

As of March 31, 2014, net assets stood at ¥472,413 million, an increase of ¥48,780 million from the end of the previous fiscal year. Shareholders' equity increased ¥27,081 million, primarily reflecting a net increase in retained earnings after the addition of net income and the deduction of dividends. Accumulated other comprehensive income increased ¥21,250 million from the end of the previous fiscal year, mainly due to the impact of exchange rates and equity market conditions. Share subscription rights increased ¥85 million to ¥208 million and minority interests rose ¥364 million to ¥3,763 million.

Reflecting these factors, the ratio of total net assets to total assets increased to 80.1% from 73.1% at the end of the previous fiscal year.

Dividends

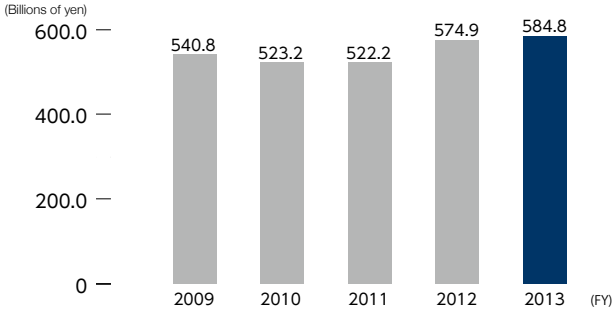
Targeting a consolidated dividend payout ratio of 40%, Shionogi has aimed to steadily raise dividends from a medium- to long-term perspective while distributing profits based on performance each fiscal year.

However, in October 2012, Shionogi revised its contract with ViiV Healthcare for HIV integrase inhibitor franchise products, resulting in a clearer outlook for earnings. In December 2013, Shionogi also modified its royalty income agreement for hyperlipidemia treatment *Crestor* with AstraZeneca, extending the contract period and creating a more stable outlook for profits. As a result of these developments, the Company has decided to adopt the dividend on equity (DOE) ratio as its benchmark for dividends, aiming to return profits to shareholders by steadily increasing the dividend in line with growth.

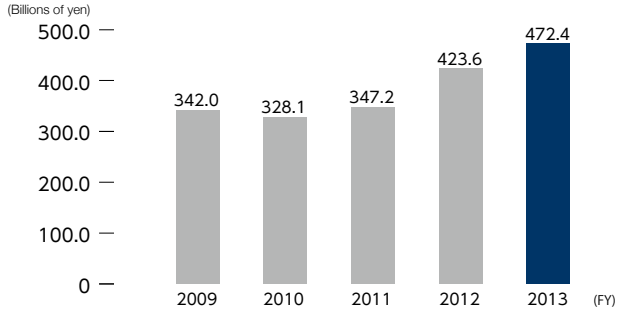
Based on this new policy, and taking into account recent earnings performance, the Company paid a year-end dividend of ¥24 per share for fiscal 2013. Including the interim dividend, the Company paid a full-year dividend of ¥46 per share, which equates to a DOE ratio of 3.5%.

Shionogi's Articles of Incorporation stipulate twice-yearly distributions of retained earnings through interim and year-end dividends wherever possible. The General Meeting of Shareholders must approve the year-end dividend, while the Board of Directors is required to approve the interim dividend.

Total Assets



Total Net 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, 2014.

(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 March 31, 2014). 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 Infringement Cases Initiated by the Shionogi Group

(as of July 2014)

Country	Products	Patents	Defendants	Court Filing Date	Current Status
US	*Doribax* (Japan product name: *Finibax*)	Substance	Sandoz Inc.	December 2011	Decision pending
US	*Doribax* (Japan product name: *Finibax*)	Crystalline structure	Sandoz Inc. Hospira, Inc.	December 2012	Decision pending

Consolidated Financial Statements

Consolidated Balance Sheet

March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	**2014**
Assets			
Current assets:			
Cash and cash equivalents (Notes 10 and 14)	**¥ 108,338**	¥ 101,543	**$ 1,053,052**
Short-term investments (Notes 6 and 14)	**6,000**	4,465	**58,320**
Notes and accounts receivable (Note 14):			
Affiliates	**503**	697	**4,889**
Trade	**63,788**	67,212	**620,023**
Other	**4,539**	3,067	**44,120**
Allowance for doubtful accounts	**(24)**	(12)	**(233)**
	68,806	70,964	**668,799**
Inventories (Note 7)	**48,370**	49,328	**470,159**
Deferred income taxes (Note 13)	**10,198**	21,036	**99,125**
Other current assets	**11,418**	19,509	**110,984**
Total current assets	**253,130**	266,845	**2,460,439**
Property, plant and equipment:			
Land (Note 9)	**9,755**	9,769	**94,819**
Buildings and structures (Notes 8 and 9)	**119,043**	119,343	**1,157,105**
Machinery, equipment and vehicles	**83,343**	80,982	**810,099**
Furniture and fixtures	**37,798**	36,894	**367,399**
Construction in progress (Note 8)	**6,864**	7,525	**66,719**
Accumulated depreciation	**(177,826)**	(176,039)	**(1,728,479)**
Property, plant and equipment, net	**78,977**	78,474	**767,662**
Investments and other assets:			
Investments in securities (Notes 6 and 14)	**147,902**	121,077	**1,437,617**
Investments in affiliates (Note 14)	**1,618**	1,552	**15,727**
Prepaid pension costs (Note 12)	**—**	25,272	**—**
Asset for retirement benefits (Note 12)	**19,047**	—	**185,138**
Goodwill (Note 8)	**42,879**	40,293	**416,787**
Marketing rights (Note 8)	**24,355**	24,048	**236,732**
Long-term prepaid expenses	**2,226**	4,493	**21,637**
Deferred income taxes (Note 13)	**8,016**	5,732	**77,916**
Other assets (Note 20)	**6,653**	7,096	**64,667**
Total investments and other assets	**252,696**	229,563	**2,456,221**
Total assets	**¥ 584,803**	¥ 574,882	**$ 5,684,322**

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	**2014**
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 14):			
Affiliates	**¥ 1,399**	¥ 1,434	**$ 13,598**
Trade	**8,229**	9,301	**79,987**
Construction	**4,718**	2,552	**45,859**
Short-term bank loans (Note 14)	**—**	7,500	**—**
Current portion of long-term debt (Notes 11 and 14)	**20,000**	31,500	**194,401**
Allowance for employees' bonuses	**7,071**	7,135	**68,731**
Provision for sales returns	**4,321**	6,459	**42,001**
Accrued expenses	**13,977**	20,600	**135,857**
Accrued income taxes (Notes 13 and 14)	**11,802**	1,079	**114,716**
Deferred income taxes (Note 13)	**—**	2	**—**
Other current liabilities (Notes 10 and 11)	**7,152**	10,646	**69,518**
Total current liabilities	**78,669**	98,207	**764,668**
Long-term liabilities:			
Long-term debt (Notes 11 and 14)	**10,035**	30,028	**97,541**
Accrued retirement benefits for employees (Note 12)	**—**	8,995	**—**
Liability for retirement benefits (Note 12)	**9,967**	—	**96,880**
Deferred income taxes (Note 13)	**12,628**	12,757	**122,745**
Long-term accounts payable — other	**354**	219	**3,441**
Other long-term liabilities (Notes 11 and 20)	**737**	1,043	**7,163**
Total long-term liabilities	**33,721**	53,042	**327,770**
Contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity (Note 17):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2014 and 2013	**21,280**	21,280	**206,843**
Capital surplus	**20,227**	20,227	**196,608**
Retained earnings	**434,103**	407,008	**4,219,508**
Less treasury stock, at cost	**(19,756)**	(19,742)	**(192,030)**
Total shareholders' equity	**455,854**	428,773	**4,430,929**
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	**25,290**	16,055	**245,820**
Deferred loss on hedges (Note 15)	**—**	(450)	**—**
Translation adjustments	**(6,114)**	(24,267)	**(59,428)**
Retirement benefit liability adjustments	**(6,588)**	—	**(64,036)**
Total accumulated other comprehensive income (loss), net	**12,588**	(8,662)	**122,356**
Share subscription rights	**208**	123	**2,022**
Minority interests	**3,763**	3,399	**36,577**
Total net assets (Note 21)	**472,413**	423,633	**4,591,884**
Total liabilities and net assets	**¥584,803**	¥574,882	**$5,684,322**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	2014
Net sales (Notes 9 and 22)	¥289,717	¥282,904	$2,816,067
Cost of sales (Notes 7 and 9)	77,993	78,575	758,097
Gross profit	211,724	204,329	2,057,970
Selling, general and administrative expenses (Note 18)	148,167	144,764	1,440,192
Operating income	63,557	59,565	617,778
Other income (expenses):			
Interest and dividend income	2,067	2,073	20,091
Interest expense	(888)	(1,123)	(8,631)
Litigation expenses	(1,236)	(716)	(12,014)
Gain on sales of fixed assets	4,203	228	40,853
Gain on sales of investments in securities (Note 6)	555	1,019	5,395
Gain on exchange of investments in securities	—	40,434	—
Loss on impairment of fixed assets (Note 8)	(879)	(40,836)	(8,544)
Business structure improvement expenses (Note 18)	(841)	—	(8,174)
Litigation settlement (Note 18)	(651)	(489)	(6,328)
Contract termination costs (Note 18)	(501)	(159)	(4,870)
Loss on disposal of fixed assets (Note 8)	(472)	—	(4,588)
Loss on devaluation of inventories (Note 7)	(451)	—	(4,384)
Loss on devaluation of investments in securities (Note 6)	(7)	(124)	(68)
Loss on sales of fixed assets	—	(329)	—
Loss on disaster	—	(270)	—
Special retirement benefit expenses	—	(90)	—
Other, net	414	(160)	4,024
	1,313	(542)	12,762
Income before income taxes and minority interests	64,870	58,307	630,540
Income taxes (Note 13):			
Current	11,562	764	112,383
Deferred	11,376	(9,295)	110,575
	22,938	(8,531)	222,958
Income before minority interests	41,932	66,838	407,582
Minority interests	(101)	(110)	(982)
Net income (Note 21)	¥ 41,831	¥ 66,728	$ 406,600

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	**2014**
Income before minority interests	**¥41,932**	¥66,838	**$407,582**
Other comprehensive income (loss):			
Net unrealized holding gain on securities	**9,235**	8,326	**89,765**
Deferred gain (loss) on hedges	**450**	(309)	**4,374**
Translation adjustments	**18,957**	14,907	**184,263**
Other comprehensive income, net (Note 19)	**28,642**	22,924	**278,402**
Comprehensive income	**¥70,574**	¥89,762	**$685,984**
Comprehensive income attributable to:			
Shareholders of Shionogi & Co., Ltd.	**¥69,669**	¥89,286	**$677,187**
Minority interests	**905**	476	**8,797**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2014

	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities
Balance at April 1, 2012	¥21,280	¥20,227	¥353,676	¥(19,746)	¥375,437	¥ 7,729
Net income	—	—	66,728	—	66,728	—
Dividends	—	—	(13,395)	—	(13,395)	—
Disposal of treasury stock	—	—	—	8	8	—
Purchases of treasury stock	—	—	—	(4)	(4)	—
Other changes	—	—	(1)	—	(1)	8,326
Balance at April 1, 2013	**21,280**	**20,227**	**407,008**	**(19,742)**	**428,773**	**16,055**
Net income	**—**	**—**	**41,831**	**—**	**41,831**	**—**
Dividends	**—**	**—**	**(14,736)**	**—**	**(14,736)**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**(14)**	**(14)**	**—**
Other changes	**—**	**—**	**—**	**—**	**—**	**9,235**
Balance at March 31, 2014	**¥21,280**	**¥20,227**	**¥434,103**	**¥(19,756)**	**¥455,854**	**¥25,290**

	Millions of yen						
	Deferred loss on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income (loss), net	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2012	¥(141)	¥(38,809)	¥ —	¥(31,221)	¥ 59	¥2,923	¥347,198
Net income	—	—	—	—	—	—	66,728
Dividends	—	—	—	—	—	—	(13,395)
Disposal of treasury stock	—	—	—	—	—	—	8
Purchases of treasury stock	—	—	—	—	—	—	(4)
Other changes	(309)	14,542	—	22,559	64	476	23,098
Balance at April 1, 2013	**(450)**	**(24,267)**	**—**	**(8,662)**	**123**	**3,399**	**423,633**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**41,831**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(14,736)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(14)**
Other changes	**450**	**18,153**	**(6,588)**	**21,250**	**85**	**364**	**21,699**
Balance at March 31, 2014	**¥ —**	**¥ (6,114)**	**¥(6,588)**	**¥12,588**	**¥208**	**¥3,763**	**¥472,413**

	Thousands of U.S. dollars (Note 5)					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities
Balance at April 1, 2013	**$206,843**	**$196,608**	**$3,956,143**	**$(191,894)**	**$4,167,700**	**$156,055**
Net income	**—**	**—**	**406,600**	**—**	**406,600**	**—**
Dividends	**—**	**—**	**(143,235)**	**—**	**(143,235)**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**(136)**	**(136)**	**—**
Other changes	**—**	**—**	**—**	**—**	**—**	**89,765**
Balance at March 31, 2014	**$206,843**	**$196,608**	**$4,219,508**	**$(192,030)**	**$4,430,929**	**$245,820**

	Thousands of U.S. dollars (Note 5)						
	Deferred loss on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income (loss), net	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2013	**$(4,374)**	**$(235,876)**	**$ —**	**$ (84,195)**	**$1,196**	**$33,038**	**$4,117,739**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**406,600**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(143,235)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(136)**
Other changes	**4,374**	**176,448**	**(64,036)**	**206,551**	**826**	**3,539**	**210,916**
Balance at March 31, 2014	**$ —**	**$ (59,428)**	**$(64,036)**	**$122,356**	**$2,022**	**$36,577**	**$4,591,884**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	**2014**
Operating activities			
Income before income taxes and minority interests	**¥ 64,870**	¥ 58,307	**$ 630,540**
Adjustments for:			
Depreciation and amortization	**12,913**	11,912	**125,515**
Impairment loss on fixed assets	**879**	40,836	**8,544**
Amortization of goodwill, net	**2,713**	3,204	**26,371**
(Gain) loss on sales or disposal of fixed assets	**(3,290)**	656	**(31,979)**
Gain on sales of investments in securities	**(555)**	(1,019)	**(5,395)**
Loss on devaluation of investment in securities	**7**	124	**68**
Gain on exchange of investments in securities	**—**	(40,434)	**—**
Decrease in accrued retirement benefits for employees	**—**	(2,261)	**—**
Decrease in liability for retirement benefits	**(3,034)**	—	**(29,491)**
Interest and dividend income	**(2,067)**	(2,073)	**(20,091)**
Interest expense	**888**	1,123	**8,631**
Other	**1,441**	1,935	**14,009**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**4,270**	(1,705)	**41,505**
Inventories	**774**	1,233	**7,523**
Other current assets	**(1,301)**	1,395	**(12,646)**
Notes and accounts payable	**(1,269)**	1,965	**(12,335)**
Accrued expenses	**(2,673)**	7,986	**(25,982)**
Other current liabilities	**(5,656)**	(5,177)	**(54,977)**
Subtotal	**68,910**	78,007	**669,810**
Interest and dividends received	**2,049**	2,072	**19,916**
Interest paid	**(911)**	(1,077)	**(8,855)**
Income taxes refunded (paid)	**9,448**	(19,726)	**91,835**
Net cash provided by operating activities	**79,496**	59,276	**772,706**
Investing activities			
Increase in short-term investments	**(10,786)**	(5,159)	**(104,841)**
Proceeds from sales and redemption of short-term investments	**9,418**	9,451	**91,544**
Increase in investments in securities	**(5,585)**	(4,275)	**(54,286)**
Proceeds from sales and redemption of investments in securities	**653**	3,828	**6,347**
Purchases of property, plant and equipment	**(6,960)**	(12,769)	**(67,652)**
Proceeds from sales of property, plant and equipment	**4,728**	531	**45,956**
Purchases of intangible assets	**(10,437)**	(8,516)	**(101,448)**
Increase in investment in an affiliate	**—**	(2,751)	**—**
Purchases of investments in subsidiaries	**(954)**	—	**(9,273)**
Other	**(117)**	(300)	**(1,137)**
Net cash used in investing activities	**(20,040)**	(19,960)	**(194,790)**
Financing activities			
Net (decrease) increase in short-term loans payable	**(7,500)**	7,500	**(72,901)**
Proceeds from long-term debt	**—**	26	**—**
Repayment and redemption of long-term debt	**(31,500)**	(31,500)	**(306,182)**
Purchases of treasury stock	**(14)**	(4)	**(136)**
Cash dividends paid	**(14,718)**	(13,378)	**(143,060)**
Other	**(67)**	(331)	**(651)**
Net cash used in financing activities	**(53,799)**	(37,687)	**(522,930)**
Effect of exchange rate changes on cash and cash equivalents	**1,138**	1,226	**11,062**
Net increase in cash and cash equivalents	**6,795**	2,855	**66,048**
Cash and cash equivalents at beginning of year	**101,543**	98,688	**987,004**
Cash and cash equivalents at end of year	**¥108,338**	¥101,543	**$1,053,052**

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, 2013 to the 2014 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, 2014.

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 eighteen 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. For consolidation purposes, financial statements for this subsidiary are prepared as of and for the year ended December 31. As a result, adjustments have been made for any significant transactions taking place during the period from January 1 to March 31.

(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) and "Minority interests" 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. Cost of securities sold is determined by the moving average method. 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) Intangible assets

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

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.

(i) 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.

(j) Goodwill

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

(k) Research and development expenses

Research and development expenses are charged to income when incurred.

(l) 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.

(m) 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.

(n) 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.

(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) Retirement benefits

The asset and liability for retirement benefits are provided based on the amount of the projected benefit obligation after deducting pension plan assets at fair value at the end of the year.

The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Prior service cost is amortized as incurred 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 from the 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.

Unrecognized actuarial gain and loss and prior service cost, net of tax effect, are recognized as "Retirement benefit liability adjustments" in accumulated other comprehensive income (loss) as a component of net assets in the balance sheet.

(q) 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).

Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding contract rates (allocation method).

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.

(r) 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 23.)

3. Change in Accounting Policy

(Accounting Standards for Retirement Benefits)

Effective the year ended March 31, 2014, the Company partially adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 revised on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 revised on May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance). These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits. In case pension plan assets exceed the amount of the retirement benefit obligation, the excess amount is recorded as an asset for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded in retirement benefit liability

adjustments as a separate component of accumulated other comprehensive income.

Concerning the application of these accounting standards, based on the provisional treatment set out in Section 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefit liability adjustments as a separate component of accumulated other comprehensive income. As a result of this change, a liability for retirement benefits was recognized in the amount of ¥9,967 million ($96,880 thousand), an asset for retirement benefits was recognized in the amount of ¥19,047 million ($185,138 thousand), and accumulated other comprehensive income decreased by ¥6,588 million ($64,036 thousand) as of March 31, 2014.

In addition, net assets per share decreased by ¥19.67 ($0.19) as of March 31, 2014.

4. Accounting Standards Issued but Not Yet Effective

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25). However, the standard has not yet been fully adopted as of March 31, 2014.

The revised accounting standard allows a choice for the method of attributing expected benefits to periods between either the straight-line basis or the plan's benefit formula basis (the expected benefit attributed to periods of service under the plan's benefit formula would be deemed as arising in each period). In addition, the method used to determine the discount rate was revised.

The amendment of the calculation method for the present value of the retirement benefit obligation and service costs will be adopted effective the beginning of the year ending March 31, 2015. In accordance with the provisional treatment described in these accounting standards, the Company is not required to make retrospective adjustments to the prior year's consolidated financial statements.

The Company is currently evaluating the effect these modifications will have on its consolidated financial performance 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 ¥102.88 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2014. 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 has been omitted as there are no items to be disclosed for the year ended March 31, 2014 and due to its immateriality for the year ended March 31, 2013.

(2) Marketable securities classified as other securities at March 31, 2014 and 2013 were as follows:

	Millions of yen			
	2014			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	**¥ 25,128**	**¥33,926**	**¥(7)**	**¥ 59,047**
Government bonds, municipal bonds, etc.	**16,862**	**856**	**(2)**	**17,716**
Other securities	**85,100**	**816**	**—**	**85,916**
	¥127,090	**¥35,598**	**¥(9)**	**¥162,679**

	Millions of yen			
	2013			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	¥ 23,586	¥23,729	¥(336)	¥ 46,979
Government bonds, municipal bonds, etc.	14,853	877	(2)	15,728
Other securities	87,400	617	—	88,017
	¥125,839	¥25,223	¥(338)	¥150,724

	Thousands of U.S. dollars			
	2014			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	**$ 244,246**	**$329,763**	**$(68)**	**$ 573,941**
Government bonds, municipal bonds, etc.	**163,900**	**8,320**	**(20)**	**172,200**
Other securities	**827,177**	**7,932**	**—**	**835,109**
	$1,235,323	**$346,015**	**$(88)**	**$1,581,250**

Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted stocks of ¥65,323 million ($634,944 thousand) and ¥54,766 million at March 31, 2014 and 2013, respectively, are not included in the above table.

(3) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Proceeds from sales	**¥645**	¥3,843	**$6,269**
Gross realized gain	**555**	1,019	**5,395**
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 loss on devaluation of investments in securities of ¥7 million ($68 thousand) and ¥124 million for the years ended March 31, 2014 and 2013, respectively.

7. Inventories

Inventories at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise	¥ 4,559	¥ 5,076	$ 44,314
Finished goods	14,054	16,108	136,605
Semi-finished goods and work in process	16,818	19,372	163,472
Raw materials and supplies	12,939	8,772	125,768
	¥48,370	¥49,328	$470,159

Cost of sales included loss on devaluation of inventories of ¥1,304 million ($12,675 thousand) and ¥1,692 million for the years ended March 31, 2014 and 2013, respectively.

In addition, due to the termination of an agreement for sales of the antibiotic doripenem between the Shionogi Group and Johnson & Johnson, the Company has recorded a loss on devaluation of inventories of ¥451 million (¥4,384 thousand) on the portion of inventories transferred to the Company that are not available for sale for the year ended March 31, 2014.

8. Loss on Impairment and Disposal of 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.

Loss on impairment of fixed assets for the year ended March 31, 2014 is summarized as follows:

Location	Use	Classification	Millions of yen 2014	Thousands of U.S. dollars 2014
Aburahi Facilities (Koka, Shiga Prefecture)	Idle assets	Buildings, etc.	¥313	$3,042
Shionogi Pharma Chemicals Co., Ltd., C4 Building (Tokushima, Tokushima Prefecture)	Idle assets	Construction in progress	566	5,502
			¥879	$8,544

The Company has decided to dismantle idle assets at the Aburahi Facilities with the construction of a new animal breeding facility. As a result, the Company recorded a loss on impairment of fixed assets in an amount equal to the carrying value of these idle assets. In addition, the C4 building of Shionogi Pharma Chemicals Co., Ltd., which was a pharmaceutical research, development and production facility owned by the Company, has been classified as an idle asset because the original projects were suspended and there are no immediate plans to use it. As a result, Shionogi has recorded a loss on impairment charge equal to the carrying value of this asset.

In addition, the Company recorded a loss on disposal of fixed assets of ¥472 million ($4,588 thousand) regarding the disposal of idle assets at Aburahi Facilities for the year ended March 31, 2014.

Loss on impairment of fixed assets for the year ended March 31, 2013 is summarized as follows:

Location	Use	Classification	Millions of yen 2013
United States of America	Business for ethical pharmaceutical products	Goodwill	¥26,372
United States of America	Exclusive marketing rights for ethical pharmaceutical products	Marketing rights	14,464
			¥40,836

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.

9. Investment and Rental Properties

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

The information on these real estate properties at March 31, 2014 has been omitted due to its immateriality.

Rental income, net of related expenses relevant to these real estate properties, amounted to ¥1,100 million for the year ended March 31, 2013. 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

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.

10. Pledged Assets

Assets pledged as collateral at March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Cash and cash equivalents	¥7	$68

The corresponding liabilities secured by such collateral at March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Deposits received from employees (included in "other current liabilities")	¥7	$68

11. Long-Term Debt and Lease Obligations

Long-term debt and lease obligations at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unsecured loans from banks and financial institutions due through 2019 with an average interest rate of 2.0%	¥ 10,035	¥ 41,528	$ 97,541
Unsecured bonds due in 2014 with an average interest rate of 1.1%	20,000	20,000	194,401
Finance lease obligations (included in "other current liabilities" and "other long-term liabilities")	71	121	690
	30,106	61,649	292,632
Less current portion	(20,035)	(31,563)	(194,741)
	¥ 10,071	¥ 30,086	$ 97,891

Unsecured loans included loans without interest in the amount of ¥35 million ($340 thousand) and ¥27 million at March 31, 2014 and 2013, respectively.

The aggregate annual maturities of long-term debt and Lease Obligations subsequent to March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥20,035	$194,741
2016	60	583
2017	9	88
2018	2	19
2019	10,000	97,201
	¥30,106	$292,632

12. Retirement Benefits

1. Overview

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 it 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.

2. Defined benefit plans for the year ended March 31, 2014

The change in retirement benefit obligations is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations at beginning of the year	¥86,671	$842,447
Service cost	2,230	21,676
Interest cost	1,066	10,362
Actuarial gain	(1,174)	(11,411)
Retirement benefits paid	(2,044)	(19,868)
Prior service cost	(5,347)	(51,973)
Retirement benefit obligations at end of the year	¥81,402	$791,233

The change in plan assets at fair value is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at fair value at beginning of the year	¥85,763	$833,622
Expected return on plan assets	2,067	20,091
Actuarial gain	3,771	36,654
Contributions paid by the Company and consolidated subsidiaries	3,380	32,854
Retirement benefits paid	(4,499)	(43,730)
Plan assets at fair value at end of the year	¥90,482	$879,491

The balance of retirement benefit obligation and plan assets at fair value, and liabilities and assets recognized in the consolidated balance sheet are outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥ 79,039	$ 768,264
Plan assets at fair value	(90,482)	(879,491)
	(11,443)	(111,227)
Unfunded retirement benefit obligation	2,363	22,969
Net asset for retirement benefits in consolidated balance sheet	(9,080)	(88,258)
Liability for retirement benefits	9,967	96,880
Asset for retirement benefits	(19,047)	(185,138)
Net asset for retirement benefits in consolidated balance sheet	¥ (9,080)	$ (88,258)

The components of retirement benefit expenses for the year ended March 31, 2014 are outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 2,230	$ 21,676
Interest cost	1,065	10,352
Expected return on plan assets	(2,067)	(20,091)
Amortization:		
Actuarial loss	1,241	12,062
Prior service cost	(1,275)	(12,393)
Retirement benefit expenses	¥ 1,194	$ 11,606

The balance of unrecognized prior service cost and actuarial loss recognized in accumulated other comprehensive income, before tax effects, is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service cost	¥ (2,044)	$ (19,868)
Unrecognized actuarial loss	12,274	119,304
Total	¥10,230	$ 99,436

The percentage composition of each major category of plan assets at fair value at March 31, 2014 was as follows:

Asset class	2014
Equity securities	39%
General accounts controlled by life insurance companies	30
Debt securities	14
Other	17
Total	100%

Policy for determining expected long-term rate of return on plan assets

The expected long-term rate of return on plan assets is derived as a combination of the portfolio allocation of current and expected plan assets, and the forward-looking view of the long-term expected rates of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2014 are as follows:

	2014
Discount rate	1.2%
Expected long-term rate of return on plan asset	2.8%

3. Defined contribution plans for the year ended March 31, 2014

The total contribution paid by the Company and its consolidated subsidiaries to the defined contribution plans, including the multi-employer welfare pension plans, was ¥1,355 million ($13,171 thousand) for the year ended March 31, 2014.

4. Defined benefit plans for the year ended March 31, 2013

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:

	Millions of yen
	2013
Retirement benefit obligation at end of year	¥(86,671)
Fair value of plan assets at end of year	85,763
Unfunded status	(908)
Unrecognized actuarial loss	18,460
Unrecognized prior service costs	(1,275)
Net retirement benefit obligation	16,277
Prepaid pension costs	25,272
Accrued retirement benefits for employees	¥ (8,995)

The above table does not include special retirement benefit expenses paid.

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

	Millions of yen
	2013
Service cost	¥ 1,964
Interest cost	1,658
Expected return on plan assets	(2,040)
Amortization of actuarial loss	2,442
Amortization of prior service costs	(1,913)
Contributions to the defined contribution pension plan	1,113
Retirement benefit expenses	¥ 3,224

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

	2013
Discount rate	1.2%
Expected rate of return on plan assets	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%.

13. 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 a statutory tax rate of approximately 38.0% for the years ended March 31, 2014 and 2013.

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, 2014 and 2013 differ from the above statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	38.0%	38.0%
Expenses not deductible for income tax purposes	0.4	0.8
Dividends not taxable for income tax purposes	(0.4)	(0.7)
Amortization of goodwill	1.6	2.1
Tax credits	(6.5)	(0.0)
Inhabitants' per capita taxes	0.2	0.2
Difference in statutory tax rates of overseas subsidiaries	0.0	3.2
Consolidation adjustment for the sales of a consolidated subsidiary	(0.5)	(1.1)
Decrease in deferred tax assets due to change in statutory tax rates	0.4	(0.1)
Increase in valuation allowance	7.7	41.0
Difference incurred by preceding fiscal year's tax payment	(5.0)	—
Loss on valuation of investments in affiliates	—	(71.8)
Effect of organization restructuring	—	(26.6)
Other	(0.5)	0.4
Effective tax rates	35.4%	(14.6)%

The tax effects of temporary differences at March 31, 2014 and 2013 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Tax loss carry forwards	¥ 18,467	¥ 18,921	$ 179,500
Research and development expenses	12,385	14,783	120,383
Liability for retirement benefits	3,642	—	35,401
Accrued expenses and other current liabilities	3,613	3,836	35,119
Loss on revaluation of investments in securities	2,857	2,904	27,770
Allowance for employees' bonuses	2,469	2,685	23,999
Provision for sales returns	1,656	2,438	16,096
Accrued enterprise taxes	1,207	46	11,732
Other	6,963	4,840	67,681
Valuation allowance	(23,684)	(14,463)	(230,210)
Total deferred tax assets	29,575	35,990	287,471
Deferred tax liabilities:			
Unrealized gain on other securities	(10,306)	(8,876)	(100,175)
Prepaid pension costs	—	(5,537)	—
Asset for retirement benefits	(6,618)	—	(64,327)
Investments in securities	(1,493)	(1,492)	(14,512)
Reserve for advanced depreciation of fixed assets	(1,355)	(1,388)	(13,171)
Other	(4,217)	(4,688)	(40,990)
Total deferred tax liabilities	(23,989)	(21,981)	(233,175)
Net deferred tax assets	¥ 5,586	¥ 14,009	$ 54,296

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014.

The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥284 million ($2,760 thousand), and increase deferred income taxes by ¥284 million ($2,760 thousand) as of and for the year ended March 31, 2014.

14. 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 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 five years, at the longest, subsequent to March 31, 2014.

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, evaluation method of effectiveness of hedging activities 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 15 do not necessarily indicate the market risk of the derivative transactions.

(e) Concentration of credit risk

At March 31, 2014 and 2013, 66% and 59%, 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 sheets as of March 31, 2014 and 2013, 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		
	2014		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥108,338	¥108,338	¥ —
Notes and accounts receivable—trade and affiliates	64,291	64,290	(1)
Short-term investments and investments in securities and affiliates	88,579	88,579	—
Total assets	¥261,208	¥261,207	¥ (1)
Notes and accounts payable:			
Affiliates	¥ 1,399	¥ 1,399	¥ —
Trade	8,229	8,229	—
Current portion of long-term debt:			
Current portion of long-term bonds	20,000	20,037	37
Accrued income taxes	11,802	11,802	—
Long-term debt:			
Long-term loans	10,035	10,501	466
Total liabilities	¥ 51,465	¥ 51,968	¥503

	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)	¥ —

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

	Thousands of U.S. dollars		
	2014		
	Carrying value	Fair value	Difference
Cash and cash equivalents	$1,053,052	$1,053,052	$ —
Notes and accounts receivable—trade and affiliates	624,912	624,902	(10)
Short-term investments and investments in securities and affiliates	860,993	860,993	—
Total assets	$2,538,957	$2,538,947	$ (10)
Notes and accounts payable:			
Affiliates	$ 13,598	$ 13,598	$ —
Trade	79,987	79,987	—
Current portion of long-term debt:			
Current portion of long-term bonds	194,401	194,761	360
Accrued income taxes	114,716	114,716	—
Long-term debt:			
Long-term loans	97,541	102,070	4,529
Total liabilities	$ 500,243	$ 505,132	$4,889

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

Long-term loans

The fair value of 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.

Derivative transactions

Please refer to Note 15 “Derivative Transactions.”

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted equity securities	**¥66,941**	¥56,318	**$650,671**

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 above table.

c) The redemption schedule for monetary assets and marketable securities with maturities at March 31, 2014 and 2013.

	Millions of yen			
	2014			
	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	**¥108,335**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable—trade and affiliates	**64,291**	**—**	**—**	**—**
Short-term investments and investments in securities:				
Government and municipal bonds	**—**	**—**	**16,000**	**—**
Other bonds	**—**	**—**	**—**	**—**
Other securities with maturities	**6,000**	**—**	**926**	**—**
Total	**¥178,626**	**¥ —**	**¥16,926**	**¥ —**

	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	¥ —

	Thousands of U.S. dollar			
	2014			
	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	**$1,053,023**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable—trade and affiliates	**624,912**	**—**	**—**	**—**
Short-term investments and investments in securities:				
Government and municipal bonds	**—**	**—**	**155,521**	**—**
Other bonds	**—**	**—**	**—**	**—**
Other securities with maturities	**58,320**	**—**	**9,001**	**—**
Total	**$1,736,255**	**$ —**	**$164,522**	**$ —**

15. Derivative Transactions

1. Derivative transactions for which hedge accounting does not apply

The information on derivative transactions for which hedge accounting does not apply for the years ended March 31, 2014 was omitted as there are no items to be disclosed for the year ended March 31, 2014. The information on derivative transactions for which hedge accounting does not apply for the years ended March 31, 2013 was omitted as all outstanding derivative positions qualified for hedge accounting for the year ended March 31, 2013.

2. Derivative transactions for which hedge accounting applies

The information on derivative transactions for which hedge accounting applies for the year ended March 31, 2014 was omitted as there are no items to be disclosed for the year ended March 31, 2014.

The information on derivative transactions for which hedge accounting applies for the year ended March 31, 2013 was summarized as follows:

(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

Notes: 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

			Millions of yen		
			2013		
			Contract value		
Method of hedge accounting	Transaction	Principal hedged item	Notional amount	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	(*)

(*): Since interest rate swaps are accounted for by special accounting treatment (refer to Note 2(q)), their fair value is included in that of the short-term bank loans and the long-term debt disclosed in Note 14 "Financial Instruments."

16. Contingent Liabilities

The Company was contingently liable for the guarantee of employees' housing loans of ¥6 million ($58 thousand) at March 31, 2014.

17. Shareholders' Equity

The Company Act of Japan (the "Act") 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, 2014 and 2013 amounted to ¥5,388 million ($52,372 thousand).

Under the Act, 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 Act, a stock option plan for two directors and twelve corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 26, 2013 ("the 2013 plan"). Under the terms of this plan, 43,900 shares of common stock were granted and vested immediately. The options became exercisable on July 12, 2013 and are scheduled to expire on July 11, 2043. Stock option expenses of ¥84 million ($816 thousand) were included in selling, general and administrative expenses for the year ended March 31, 2014.

In accordance with the Act, 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 were included in selling, general and administrative expenses for the year ended March 31, 2013.

In accordance with the Act, 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.

Movement in the number of stock options after vesting for the 2011, 2012 and 2013 plan of the Company during the year ended March 31, 2014 is summarized as follows:

	2013 plan	2012 plan	2011 plan
	Number of options	Number of options	Number of options
Outstanding as of April 1, 2013	—	79,100	45,000
Vested	43,900	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding as of March 31, 2014	43,900	79,100	45,000

The unit price of the stock options after vesting under the 2011, 2012 and 2013 plans of the Company as of March 31, 2014 is summarized as follow:

	2013 plan		2012 plan		2011 plan	
	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Unit price of stock options:						
Exercise price as of March 31, 2014	¥ 1	$ 0.01	¥ 1	$0.01	¥ 1	$ 0.01
Average market price per share upon exercise	—	—	—	—	—	—
Estimated fair value of unit price at grant date	1,930	18.76	916	8.90	1,129	10.97

Valuation method for estimating fair value was the Black-Scholes model. The major assumptions used for 2013 plan were as follows:

Major assumptions	Note	2013 plan
Estimated volatility	(a)	32.62%
Estimated remaining period	(b)	5.5 years
Estimated dividend	(c)	¥42 per share
Risk-free rate	(d)	0.359%

(a) Estimated volatility was computed by the actual stock price of the Company during the period from January 2008 to July 2013.
(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, 2013.
(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, 2014 and 2013 are summarized as follows:

	Number of shares			
	2014			
	April 1, 2013	Increase	Decrease	March 31, 2014
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	16,236,003	6,698	—	16,242,701

	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

The Company purchased 6,698 shares and 2,958 shares of common stock from shareholders who had fractional shares of less than one voting unit during the years ended March 31, 2014 and 2013, 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.

18. Supplementary Information on Consolidated Statement of Income

Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2014 and 2013 amounted to ¥51,925 million ($504,714 thousand) and ¥53,021 million, respectively.

Litigation Settlement

Litigation settlement principally represents the settlement that was reached between Shionogi Inc., and Cowen Healthcare Royalty Partners during the year ended March 31, 2014, and between Shionogi Inc. and Lupin Ltd. during the year ended March 31, 2013.

Business Structure Improvement Expenses

This expense relates to the restructuring of Shionogi Inc. during the year ended March 31, 2014, including sales during the rights of *Naprelan*®.

Contract Termination Costs

This expense relates to the termination of the contract between Shionogi Inc. and CaremarkPCS Health, LLC during the year ended March 31, 2014.

19. Other Comprehensive Income

The following table presents the analysis of other comprehensive income for the years ended March 31, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized holding gain on securities:			
Amount arising during the year	¥11,212	¥13,792	$108,981
Reclassification adjustments for gain included in net income	(547)	(860)	(5,317)
Before tax effect	10,665	12,932	103,664
Tax effect	(1,430)	(4,606)	(13,899)
Total	9,235	8,326	89,765
Deferred gain (loss) on hedges:			
Amount arising during the year	(273)	(218)	(2,654)
Reclassification adjustments for gain (loss) included in net income	999	(281)	9,710
Before tax effect	726	(499)	7,056
Tax effect	(276)	190	(2,682)
Total	450	(309)	4,374
Translation adjustments:			
Amount arising during the year	18,957	15,586	184,263
Reclassification adjustments for loss included in net income	—	(679)	—
Before tax effect	18,957	14,907	184,263
Tax effect	—	—	—
Total	18,957	14,907	184,263
Other comprehensive income	¥28,642	¥22,924	$278,402

20. Related Party Transactions

Principal transactions between a subsidiary and a related party for the years ended March 31, 2014 and 2013 and its balances at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Shunjusha Co., Ltd.:			
Rent received — land and office building	¥ 50	¥ 51	$ 486
Rent expense — building	166	166	1,614
Management fee for leased property	4	3	39
Lease deposits, a component of other assets	41	41	399
Long-term lease deposits received, a component of other long-term liabilities	0	0	0

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, 2014 and 2013. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥100 million ($972 thousand) at March 31, 2014 and 2013.

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

21. Amounts per Share

Amounts per share as of and for the years ended March 31, 2014 and 2013 were as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net income	¥ 124.91	¥ 199.25	$ 1.21
Diluted net income	124.85	199.17	1.21
Net assets	1,398.78	1,254.44	13.60
Cash dividends applicable to the year	46.00	42.00	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. Net assets per share 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, 2014 and 2013 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Information used in computation of basic net income per share:			
Net income	¥41,831	¥66,728	$406,600

	Thousands of shares	
	2014	2013
Weighted-average number of shares of common stock outstanding	334,896	334,900
Increase in common stock	167	125
(Share subscription rights)	(167)	(125)

The financial data used in the computation of net assets per share at March 31, 2014 and 2013 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total net assets	¥472,413	¥423,633	$4,591,884
Amounts deducted from total net assets	3,971	3,522	38,599
(Amounts attributable to share subscription rights in total net assets)	(208)	(123)	(2,022)
(Amounts attributable to minority interests in total net assets)	(3,763)	(3,399)	(36,577)
Net assets used in the calculation of net assets per share	¥468,442	¥420,111	$4,553,285

	Thousands of shares	
	2014	2013
Number of shares used in the calculation of net assets per share	334,893	334,900

22. Segment Information

1. Segment information for the years ended March 31, 2014 and 2013

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, 2014 and 2013 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, 2014 and 2013, information on sales by product and service was omitted.

(2) Geographical information

(a) Net sales

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Japan	¥187,766	¥185,227	$1,825,097
Europe	67,166	64,730	652,858
(United Kingdom)	(66,169)	(63,027)	(643,167)
North America	24,731	22,960	240,387
(United States of America)	(24,705)	(22,957)	(240,134)
Other	10,054	9,987	97,725
Total	¥289,717	¥282,904	$2,816,067

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 sheets at March 31, 2014 and 2013, information of property, plant and equipment by geographical segment was omitted.

(3) Information by major customer

	Net sales			
	Millions of yen		Thousands of U.S. dollars	
Customer name	2014	2013	2014	Related segment name
SUZUKEN CO., LTD.	¥67,363	¥65,746	$654,773	Pharmaceuticals
AstraZeneca UK Limited	¥66,660	¥62,671	$647,939	Pharmaceuticals
TOHO PHARMACEUTICAL CO., LTD.	¥37,464	¥39,246	$364,152	Pharmaceuticals

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

Accordingly, information regarding loss on impairment of fixed assets and amount of amortization of goodwill by reportable segment at March 31, 2014 and 2013 and for the years then ended was omitted.

In addition, information regarding the remaining balance and gain on negative goodwill was omitted since there are no items to be disclosed at March 31, 2014 and 2013 and for the years then ended.

23. 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, 2014, was approved at a shareholders' meeting held on June 25, 2014:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥24.00 = U.S.$0.23 per share)	¥8,037	$78,120

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, 2014, and the consolidated statement 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, 2014, 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.

Ernst & Young ShinNihon LLC

June 25, 2014
Osaka, Japan

Corporate Information (As of March 31, 2014)

Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,280 million
Number of Employees	Consolidated: 6,165
Fiscal Year-End	March 31
Website	http://www.shionogi.co.jp/index_e.html

Shionogi's corporate emblem

(FUNDOH from the Edo era)

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.

(Trademark registered in 1909)

Major Business Locations / Major Consolidated Subsidiaries

Head Office / Branch Offices

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

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

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

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

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

Administration Offices

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, China
Tel: +86-21-6235-1311

Major Consolidated Subsidiaries (Year established)

Shionogi Pharma Chemicals Co., Ltd. (1976)
224-20, Ebisuno Hiraishi, Kawauchi-cho, Tokushima 771-0132, Japan
Tel: +81-88-665-2312

Shionogi Analysis Center Co., Ltd. (2007)
5-1, Mishima 2-chome, Settsu, Osaka 566-0022, Japan
Tel: +81-6-6381-7271

Saishin Igaku Co., Ltd. (1998)
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. (2010)
3-1-1, Futaba-cho, Toyonaka, Osaka 561-0825, Japan
Tel: +81-6-6331-8605

Shionogi General Service Co., Ltd. (1992)
Shionogi Doshomachi Bldg. 7-6, Doshomachi 4-chome, Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6227-0815

Taiwan Shionogi & Co., Ltd. (1963)
4F, No. 2, Sec. 2, Nanking East Road, Taipei 10457, Taiwan
Tel +886-2-2551-6336

Shionogi Inc. (2008)
300 Campus Drive, Florham Park, NJ 07932, USA.
Tel +1-973-966-6900

Ezose Sciences Inc. (2009)
25 Riverside Drive, Pine Brook, NJ 07058, USA
Tel +1-862-926-1950

C&O Pharmaceutical Technology (Holdings) Limited (2003)
911-12, Silvercord Tower 2, 30 Canton Road,
Tsim Sha Tsui, Kowloon, Hong Kong
Tel +852-2806-0109

Shionogi Limited (2012)
33 Kingsway, London WC2B 6UF, United Kingdom
Tel +44-(0)20-3053-4200

Beijing Shionogi Pharmaceutical Technology Limited (2013)
Room 2443, Level 24, Tower 3,
China Central Place 77 Jianguo Road,
Chaoyang District, Beijing 100025, China
Tel +86-10-8587-2212

Shionogi Singapore Pte. Ltd. (2013)
10 Anson Rd., #34-14 International Plaza, Singapore 079903
Tel +65-62231617

Investor information

Stock (Securities) Listings
Tokyo (#4507)
(Shares listed in 1949)

Common Stock
Authorized: 1,000,000,000 shares
Issued: 351,136,165 shares
Number of shareholders: 31,894

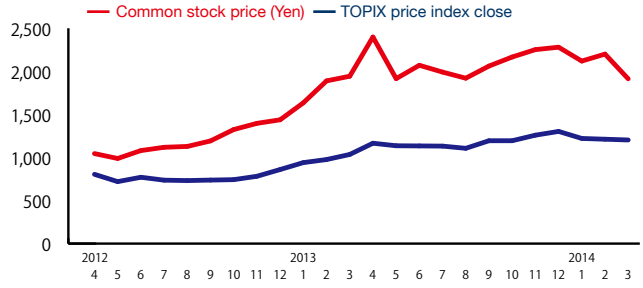
Transfer Agent
Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department, 5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares
The Master Trust Bank of Japan, Ltd. (as a trustee)	23,512	7.02
Sumitomo Life Insurance Company	18,604	5.55
JP MORGAN CHASE BANK 385147	15,935	4.75
Japan Trustee Services Bank, Ltd. (as a trustee)	14,970	4.47
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
Nippon Life Insurance Company	9,460	2.82
Sumitomo Mitsui Banking Corporation	6,564	1.96
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	5,162	1.54
SUZUKEN CO., LTD.	4,341	1.29
Nipponkoa Insurance Co., Ltd.	3,846	1.14

(Notes)
1. The Company holds 16,242,701 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 334,893,464 shares, which is the total number of issued shares less treasury stock of 16,242,701 shares.

Stock Price (Tokyo Stock Exchange)



History

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.

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
- *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.

1943
- The Company was renamed, Shionogi Seiyaku K.K. (Now Shionogi & Co., Ltd.).

1963
- Taiwan Shionogi & Co., Ltd. was established.

1968
Established the Settsu Plant.

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.

1980
- Established the Developmental Research Laboratories (Now Shionogi Pharmaceutical Research Center (SPRC)).

1983
- Constructed the Kanegasaki Plant.

1997
- Launched the cephem antibiotic, *Flomox*.

2000— The First Medium-Term Business Plan
Completion of corporate restructuring to concentrate on pharmaceutical business.
- Transferred or sold six businesses: drug wholesaling, agrochemical, clinical laboratory, animal health products, industrial chemicals and capsules.

2001
- Established Shionogi USA, Inc. (Now Shionogi Inc.)
- Established a joint venture named Shionogi-GlaxoSmithKline Pharmaceuticals LLC (Now Shionogi-ViiV Healthcare LLC).

* Started joint research and development, including HIV integrase inhibitors

2003
- Launched the cancer pain analgesic, *OxyContin*.

2005— The Second Medium-Term Business Plan
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
- 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*.

2010— The Third Medium-Term Business Plan
Launch of multiple products developed globally and real growth.
- Launched the anti-viral drug for influenza, *Rapiacta*.
- Launched the antidepressant drug, *Cymbalta*.
- Established Shionogi Inc. as the US group headquarters.

2011
- Completed the Shionogi Pharmaceutical Research Center (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*.
- Launched the hypertension treatment *AIMIX*.

2013
- Established China subsidiary Beijing Shionogi Pharmaceutical Technology Limited
- Launched the postmenopausal vulvar and vaginal atrophy treatment, *Osphena* in the US.
- Launched the hypertension treatment *IRTRA*.
- Established Singapore subsidiary Shionogi Singapore Pte. Ltd.

SHIONOGI

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