



SGS
SHIONOGI
GROWTH
STRATEGY **2020**

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)

Mission

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

Shionogi's Action Guidelines

Vision

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

Value

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

Value Creation

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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 2014 (April 1, 2014–March 31, 2015)
Certain activities continuing after fiscal 2014 are also included.

Scope and Organization

This Annual Report encompasses the activities of Shionogi & Co., Ltd. and 36 consolidated subsidiaries.

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.

The report also includes information about measures implemented by overseas subsidiary C&O Pharmaceutical Technology (Holdings) Limited at its plant in Nanking, China.

Notes Concerning Numerical Values and Graphs

All numerical values are rounded to the nearest unit, as applicable.

Totals may not match due to rounding.

Forward-looking Statements

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

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

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

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

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

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

M. Shiono

Motozo Shiono
Chairman of the Board
and Representative Director



Isao Teshirogi, Ph.D.
President and CEO



Shionogi Growth Strategy 2020 (SGS2020) Vision

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.

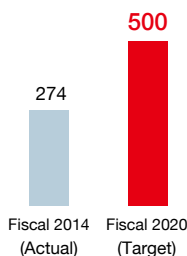
GROW AS A DRUG DISCOVERY-BASED PHARMACEUTICAL COMPANY

Our vision

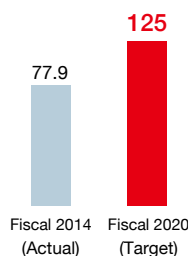
- Focus research efforts on discovery of First-in-Class and Last-in-Class compounds
- Expand sales in Japan and the US and establish development footholds in the EU and Asia
- Ensure people around the world benefit from the new drugs and medical innovation generated by Shionogi's R&D

Quantitative Targets

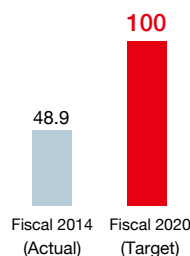
Net Sales (¥ billion)



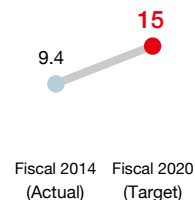
Ordinary Income (¥ billion)



R&D Expenses (¥ billion)



ROE (%)



The Shionogi Group is united in its goal of delivering global growth as a drug discovery-based pharmaceutical company, while at the same time responding to rapid changes in the operating environment.

Market and Sector Trends

In areas of unmet medical needs, the focus of pharmaceutical development worldwide is shifting to increasingly challenging fields such as treatments for antibiotic-resistant bacterial infections and central nervous system (CNS) disorders, including cancer and Alzheimer's disease. In addition to developing small-molecule drugs, companies are addressing these challenges by stepping up work on large-molecule drugs such as antibody medicines, as well as research into regenerative medicine, spurred by the discovery of induced pluripotent stem (iPS) cells. Development timeframes are also becoming longer and costs are rising, making it increasingly difficult to create new medicines.

In Japan's pharmaceutical market, drug reimbursement price revisions and new policies implemented in 2014 to promote wider use of generic drugs are leading to major changes in drug company earnings structures. We expect the government to step up its push to control drug costs as part of wider efforts to curb growth in national healthcare spending caused by Japan's rapidly aging society. On a positive note, the government has positioned the life sciences field as a key part of its Japan Revitalization Strategy, with the pharmaceuticals sector expected to play an important role in driving Japan's economic growth. The government has also established the Japan Agency for Medical Research and Development (AMED) and announced other measures to support the creation of innovative new medicines. Led by AMED, our mission as a drug discovery-based pharmaceutical company is to develop and deliver a steady stream of superior new drugs to the people that need them most.

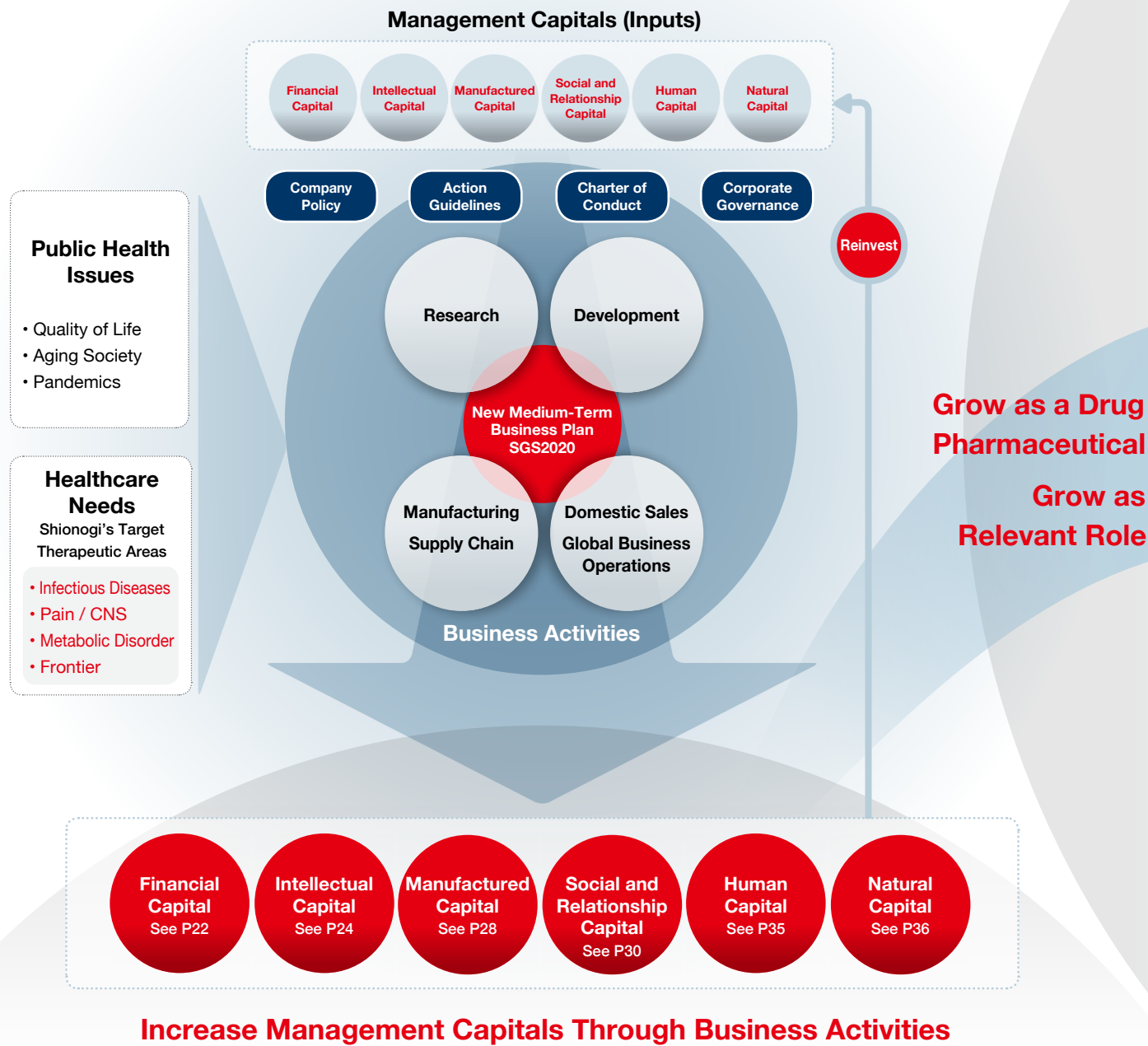
Shionogi's Growth Strategy

Against this backdrop, we launched our new Medium-Term Business Plan, Shionogi Growth Strategy 2020 (SGS2020), in April 2014. Under the plan, our vision is to grow worldwide as a drug discovery-based pharmaceutical company. To ensure patients everywhere can get access to the medicines they need, we will channel business resources into target therapeutic treatment areas and sales areas, develop new FIC and LIC drugs to support the Group's growth and continue to enhance business operations.

The basic policy of our corporate philosophy is "to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." We are working to realize this policy worldwide while responding to rapid changes in the operating environment. To achieve this goal, the entire Shionogi Group is united in implementing SGS2020 to ensure we grow as a drug discovery-based pharmaceutical company and earn the trust of stakeholders worldwide.

Shionogi Group Value Creation Process

The Shionogi Group tackles public health issues and addresses the needs of healthcare providers through its business activities as a drug discovery-based pharmaceutical company. Shionogi also strives to grow and develop as a company that plays a relevant role in society, sharing the benefits of growth with all its stakeholders. This is the Shionogi Group Value Creation Process. By sustaining this process, we aim to increase various management capitals to maximize the corporate value of the Shionogi Group.



REACTION

Stakeholders



Products

Shionogi's high-quality drug discovery capabilities are contributing to society globally and reinforcing the Group's earnings base to support growth.

Crestor (hyperlipidemia treatment)

A blockbuster drug that highlights Shionogi's drug discovery capabilities

Discovered by Shionogi and marketed by AstraZeneca, *Crestor* is generating royalty income for the Shionogi Group. The drug marked its 10th year on sale in fiscal 2014 by achieving blockbuster status* in Japan. *Crestor* illustrates how our drug discovery capabilities are also making a major contribution to patient health in Japan.

* Products generating sales of ¥100 billion or higher (list price basis, combined sales for Shionogi and AstraZeneca)



Revised agreement with AstraZeneca to reinforce earnings base

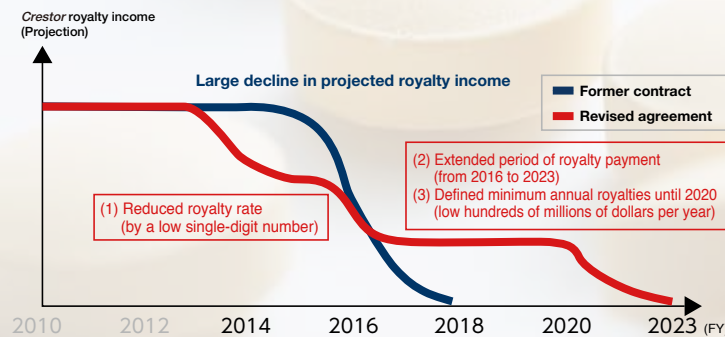
Stabilizing earnings by avoiding a steep drop in royalty income after patent expiration

Overview of agreement

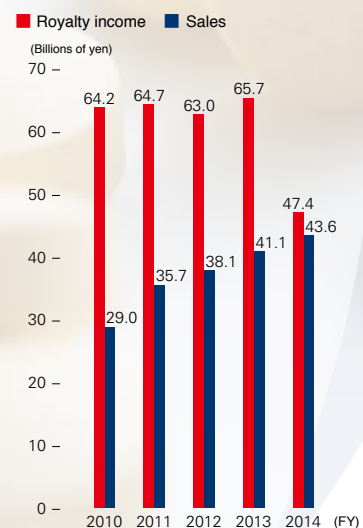
- (1) Effective royalty rate reduced by several percent for 2014-16
- (2) Period of royalty payments extended by seven years, from patent expiration in 2016 to 2023
- (3) Guaranteed minimum annual royalty payment of several hundred million dollars between 2014 and 2020

Reasons for revising agreement

- Secure stable earnings to support medium- and long-term growth
- Avoid a steep fall in earnings



Crestor Sales (Shionogi)



Global markets : **126** countries

Global sales : **\$5.5** billion
(2014)

PRESENT

Tivicay and Triumeq (dolutegravir) (HIV treatment) – HIV franchise –

An important new treatment option for all HIV-1 infected patients

Tivicay is a new HIV integrase inhibitor with high levels of efficacy and safety, as well as limited risk of drug resistance. Shionogi and GlaxoSmithKline discovered the drug and developed it jointly with ViiV Healthcare. US and domestic HIV treatment guidelines recommend Tivicay as one of the first-choice drugs for treatment-naive patients, making it an important new treatment option for all HIV-1 infected patients.



Revised agreement with ViiV Healthcare to reinforce earnings base

Securing earnings from dividend income and royalty income generated by our HIV franchise with patient satisfaction

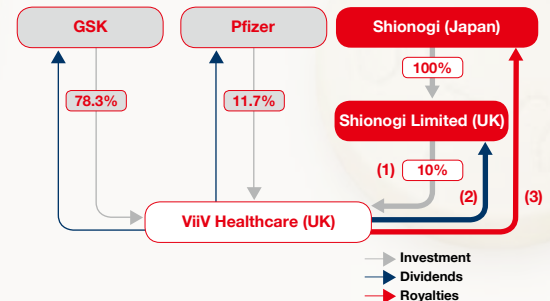
Overview of agreement

- (1) Rights to HIV integrase inhibitor franchise were transferred to ViiV Healthcare, and Shionogi becomes a 10% shareholder with Board representation.
- (2) Shionogi receives dividends on the basis of ViiV's net profit.
- (3) Shionogi receives royalties averaging in the high teens on sales of dolutegravir and its combination preparations.

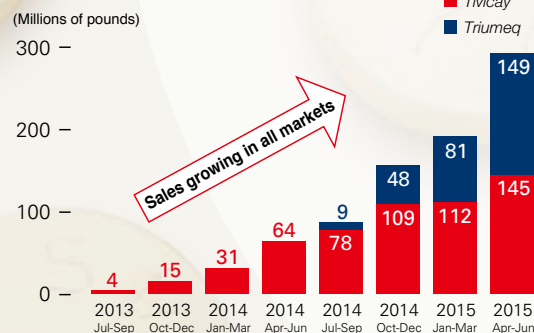
Reasons for revising agreement

- Shionogi continues to contribute to maximize the value of dolutegravir through our Board representation.
- Shionogi can stabilize its business operation by utilizing dividends from ViiV Healthcare.
- Shionogi can allocate its resources, and accelerate the progress, of its other future growth drivers.

Agreement with ViiV Healthcare



HIV Franchise Sales



Global market for anti-HIV drugs

Number of HIV patients (December 31, 2014) :

approximately **36.9** million

According to the fact sheet of United Nations Joint Programme on HIV/AIDS (UNAIDS)

Anti-HIV drug market :

approximately **\$20** billion

Global approvals : **43** countries

Global sales : **\$560** million
(2014)

Prescription Drugs

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

Eight strategic products in Japan

(All products shown below are sold in Japan)

Crestor® tablets (Hyperlipidemia treatment)

- Launched April 2005
- Fiscal 2014 sales: ¥43.6 billion

Shionogi-developed 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.



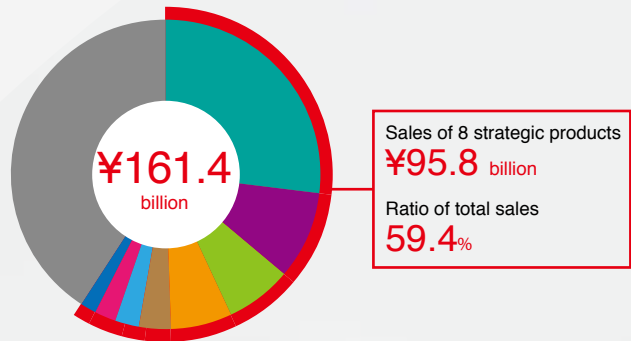
Cymbalta® Capsules (Treatment for depression, depressive condition, diabetic neuropathic pain and fibromyalgia pain)

- Launched April 2010
- Fiscal 2014 sales: ¥10.9 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. In May 2015, *Cymbalta* received approval in Japan for the additional indication of pain associated with fibromyalgia.



Domestic Sales of Prescription Drugs in Fiscal 2014



- *Crestor* ■ *Irbetan* family ■ *Cymbalta*
- *OxyContin* family ■ *Pirespa* ■ *Finibax*
- *Differin* ■ *Rapiacta* ■ Other prescription drugs

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

(Antihypertensive)

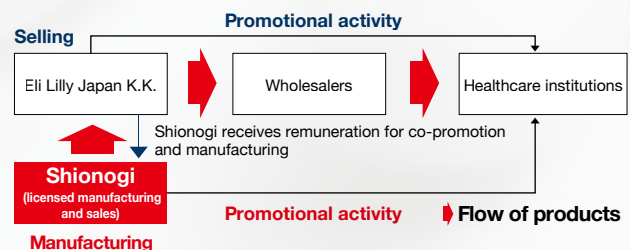
- *Irbetan*® Tablets launched July 2008, *AIMIX*® Combination Tablets launched December 2012, *IRTRA*® Combination Tablets launched September 2013
- Fiscal 2014 sales: ¥15.1 billion

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 *AIMIX* 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.



Changes to domestic sales agreement for Cymbalta (Effective from April 2015)

- Sales conducted by Shionogi and Eli Lilly Japan to be consolidated through Eli Lilly Japan
- Both companies to continue providing medical information on *Cymbalta*; Shionogi to receive remuneration for co-promotion activities
- Shionogi to manufacture the final product and supply it to Eli Lilly Japan; Shionogi to receive remuneration for manufacturing activities



(OxyContin family of drugs)

OxyContin® Tablets

OxiNorm® Powder

OxiFast® Injection

(Cancer pain analgesic)

- OxyContin® tablets launched July 2003, OxiNorm® powder launched February 2007, OxiFast® injection launched May 2012
- Fiscal 2014 sales: ¥10.3 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.

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

(Carbapenem-type antibiotic)

- Launched September 2005 (kit: launched June 2006)
- Fiscal 2014 sales: ¥4.0 billion

Shionogi-developed 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.



Pirespa® Tablets

(Idiopathic pulmonary fibrosis treatment)

- Launched December 2008
- Fiscal 2014 sales: ¥5.4 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.



Differin® Gel

(Topical acne vulgaris treatment)

- Launched October 2008
- Fiscal 2014 sales: ¥3.9 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.

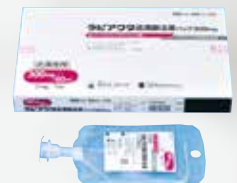


Rapiacta® for Intravenous Drip Infusion

(Antiviral drug for influenza)

- Launched January 2010
- Fiscal 2014 sales: ¥2.6 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.



Over-the-Counter (OTC) Drugs and others

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.

Domestic Sales of OTC Drugs in Fiscal 2014
¥4.6 billion

Analgesics
Sedes® Series



Trusted analgesic antipyretics brand for more than half a century. Fast acting and highly effective for headache and fever, menstrual pain relief.

Denture adhesives
Correct® Series



A lineup of denture adhesives supporting comfortable denture life.

Multivitamin supplements
Popon® Series



A lineup of multivitamin supplements for daily health and energy needs.

Pipeline

Making life better for people worldwide.

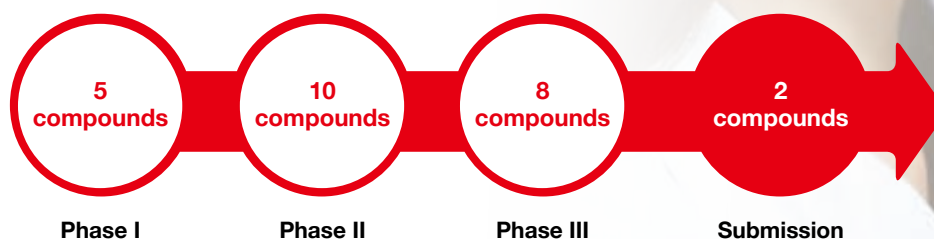
A Strong Pipeline

Shionogi achieved its targets for domestic and global development in fiscal 2014

We are steadily reinforcing our pipeline of development compounds to support the Group's future growth.

We will continue to focus on rapidly supplying new medicines to patients in need worldwide through fast and efficient drug development and cooperation with external partners.

(As of August 2015)



Main Progress in Fiscal 2014

	Development Compounds	Progress in Fiscal 2014
Infectious disease	S-649266 (Severe Gram-negative infections)	Global: Phase II initiated
Pain/CNS	<i>Cymbalta</i> (Pain associated with fibromyalgia)	Japan: NDA submission (Approval in May 2015)
	<i>Cymbalta</i> (Pain associated with chronic low back pain)	Japan: NDA submission (December 2014)
	S-877503 (ADHD: Attention deficit hyperactivity disorder)	Japan: Phase II / III completed
	S-297995 (Alleviation of opioid-induced adverse effects)	Global: Phase III COMPOSE-1 code break
	S-877489 (ADHD: Attention deficit hyperactivity disorder)	Japan: Phase III initiated
Frontier	<i>Senshio</i> (Treatment for postmenopausal vulvar and vaginal atrophy)	Europe: Approval (January 2015)
	S-524101 (Allergic rhinitis caused by house-dust mite allergen)	Japan: Approval (March 2015)
	S-888711 (Thrombocytopenia)	Japan: NDA submission, Global: Phase III initiated
	S-588410 (Esophageal cancer)	Japan: Phase III initiated
Out-Licensing Activity < Viiv Healthcare >	<i>Triumeq</i> (dolutegravir/ abacavir/ lamivudine) (HIV infection)	USA: Approval (August 2014) Europe: Approval (September 2014) Japan: Approval (March 2015)

FUTURE

Pipeline

(As of August 2015)

	Phase I	Phase IIa	Phase IIb	Phase III	Submission / Approval	Development stage in key markets
Infectious disease	S-649266	(Severe Gram-negative infections)				Global: Phase II
	S-033188	(Influenza virus infection)				Japan: Phase I
Pain/CNS	<i>Cymbalta</i>	(Pain associated with chronic low back pain)				Japan: NDA submission (December 2014)
	<i>Cymbalta</i>	(Pain associated with osteoarthritis)				Japan: NDA submission (in preparation)
	S-877503	(ADHD: Attention deficit hyperactivity disorder)				Japan: NDA submission (in preparation)
	S-297995	(naldemedine) (Alleviation of opioid-induced adverse effects)				Global: Phase III, Japan: Phase III
	<i>OxyContin</i>	(For the treatment of moderate to severe chronic pain)				Japan: Phase III
	S-877489	(ADHD: Attention deficit hyperactivity disorder)				Japan: Phase III
	S-120083	(Inflammatory pain)				Japan: Phase I
	S-010887	(Neuropathic pain)				Japan: Phase I
	S-718632	(Chronic pain)				USA: Phase I
	S-117957	(Insomnia)				USA: Phase I
Metabolic disorder	S-237648	(Obesity)				Japan: Phase II
	S-707106	(Type 2 diabetes)				USA: Phase IIa
Frontier	S-888711	(lusutrombopag) (Thrombocytopenia)				Japan: NDA submission (December 2014), Global: Phase III
	S-588410	(Esophageal cancer)				Japan: Phase III
	S-555739	(Allergic rhinitis)				Japan: Phase III, USA: Phase IIa, Europe: POM*1
	S-588410	(Bladder cancer)				Japan, Europe: Phase II
	S-525606	(Allergic rhinitis caused by Japanese cedar allergen)				Japan: Phase II
	S-646240	(Age-related macular degeneration)				Japan: Phase IIa
	S-488210	(Head and neck squamous cell carcinoma)				Europe: Phase I/II
	S-222611	(Malignant tumor)				Europe: Phase I/II
	S-0373	(Spinocerebellar ataxia)				Japan: Phase III
	S/GSK1265744 LAP*2	(For the treatment and prevention for HIV infection)				USA: Phase II
Janssen/Shionogi BACE inhibitor	(Alzheimer's disease)				Europe: Phase IIa	

*1 POM: Proof of mechanism

*2 LAP: Long acting parenteral formulation

S-297995 (naldemedine) (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 on opioid receptors. Effectively alleviates opioid-induced constipation without interfering with the centrally mediated analgesic effect of opioids.

Progress in Fiscal 2014

Global
Phase III

Japan
Phase III



Targets for Fiscal 2015

NDA
in Japan, USA

Results of Phase III Studies

COMPOSE I (global clinical study in patients with non-cancer pain) < results announced March 2015 >

Efficacy: Naldemedine met all its primary and secondary endpoints and was shown to have a statistically significant difference in efficacy over the placebo.

Safety:

- Diarrhea and abdominal pain were the only side effects reported in more than 5% of subjects
- The study did not demonstrate a statistically significant clinical difference in both the pain intensity score and the clinical opiate withdrawal scale score

COMPOSE IV (Japan clinical study in cancer patients) < results announced June 2015 >

Efficacy: Naldemedine met all its primary and key secondary endpoints and was shown to have a statistically significant difference in efficacy over the placebo.

Safety:

- Diarrhea was the only side effect reported in more than 5% of subjects
- The study did not demonstrate a statistically significant clinical difference in both the pain intensity score and the clinical opiate withdrawal scale score

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: 70 million)*2

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

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

S-649266 (Severe Gram-negative infections)

Shionogi's response to changes in the treatment environment: Severe Gram-negative bacterial infections

- An increasing number of multidrug-resistant pathogens worldwide no longer respond to treatment with available antibiotics
- The US FDA is taking an active stance on approving novel antibacterial agents

➔ **Leveraging its world-leading drug discovery capabilities in β -Lactam antibiotics, Shionogi will continue to work on drug development for which there are limited or no available treatment options to treat infections caused by multidrug-resistant *Pseudomonas aeruginosa* and multidrug-resistant *Acinetobacter baumannii*.**

Mechanism of action

Siderophore cephalosporin (injection)
Inhibition of bacterial cell wall synthesis. S-649266 is designed to exploit the way Gram-negative bacteria acquires iron, which is necessary for growth and multiplication. As a siderophore, S-649266 binds to iron. ("Trojan Horse" mechanism)

Features

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

Progress in Fiscal 2014

Global
Phase II
Initiated



Targets for Fiscal 2015

Launch
global Phase
III

Results of non-clinical and Phase I clinical studies < results announced Sep-Oct 2014 >

Efficacy:

- Exhibited marked potency against multidrug-resistant bacteria, which are causing serious problems in clinical practice today
- Demonstrated high stability to serine- and metallo-type carbapenemases

Safety: Demonstrated safety and tolerability in healthy volunteers

Marketability

Severe infectious diseases

- Each year in the US around 2 million people acquire serious infections caused by resistant pathogens, with roughly 23,000 people dying each year as a direct result of these infections (according to the US Centers for Disease Control and Prevention).
- Infection caused by highly resistant Gram-negative pathogens is also now a serious public health issue in Eastern Europe, Latin America and Asia.

Hospital-acquired infections (Nosocomial infections)

- Each year around 6 million patients with hospital-acquired infections in Japan, the US and Europe, and the rate of infection is rising 1.7% annually.
- In the US, hospital-acquired infections require additional treatment costing approximately \$0.154 million (Pennsylvania Health Care Cost Containment Council)
- Sales of carbapenem antibiotics: \$1.9 billion (2013, EvaluatePharma)

S-877489, S-877503 (ADHD: Attention deficit hyperactivity disorder)

Shionogi's response to changes in the treatment environment: ADHD

There is a growing need for new treatments that improve efficacy in low responder patients and that alleviate side effects such as sleeplessness and poor appetite.

→ We are pushing ahead with the development of both CNS stimulant and non-CNS stimulant drugs in order to provide patients with alternative treatment options and appropriate medical information for their specific needs.

S-877489

Progress in Fiscal 2014

Mechanism of action

Dopamine / lisdexamfetamine DA and NE reuptake inhibitor / releaser (oral)

Features

CNS stimulant

Results of Phase II study (in patients aged 6–17)

Efficacy: Exhibited the same quantitative difference in ADHD symptom score as overseas studies.

Safety: Demonstrated the same safety profile as overseas studies, with many harmful effects reported as moderate, none as serious.



Outlook



S-877503

Progress in Fiscal 2014

Mechanism of action

Selective α -2A-adrenergic receptor agonist (oral)

Features

Non-CNS stimulant drug with limited risk of dependency and abuse

Results of Phase II / III studies (in patients aged 6–17)

Efficacy: Statistically significant improvement in ADHD symptom score in all treatment groups (0.04mg/kg, 0.08mg/kg, 0.12mg/kg)

Safety: Demonstrated the same safety profile as overseas studies, with many harmful effects reported as moderate, none as serious.



Targets for Fiscal 2015



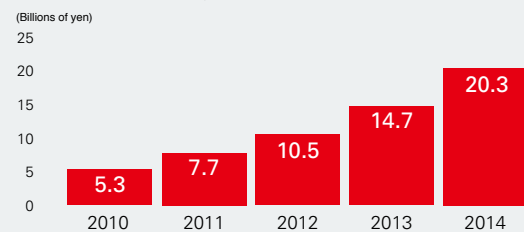
Marketability

- The ADHD treatment market is expanding rapidly in Japan as awareness of the condition grows (average annual growth of 31% in 2010-14)
- The adult ADHD market has also started to grow rapidly in recent years

Global sales of Shire branded products (2014)

- Vyvanse® (CNS stimulant drug): approx. \$1.4 billion
- Intuniv® (non-CNS stimulant drug): approx. \$0.3 billion

Domestic ADHD drug market



©2015 IMS Health
Calculated based on JPM Dec. 2014



Isao Teshirogi, Ph.D.
President and CEO

Making Our Corporate Philosophy a Reality

Everyone at Shionogi is working together to realize our corporate philosophy in order to fulfill our responsibility to society.

In 1957 we formulated our Company Policy, which defines the aim of the Group's corporate activities as "striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." This eternal and unwavering corporate philosophy embodies our vision for Shionogi and our value to society.

This is supported by the Shionogi Charter of Conduct, which was first formulated in 1998 and then revised in 2012. The charter guides our corporate conduct as a drug discovery-based pharmaceutical company involved in the development of innovative global medicines. Our goal is to ensure we are trusted and understood by all our stakeholders as a company with a close connection to human life, underpinned by high ethical values.

Our overriding goal is to help people worldwide lead richer and healthier lives by contributing to improvements in healthcare through our business activities.

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

Our Vision in the Medium-Term Business Plan

Aiming to create new drugs with the potential to become FICs and LICs in order to drive our growth as a drug discovery-based pharmaceutical company.

Aiming to realize our corporate philosophy worldwide, we have set out a clearly defined growth strategy in our new Medium-Term Business Plan, Shionogi Growth Strategy 2020 (SGS2020), which was launched in April 2014. Our vision in SGS2020 is to grow as a drug discovery-based pharmaceutical company.

Under SGS2020, we are focusing on core businesses and channeling business resources into strategic therapeutic treatment fields and sales areas. We will work to develop new FIC and LIC drugs in those treatment areas to support the Group's growth and continue to enhance business operations, aiming to grow worldwide as a drug discovery-based pharmaceutical company so that patients everywhere can get access to the innovative medicines they need as quickly as possible.

This strategy is supported by the capital markets, and high expectations mean we have to deliver. Every member of the Shionogi Group has taken personal ownership of the vision and strategies of SGS2020. We are now working full out to achieve its goals in order to boost corporate value and earn the trust of society as a global pharmaceutical company that makes a meaningful contribution to society.

New Medium-Term Business Plan

SGS2020

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.

Top-line growth (sales)

Strategic sales areas and therapeutic areas
Clear priorities and focused resourcing

Growth led by
FIC and LIC compounds

Bottom-line growth (profits)

Continued improvement of business operations

- Launch a steady stream of products to drive growth (reinforce the development pipeline)
(S-297995, S-888711, S-649266 and others)
- Increase earnings from HIV franchise products
- Generate stable earnings from *Crestor* royalties
- Maintain and improve cost control

2014

2020 (FY)

Business Performance in Fiscal 2014

A strong start to SGS2020 – the first step on the road to a new era of real growth.

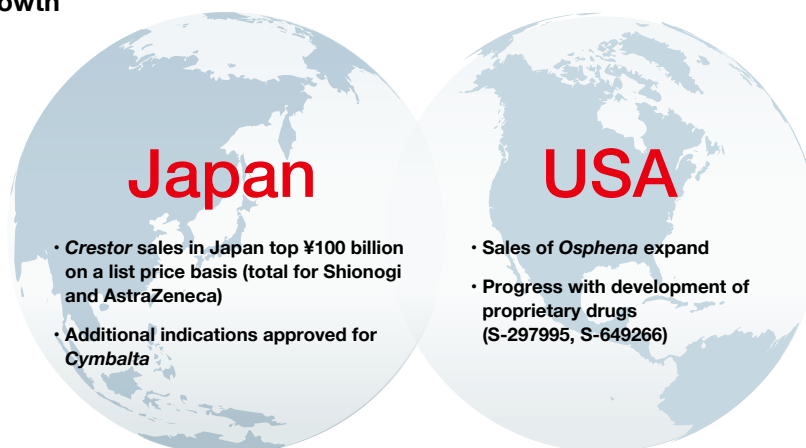
In fiscal 2014, the first year of SGS2020, we channeled business resources into target therapeutic treatment areas and sales areas. This supported a firm performance in each of our businesses, marking a solid start toward our goals in SGS2020.

In research and development, we submitted applications in Japan for additional indications for antidepressant drug *Cymbalta*, one of our core products, and submitted an NDA for a thrombocytopenia treatment. The *Cymbalta* application for the additional indication of pain associated with fibromyalgia was approved in May 2015. Overseas, we pushed ahead with the development of proprietary drugs such as a treatment for the alleviation of opioid-induced adverse effects, and a new injectable cephalosporin antibiotic. Both drugs have been positioned as future growth drivers. Also, post-menopausal vulvar and vaginal atrophy (VVA) treatment *Senshio* was approved for sale in Europe in January 2015.

The Group registered firm sales of its eight strategic products in Japan, which include *Cymbalta* and hyperlipidemia treatment *Crestor*. As a result, sales overall were in line with our targets. Sales of *Crestor* on a list price basis exceeded ¥100 billion in Japan, including sales booked by our sales partner, AstraZeneca. The growth of *Crestor* into a blockbuster drug in Japan, after achieving the same status in the US, is a major boost to our efforts to achieve the targets in SGS2020. Total royalty income declined year on year, reflecting modifications to the royalty structure for *Crestor* that reduced the effective royalty rate in 2014-16. However, royalty income from UK company ViiV Healthcare Ltd., which has acquired the global rights for our integrase inhibitor compounds, significantly exceeded our expectations due to strong sales of anti-HIV agent *Tivicay* (dolutegravir) and combination drug *Triumeq*, which contains dolutegravir.

Cost control is now firmly engrained in our corporate culture across the Group. In fiscal 2014, we reduced manufacturing costs by improving productivity and strategically allocated resources in line with clearly defined business priorities. Also, dividend income from ViiV Healthcare was much higher than our forecast and the weak yen led to an increase in foreign exchange gains. As a result, we reported our third successive fiscal year of record ordinary income and net income increased year on year.

Areas to drive growth



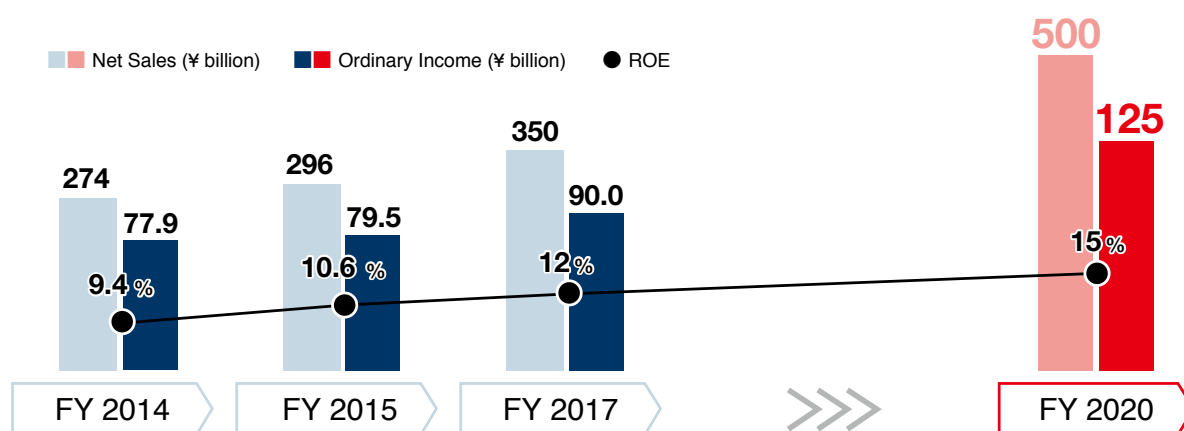
Fiscal 2015 guidance and the SGS2020 Rolling Plan (fiscal 2017 goals)

Strengthening core businesses to achieve fiscal 2015 guidance and our longer-term fiscal 2017 goals.

In fiscal 2015, the second year of SGS2020, we will tackle three challenges to achieve our business targets – reinforce the core domestic business, strengthen our ability to cultivate new global products, and build an operating structure that is not dependent on royalty income.

In Japan, we will maximize the value of strategic products, particularly *Crestor* and *Cymbalta*, by enhancing communication through a focus on patients and their medical needs. Overseas, we will provide more information about global product *Osphena* to raise awareness about treatment benefits. We also plan to reinforce our operating bases in Europe and Asia to support the launch of future global products. In addition, one of our goals in fiscal 2015 is to achieve profitability on an operating income basis, excluding royalty income from *Crestor* and HIV franchise products, by implementing efficient and effective cost control.

In order to respond flexibly to rapid changes in the operating environment and deliver sustained growth, we are implementing a rolling annual review of SGS2020 to clarify our objectives for the next three years, while also monitoring progress and issues to ensure we reach our targets for fiscal 2020. For the three years from fiscal 2015 to fiscal 2017, we plan to further strengthen core businesses. Specifically, this will involve reinforcing business operations to maximize the value of existing products and enhancing our pipeline in target therapeutic areas. Going forward, we intend to lift the Shionogi Group onto an even higher growth trajectory without undermining current levels of profitability.



Clear priorities and focused resourcing

Positioning for Fiscal 2017: Strengthen core businesses

- Maximize the value of *Crestor* and *Cymbalta* in Japan
- Improve earnings from *Osphena* in the US
- Strengthen the pipeline in core therapeutic areas
- Build an operating structure not dependent on royalty income

Growth led by FIC and LIC compounds

Step up growth momentum

Corporate Governance

Aiming to generate sustained growth supported by a transparent, fair and diverse governance structure.



The Group will ensure all employees and senior executives strictly adhere to the Company Policy of Shionogi and the Shionogi Charter of Conduct to underpin rigorous compliance and transparent and honest management that supports the Group's sustained growth.

Shionogi has adopted a Company with a Board of Auditors governance structure to ensure transparency and fairness, underpinning our firm commitment to corporate governance and principled business management.

The Board of Directors has six members, including one female member and three outside directors, who have been appointed to further enhance management transparency and diversity by providing different perspectives.

Also, the Company's auditors are responsible for overseeing the duties of directors and we are reinforcing internal control measures to maintain the reliability of financial reporting.

→ See pages 38-45 for more details about our corporate governance structure.

Personnel Development

Cultivating the next generation of leaders, based on our belief that people are the source of Shionogi's competitiveness.

Our operating environment is likely to become even more challenging going forward. To remain competitive, we need to reinforce our operational capabilities so that we can implement reforms and stay abreast of issues faced by society today. To make our business more global, we also need employees who can constantly push themselves to improve their knowledge and skills. Our people also need to have the flexibility to understand and adapt to diverse values in different countries and regions in the course of their work.

We launched the President's Management Seminar in 2012 and the Management Seminar in 2013. Under this management training structure, our division heads and senior executive officers conduct ongoing training programs to foster Shionogi's future leaders.

In order to strengthen our portfolio of human resources, we will cast our net across the whole Group to systematically train up people who are capable of flexibly adapting to change.



Increasing Corporate Value and Returning Profits to Shareholders

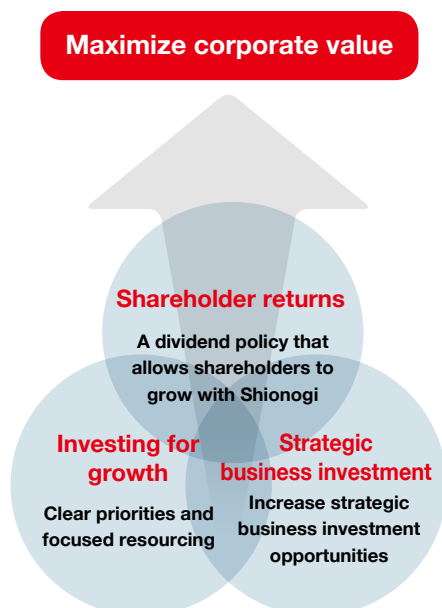
Boosting corporate value through initiatives to increase capital efficiency and paying meaningful returns so shareholders have a stake in Shionogi's growth.

The Shionogi Group uses profits generated by improvements to business operations to reward shareholders. These profits are also used in a balanced manner to invest in future growth and to make strategic business investments, further reinforcing the business base and maximizing corporate value.

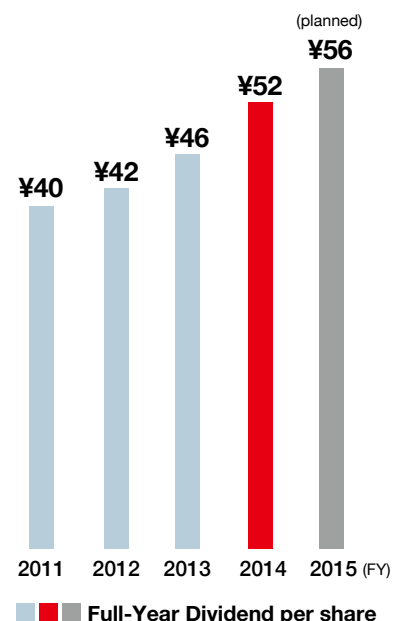
Under SGS2020, we are aiming to increase capital efficiency in order to achieve our target for return on equity (ROE) of 15% in 2020. In fiscal 2014, we conducted a ¥30 billion share buyback using ¥10 billion in internal funds and ¥20.1 billion procured through the issue of euro-yen denominated convertible bonds maturing in 2019 (face value of ¥20 billion). In order to boost corporate value, we will continue to maximize profits and implement a flexible capital policy to achieve our ROE target. Also, based on our policy of steadily increasing dividends in line with growth, using the dividend on equity (DOE) ratio as our benchmark, we raised the full-year dividend by ¥6.0 per share to ¥52.0 for fiscal 2014.

Going forward, we will continue to actively communicate with shareholders and institutional investors, aiming to increase corporate value and pay meaningful returns so that shareholders have a stake in Shionogi's growth.

Maximizing corporate value by balancing three key factors

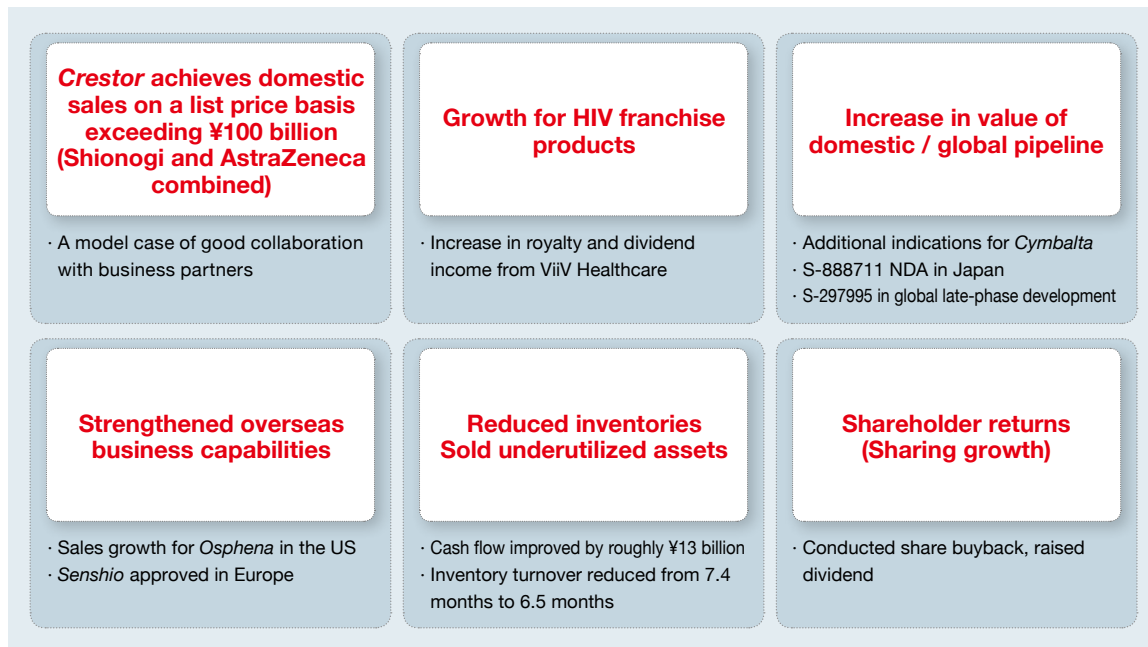


Paying stable dividends in line with growth



Overview of the First Year of SGS2020 and Future Business Strategies

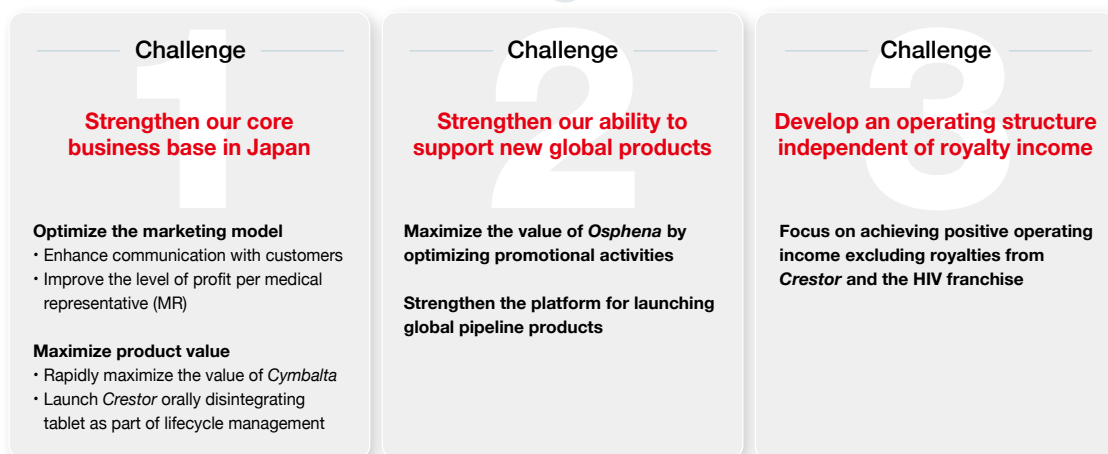
Progress in Fiscal 2014



Three Acquired Strengths



Business Challenges for Fiscal 2015



Message from the Head of the Corporate Strategy Division

Taking on Three Key Challenges

Corporate Strategy Division established

Established in April 2015, the Corporate Strategy Division's mission is to continue enhancing the Group's business operations, which is one of our SGS2020 strategies.

To achieve the targets in SGS2020, Shionogi needs to strengthen links between business execution and the Board of Directors in order to speed up decision-making on operational matters. Consequently, we have reaffirmed the importance of the Corporate Strategy Meeting as a key discussion body for important issues related to business execution. This body will be chaired by me as the head of the Corporate Strategy Division.

Business strategy aimed at tackling three key challenges

The Shionogi Group has significantly strengthened its earnings base by modifying the *Crestor* royalty structure with AstraZeneca and revising its relationship with Viiv Healthcare in HIV franchise products.

However, we still need to make our business more efficient to address major changes in the operating environment, such as economic pressure on the healthcare sector worldwide, intensifying competition in new drug development and wider use of generic drugs. Going forward, we will need to become even more innovative as we focus on achieving the targets in SGS2020. Channeling business resources into strategic areas and acquiring the necessary knowledge and information will be particularly important.

In fiscal 2015, we will tackle three key issues – reinforce the domestic business, strengthen our ability to cultivate new global products, and build an operating structure that is not dependent on royalty income – supported by a culture of cost management that has now taken root across the Group.

To achieve the targets in SGS2020, we will consistently pursue the best approach to enhance operational efficiency, helping to take the Shionogi Group into its next phase of growth.



Takuko Sawada
Director of the Board, Senior Executive Officer,
Senior Vice President, Corporate Strategy Division

Financial Capital Inputs and Outcomes

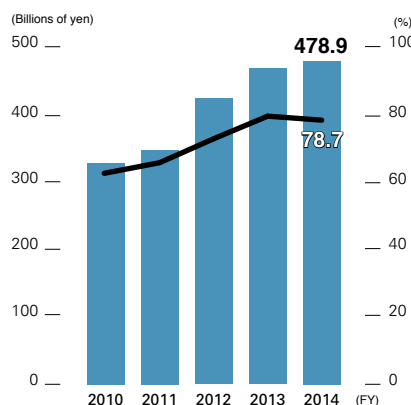
Fiscal 2014 Highlights

- Sales and operating income in line with start-of-year forecasts; domestic sales of Crestor exceed ¥100 billion for the first time (list price basis, Shionogi and AstraZeneca sales combined)
- Record ordinary income for the third consecutive fiscal year
- Net income up year on year, despite provisions for tax expenses for prior fiscal years

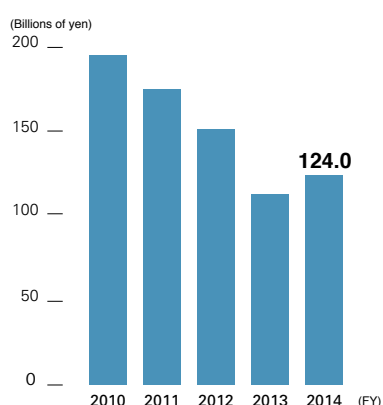
Inputs

Total Net assets

Equity ratio

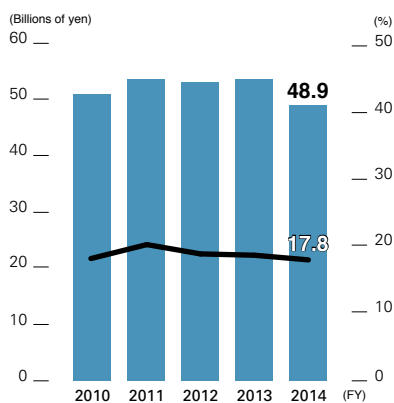


Liabilities

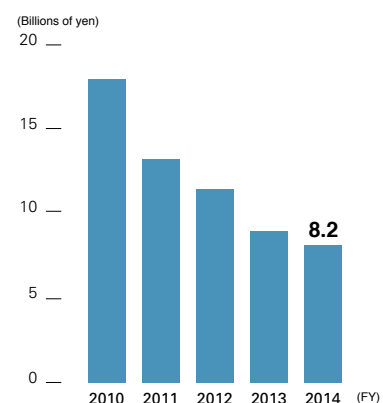


Research and Development Expenses

Research and Development Expenses Ratio



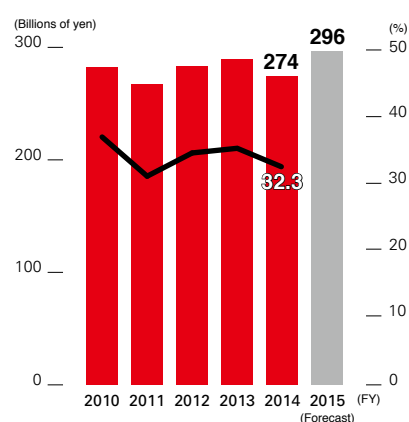
Capital investments



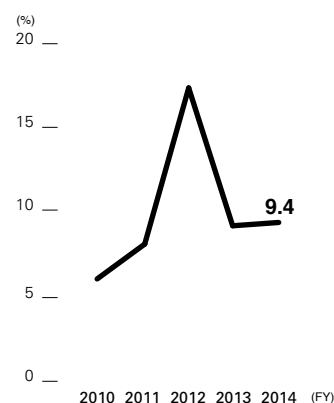
Outcomes

Net Sales

Overseas Net Sales Ratio



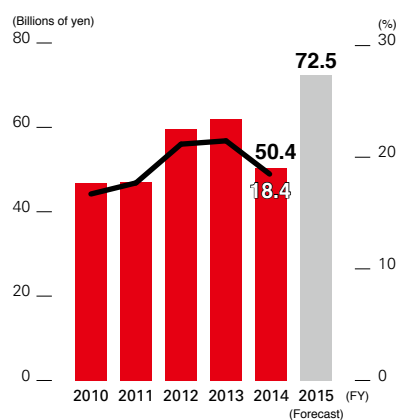
ROE*2



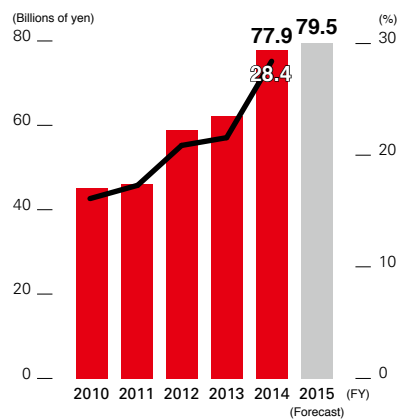
Fiscal 2015 Forecasts

- Sales growth to be driven by higher sales of HIV franchise products and new sales agreement for *Cymbalta*
- Profits likely to rise on the back of sales growth and Groupwide cost control

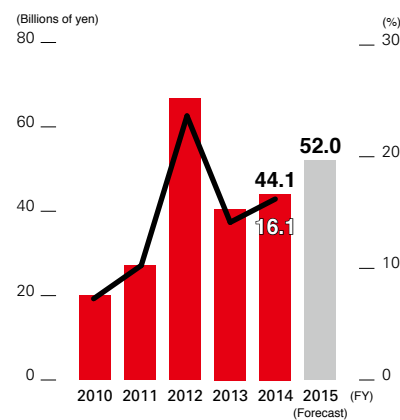
Operating Income — Operating Income Ratio



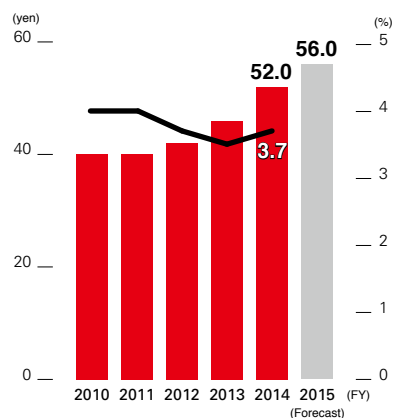
Ordinary Income*1 — Ordinary Income Ratio



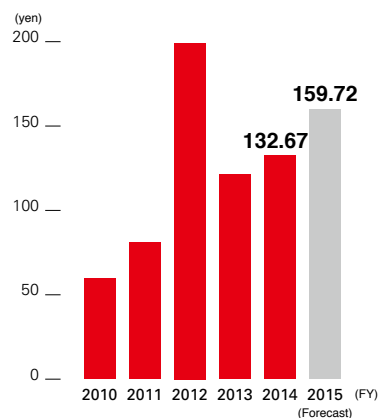
Net Income*2 — Net Income Ratio



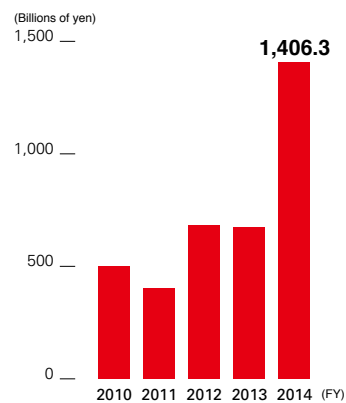
Dividends per Share — Dividend on Equity Ratio



Net Income per Share*2



Market capitalization (as of March 31)



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

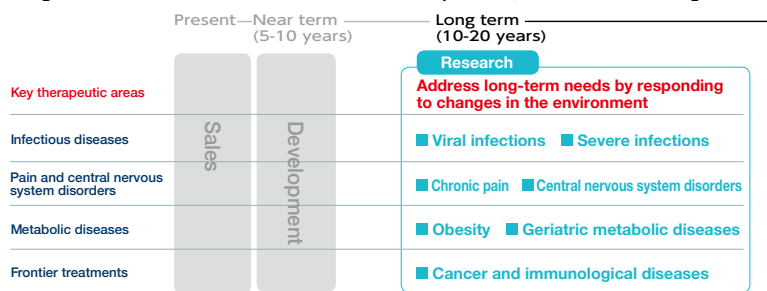
*2: In fiscal 2012, taxes and other expenses declined due to the booking of losses on the valuation of shares of subsidiaries. The losses, booked by the parent company, were related to the revaluation of operations in the US.

JPY Exchange Rates (average during fiscal year)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 (Forecasts)
USD (\$)	86.73	79.06	82.95	100.18	109.76	120
EUR (€)	115.60	109.00	106.83	134.23	138.69	130
GBP (£)	—	—	—	—	176.68	175

Research

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



Takeshi Shiota, Ph.D.
Corporate Officer,
Senior Vice President,
Pharmaceutical Research Division

Leveraging our drug discovery capabilities – the backbone of drug discovery-based pharmaceutical companies – to create a steady stream of FIC and LIC drugs

Progress in Fiscal 2014

We have positioned infectious diseases and pain / CNS* disorders as our core research therapeutic areas, where we already have strengths in research and development. Specifically, we are actively pursuing research aimed at creating development compounds with the potential to become FICs or LICs, while also improving our success rate in non-clinical and clinical trial stages.

In fiscal 2014, we initiated a Phase I study for an oral anti-influenza drug candidate with a new mechanism of action. Targeting unmet medical needs, we also created two new chemical compounds that are candidates for development, one as a treatment for severe bacterial infections and the other as an analgesic agent for neuropathic pain. These successes strengthened our pipeline in core therapeutic areas. Shionogi has also discovered S-649266, a novel injectable cephalosporin antibiotic. During fiscal 2014, the drug showed good efficacy in non-clinical studies and we presented the results to major infectious disease societies in Japan and overseas. The compound has a unique mechanism of action that works on the inside of the bacterial cell wall, and has shown potent activity against multidrug-resistant gram-negative bacteria. S-649266 appears to be a promising new treatment for multidrug-resistant bacterial infections, which have become a serious issue in recent years. Also, as part of efforts to refocus our resources on strategic therapeutic areas, we took steps to maximize the value of our advanced drug discovery assets, including out-licensing our biologic drug development program in the metabolic disorder field to US company MedImmune, LLC.

*CNS: Central nervous system

Objectives for Fiscal 2015

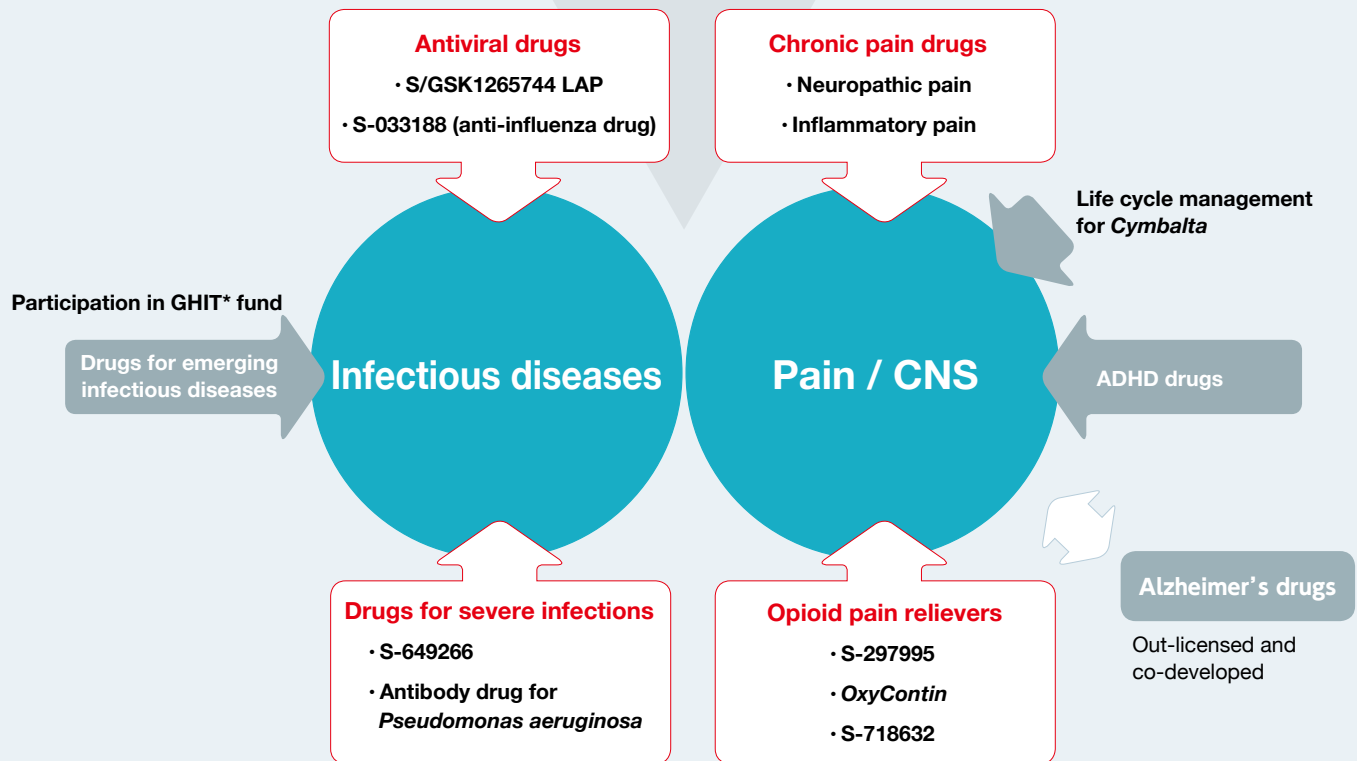
Aiming to build on our discovery of three drug development compounds in fiscal 2014, we will continue working to create a steady stream of development candidates in fiscal 2015, with a continued focus on infectious diseases and pain / CNS disorders. We also intend to collaborate with external research organizations to reinforce our novel drug candidate development program. We will work toward our objectives in SGS2020, continuing to focus on unmet medical needs, and push forward drug discovery research to identify new FICs and LICs through partnerships with diverse researchers.

FOCUS ON

Target Therapeutic Areas in Research and Development

Clear priorities and resources focused on core therapeutic areas

Maximize synergies with existing products on the market



* GHIT: Global Health Innovative Technology Fund: Japan's first international non-profit foundation dedicated to advancing the development of new medicines to treat diseases endemic to developing countries, including HIV / AIDS, tuberculosis, malaria and neglected tropical diseases (NTDs).

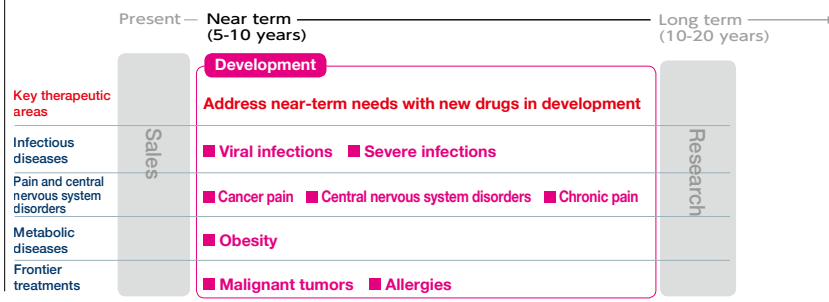
Collaborating with External Partners

In 2007, amid concerns about a decline in potential drug targets and the increasing challenges of drug discovery research, Shionogi launched Pharma-Innovation Discovery competition Shionogi (FINDS), a program to identify new research seeds with academic partners in Japan. This was followed in 2010 by the Shionogi Science Program (SSP), a similar program but with an international focus. FINDS was merged into SSP in fiscal 2014 and the new joint program received roughly 200 applications from 11 countries, including Japan. Since fiscal 2013, we have been working with Kyoto University's Faculty of Medicine on the SK Project*, which is aimed at discovering innovative medicines for the treatment of CNS disorders, based on the idea of collaborative research under the same roof. In fiscal 2013 we also launched a joint research project with Osaka University's Center of Medical Innovation and Translational Research to identify promising new treatments related to immune checkpoint-blocking drugs. We plan to actively push forward with this open innovation approach, including using basic and clinical medicine research as part of drug discovery work.

Gaku Sakaguchi, Ph.D.
Department Head
Pharmaceutical Research Division

* SK Project: Drug discovery and medical research related to the regeneration of synapses and neuronal function

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



Development



Kazuhiro Hatanaka
Corporate Officer,
Senior Vice President,
Global Development Division

Reinforcing our global development capabilities and pushing ahead with development to ensure as many people as possible worldwide have access to the new drugs they need

Progress in Fiscal 2014

In fiscal 2014, we accelerated development of priority strategic drugs in Japan and pushed ahead with the development of global drugs in our target areas of infectious diseases and pain / CNS disorders. These efforts paid off and we achieved all our goals for fiscal 2014. In Japan, we applied for the additional indications of fibromyalgia pain and chronic low back pain for *Cymbalta* (duloxetine hydrochloride), one of the drugs with the potential to support the Shionogi Group's growth. We also submitted new drug applications (NDAs) for thrombocytopenia treatment S-8887111 and S-524101, sublingual tablets for the treatment of allergic rhinitis caused by house-dust mite allergen. S-524101 received regulatory approval in March 2015.

In global development compounds, we focused on developing S-297995, a treatment for the alleviation of opioid-induced adverse effects, and other drugs such as S-649266, a new injectable cephalosporin antibiotic. Good progress was made with both drugs, which have been positioned as future growth drivers. *Senshio* (ospemifene), a treatment for post-menopausal women with moderate to severe symptomatic vulvar and vaginal atrophy, was approved in Europe in January 2015.

Objectives for Fiscal 2015

In infectious disease treatments, one of the Shionogi Group's strengths, we plan to accelerate and improve the efficiency of development work on S-649266, while working closely with the US Food and Drug Administration (FDA) and the European Medicines Agency (EMA). We will also step up development of new anti-influenza drug S-033188. In pain and CNS disorder treatments, we will push forward with Phase III trials of proprietary global development compound S-297995 in order to move into the NDA stage as rapidly as possible. We will also work on developing an additional indication for *Cymbalta* for the treatment of pain associated with osteoarthritis.

In order to further strengthen our pipeline, we intend to actively and flexibly pursue strategic alliances to accelerate development works and increase efficiency.

CMC

Using our outstanding technologies in “enhanced product development” to address today’s healthcare needs

Progress in Fiscal 2014

The CMC Development Laboratories play a crucial role in developing products that realize Shionogi’s uncompromising vision of producing even better medicines.

From a global perspective, we made good progress in fiscal 2014. We pushed ahead with work on global development compounds such as S-297995 and S-649266 and played an important role in securing approval for *Senshio* in Europe.

Objectives for Fiscal 2015

We intend to strengthen our technological capabilities further in fiscal 2015 to achieve our SGS2020 objectives. We are focusing on what we call “enhanced product development” – the development of high-value-added products that address today’s healthcare needs. We will breathe life into our most promising treatments, stepping up development work on new formulations, new administration routes and new indications for existing compounds (new therapeutic entity (NTE) development), in addition to new drug discovery.

At the CMC Development Laboratories, we are working to realize innovative in-house product development by accelerating our shift to a business model based on both new drug discovery and NTE development. Our goal is to contribute to the treatment and quality of life of patients in need of superior medicines.



Miyuki Hiura
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



Collaborating with External Partners

Shionogi has a long track record of proactive engagement with partners in business and academia. In Global Development, we are actively supporting investigator-initiated studies to drive forward new drug development. In this type of clinical study, physicians assess the efficacy of Shionogi development products in new patient categories or rare disease therapeutic fields. The results of these studies help us to create strategic drug development plans. Recently, we have been supporting several domestic and overseas studies using cancer peptide vaccines. This approach offers real potential for the development of innovative treatments for various diseases including rare conditions. Global Development is therefore expanding investigator-initiated studies as a key strategy to collect valuable information on products and potential indications.

Akinori Arimura, Ph.D.
Senior Director
Global Project Management Department
Global Development Division

Manufacturing



Takuo Fukuda
Executive Officer,
Senior Vice President,
Manufacturing Division

Using our globally compliant manufacturing systems and technologies to provide high-quality products

Progress in Fiscal 2014

In fiscal 2014, we realigned our domestic manufacturing structure, giving each Shionogi plant a much clearer role to play. As a result, we made good progress toward our goal of building a manufacturing framework suited to a drug discovery-based pharmaceutical company.

We transferred the manufacturing headquarters at the Kuisse Site to the Settsu Plant and completed the expansion of the plant's solid dosage production facility, giving us the capability to supply general drugs to customers worldwide. As a result, we can now provide stable supplies of *Cymbalta* – likely to be one of Shionogi's core products going forward – and we are steadily putting the capacity in place to support the rapid launch of new products such as thrombocytopenia treatment S-888711. At our Kanegasaki Plant, which has created an integrated production system covering active pharmaceutical ingredient, formulation manufacturing and packaging for an analgesic and a beta-lactam antibiotic, we have upgraded cephem antibiotic solid dosage production facilities to address the shift to new PIC/S* Good Manufacturing Practices (GMP standards). This means the plant now has a manufacturing system fully compliant with global inspection standards. Subsidiary Shionogi Pharma Chemicals is also constructing a new development and manufacturing facility to produce general drugs for clinical trials and commercial use.

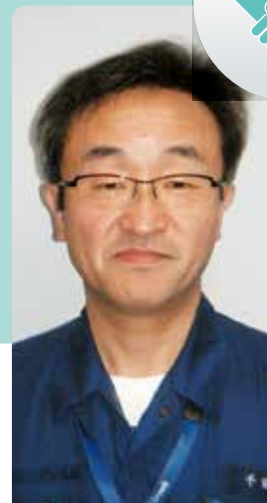
*The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme: good manufacturing practice and quality control standards for medicines and quasi-drugs.

Objectives for Fiscal 2015

In fiscal 2015, we will put more emphasis on developing manufacturing technologies at our own plants – one of the goals of the Manufacturing Division. To achieve this, we will focus on robust manufacturing processes and rigorous product quality in order to create processes with high productivity. We also aim to cultivate a workforce of multi-skilled personnel to support highly efficient manufacturing facilities staffed by the optimum number of people. This will help us establish a globally competitive manufacturing structure that can deliver stable supplies of high-quality products at competitive prices.

Collaborating with External Partners

The Great East Japan Earthquake made us acutely aware that electricity is the key factor in rapidly restarting production activities. Drawing on that valuable experience, we have installed high-efficiency gas turbine cogeneration systems and implemented a plan to switch to liquefied natural gas (LNG) as our energy source. Our new cogeneration systems generate steam as well as electricity, achieving an energy conversion efficiency of approximately 90%, or three times the efficiency of a standard electricity generating system. The completion of this energy upgrade plan means we are now well-placed to rapidly restore operations in the event of a disaster, removing a potential obstacle to the stable supply of our products. The new systems have also boosted energy efficiency by more than 10% across the plant, reducing CO₂ emissions by 11,000 tons, or roughly 30%. In this way, we have made a major contribution toward the targets of the Shionogi Group 4th Environmental Protection Plan.



Mitsuhiro Chida
Associate Director
Engineering Technology Department
Manufacturing Division

Supply Chain

Aiming for the stable supply of products in the global market and profit creation

Progress in Fiscal 2014

The mission of the Global SCM Division is to build an efficient global supply network in order to maximize cash flow in procurement, manufacturing and distribution.

In fiscal 2014, we worked together more closely with business divisions responsible for procurement, manufacturing, distribution and sales, and achieved a major improvement in cash flow by reducing inventory turnover to 6.5 months, an improvement of 0.9 months from the previous fiscal year. We also made a contribution to the rapid expansion of anti-HIV drug *Tivicay* in the global market through stable supplies of the drug's active pharmaceutical ingredient.

Objectives for Fiscal 2015

To remain competitive in increasingly challenging conditions in the global health-care sector, it is essential to reduce costs and expenses and increase cash flow. There is no end in efforts toward contribution to profit generation no matter how hard it becomes each year.

In fiscal 2015, we will generate additional profits through a new procurement strategy, cost reduction and "profit-generating logistics" – a strategic distribution management approach with good quality and costs.



Takayuki Yoshioka, Ph.D.
Executive Officer,
Senior Vice President,
Global SCM Division



Collaborating with External Partners

I am working in close collaboration with overseas subsidiaries, such as through my assignment at Shionogi Inc. to develop a manufacturing strategy for proprietary global products. To ensure patients worldwide have access to Shionogi's products, it is essential that the "Shionogi family" works as one on the strategic selection of global production sites. One of our actions to create a global supply framework is putting in place a partner network to support these global production sites. We are working together with Shionogi Inc. to build strong relationships with partner companies. To maximize the value of Shionogi's products and ensure stable supplies, I will work to enhance cooperation with colleagues across domestic business divisions and international borders.

Chikara Miura
Global Sourcing Strategy Department
Global SCM Division

Domestic Sales

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		
Key therapeutic areas	Address current needs by maximizing existing products		
Infectious diseases	<ul style="list-style-type: none"> ■ Community-acquired infections ■ Hospital-acquired infections ■ Viral infections 	Development	Research
Pain and central nervous system disorders	<ul style="list-style-type: none"> ■ Depression ■ Cancer pain ■ Diabetic neuropathic pain 		
Metabolic diseases	<ul style="list-style-type: none"> ■ Hyperlipidemia ■ Hypertension 		
Frontier treatments	<ul style="list-style-type: none"> ■ Women's health ■ Idiopathic pulmonary fibrosis ■ Common acne 		



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

Maximizing the value of strategic products in Japan to address healthcare needs and deliver the best medicines to patients

Progress in Fiscal 2014

Conditions in the domestic pharmaceutical market were even more challenging in fiscal 2014 due to drug reimbursement price revisions, a consumption tax rate hike and rapid market penetration for generic drugs spurred by healthcare reforms. Against this backdrop, we continued to focus resources on strategic products, especially hyperlipidemia treatment *Crestor*, a Shionogi-developed LIC. Our efforts helped *Crestor* achieve blockbuster status in fiscal 2014, with sales exceeding the ¥100 billion milestone (including AstraZeneca sales, list price basis).

We also focused on rapidly growing sales of new products, in addition to maximizing the value of existing products. In April 2014, we began co-promotion activities for anti-HIV agent *Tivicay* with ViiV Healthcare Ltd. By December 2014, *Tivicay* had secured the top share in the domestic market for key anti-HIV drugs, contributing to patient treatment in our target therapeutic area of infectious diseases.

We also strengthened patient-centered information provision with enhanced T-CARE* activities, and improved sales and marketing activities tailored to the local market and healthcare needs by reorganizing our marketing structure in October 2014. These steps helped to improve communication with customers.

*T-CARE: A total care approach for diabetes sufferers developed by Shionogi

Objectives for Fiscal 2015

We will continue to focus business resources on strategic products, particularly *Crestor* and *Cymbalta*. We have entered into a new co-promotion agreement for *Cymbalta* with Eli Lilly Japan K.K. Effective from fiscal 2015, the agreement creates a new sales framework that utilizes the expertise of both companies. The value of *Cymbalta* will be maximized in the two treatment fields of depression and pain. We will also strengthen our strategy in pain treatment by establishing a new Pain Management Unit.

Through these initiatives, we aim to be consistently profitable by addressing healthcare needs as the best medical partner for patients and healthcare providers, and by improving our existing infrastructure from a long-term perspective.

FOCUS ON

Creating Value with Stakeholders

01 T-CARE activities

Diabetes is a chronic systemic disease that affects patients their entire lives. One of the most important goals of diabetes treatment is to maintain quality of life and life expectancy on par with healthy people through a program of total care. We believe that practicing total care leads to improved diabetic treatment. Our program of activities is called T-CARE. On a daily basis, we work to solve the needs of healthcare providers by providing regular newsletters about the latest studies and practices, surveys on patient insights into diabetes (including hyperlipidemia and hypertension), and forums, lectures and round-table meetings. We intend to continue this unique approach of patient-centered high-quality information provision to healthcare providers.



02 Promoting antimicrobial stewardship

At Shionogi, antimicrobial stewardship means selecting the best medicine and administration method and ensuring treatment starts and ends at the optimal time, in order to make treatment safe and reliable, prevent the spread of drug-resistant bacteria and viruses, and support the effective use of healthcare resources. We are implementing the following initiatives to ensure all antimicrobials, not just those made by Shionogi, are used appropriately.

- Organize and provide necessary information about appropriate treatment approaches based on domestic and international guidelines
- Provide useful information about treatment using data from domestic and international antimicrobial susceptibility surveillance programs

The diagnosis and treatment of infectious diseases relates to many clinical departments. That's why we aim to be the best medical partner for healthcare providers by supplying useful information in all related areas.

03 Pain relief management activities

Starting with the launch of *MS Contin* in 1989, Shionogi has been a leading company in the treatment of cancer-related pain for more than 25 years, based on a firm commitment to pain relief for people suffering from cancer. Pain/CNS disorders is one of the target therapeutic areas in SGS2020. In April 2015, we established the Pain Management Unit to strengthen our expertise in this area. The unit is tasked with providing information about *OxyContin* and other products in the field of cancer pain, increasing additional indications for *Cymbalta* in the area of chronic pain, and securing additional indications for *OxyContin* in non-cancer pain. Going forward, we will continue our efforts to provide pain relief to people with cancer pain and other types of pain.



Collaborating with External Partners

As a medical representative (MR), I supply patient-centered information to healthcare providers, aiming to be the best medical partner for healthcare providers. I feel a real sense of satisfaction from contributing to patient health through information provision. Also, as part of the Human Health Care Division's Future MR Vision project, I help to improve information provision to healthcare providers.

In fiscal 2014, we worked with partner companies to boost sales of *Crestor*, aiming to help as many people with cardiovascular conditions as possible. These efforts paid off, with sales on a list price basis in Japan exceeding ¥100 billion. This concerted effort by Shionogi MRs to deliver medicines to patients in need underscores how our products are contributing to healthcare and society in Japan.

I and all the other Shionogi MRs will continue doing our best to play a relevant role in society.

Tomoyasu Oomura
Pharmaceutical Promotion Department-Region 1
Human Health Care Division

Global Business Operations



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

Developing global products in the US and upgrading business sites worldwide

Progress in Fiscal 2014

In the US, one of our priority markets in SGS2020, we have been targeting resources on our first new global drug, postmenopausal vulvar and vaginal atrophy treatment *Osphena* (ospemifene). Achieving rapid sales growth for this drug is a key part of our plans to expand the Group's global operations. Although *Osphena* sales fell short of target in fiscal 2014, we recalibrated our sales strategy after analyzing our recent marketing approach and its effectiveness. Our new strategy is now delivering steady growth in sales.

In Europe and Asia, we continued to work toward our vision for Shionogi in 2020, pushing ahead with new drug development and building a base for the Group's operations. As part of this approach, Chinese subsidiary C&O Pharmaceutical Technology (Holdings) Limited launched *Rabeprazole Sodium for Injection* in September 2014. This peptic ulcer treatment is the first in-house drug to be developed by the company since becoming part of the Shionogi Group. Also, Shionogi Singapore Pte. Ltd. began gearing up its operations in April 2014. The company's first move was to launch a detailed study of the healthcare systems, markets and economies of countries in the ASEAN region in preparation for market entry.

Objectives for Fiscal 2015

In the US market, which we have positioned to drive the Group's growth, our top priority is to rapidly expand sales of *Osphena*. Building on progress in fiscal 2014, we will target marketing activities on the importance of ongoing treatment to ensure positive outcomes.

In Europe and Asia, we will continue to work on developing new products and building an operating base for the Group.

Collaborating with External Partners

Since Shionogi was founded more than 100 years ago, we have consistently taken on the challenge of treating infectious diseases, starting with the import and sale of syphilis treatment *Salvarsan* in 1911. I am currently part of the Adequate Use of Anti-Infective Agents Group, which is drawing on the Group's long track record and extensive know-how in Japan to pass on information about how to use infectious disease medicines properly. This advice is being provided to countries that face serious challenges from infectious diseases. In recent years, drug-resistant diseases have become a growing problem in Asia and other emerging markets. We will continue efforts to ensure adequate use of anti-bacterial drugs globally, collaborating with local subsidiaries and affiliates to implement initiatives such as training for local medical representatives and seminars led by Japanese experts.



Huiyan Pan
Global Business Division

US Operations (Shionogi Inc.)

Building on our learnings from the launch until now, Shionogi Inc. is implementing more precisely focused marketing activities for *Osphe*na (ospemifene), supporting steady growth in prescriptions and market share. We have continued to optimize the usefulness of the information we provide, both to physicians by our sales consultants, and to patients through our direct-to-consumer communications. These communications have also been made more cost-effective through supportive use of appropriate digital platforms. We have continued our efforts to educate physicians to appropriately support patient compliance, through education, patient savings plans, and by optimizing the format in which *Osphe*na are provided to patients. We are also focused on the rapid progression of our pipeline products, including S-297995 (naldemedine), an investigational drug that is being developed to alleviate the adverse effect of constipation associated with chronic use of opioid analgesics for non-cancer pain treatment, and for which we are targeting a US NDA (new drug application) in fiscal 2015.

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



GLOBAL ACTIVITIES



European Operations (Shionogi Limited)

Based on high-quality clinical studies and close cooperation with US subsidiary Shionogi Inc. and Shionogi head office in Japan, UK subsidiary Shionogi Limited secured approval for *Senshio* (ospemifene) in January 2015. We are now making preparations to begin sales of *Senshio*. Our goal is to maximize the drug's value by drawing on our experience in the US.

Shionogi Limited is also pushing ahead with global development projects such as S-297995, S-649266, S-888711, S-222611 and cancer peptide vaccines.



Takashi Takenoshita
CEO
Shionogi Limited

Asian Operations (C&O Pharmaceutical Technology (Holdings) Limited, Taiwan Shionogi & Co., Ltd., Shionogi Singapore Pte. Ltd.)

In China, the government is calling for higher-quality science, while at the same time aiming to curb national healthcare spending. Under these conditions, some companies in the healthcare sector are likely to fall by the wayside. At C&O Pharmaceutical Technology, we are strengthening our proprietary sales network to support sales of injectable antibiotic *Flumarin*. We also aim to increase corporate value by contributing to adequate use of antibiotics to address the issue of drug-resistant bacteria. We intend to increase collaboration with Taiwan Shionogi & Co., Ltd. and Beijing Shionogi Pharmaceutical Technology Limited, which have already made good progress in contributing to adequate use of antibiotics in Asia. Shionogi Singapore Pte. Ltd. is working to rapidly secure new drug approvals and building a sales network through partnership agreements in the ASEAN market.



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



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



Tee Loong Hua
Managing Director
Shionogi Singapore Pte. Ltd.

Quality Assurance



Toshinobu Iwasaki, Ph.D.
Corporate Officer,
Senior Vice President,
Corporate Quality Management Division

Protecting and enhancing the credibility of the Shionogi brand at all levels of the value chain, from research and development through to retail

In line with our mission of supplying safe, high-quality pharmaceutical products with reliable efficacy, 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 Japan's Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics (PMD Act) and other related regulations in Japan and overseas (GxP*), actively working to enhance the reputation of the Shionogi brand.

To reinforce brand credibility, every Shionogi employee strives to ensure they retain public trust by complying with all relevant laws and standards, underpinned by high ethical values. From a long-term perspective, we are strengthening risk management in areas related to public trust, ensuring we fulfill our social responsibility as a pharmaceutical company.

We are striving to protect and sustain this trust in the Shionogi name, which has been built up over 137 years, while working toward the goals of SGS2020 through innovation unhindered by past approaches.

Going forward, we will work to further enhance trust in the Shionogi name in line with our new Shionogi Group Quality Policy, aiming to win public trust as a global company.

*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 Group Quality Policy

Shionogi constantly endeavors to provide the best possible medicines globally to protect the health and wellbeing of the patients we serve.

For this purpose, we here declare Shionogi Group Quality Policy and commit ourselves to meet ever greater expectation of our patients, customers, shareholders, regulators, business partners and our own employees.

Shionogi is committed to:

- Complying with standards and regulations.
- Maintaining the quality assurance system which fulfills worldwide standards and requirements.
- Maintaining the environment where quality is the first priority.
- Providing continuing education to all employees.
- Monitoring and assisting in improving the quality systems of our suppliers, vendors and contract manufacturers.

To achieve these objectives, the management of Shionogi is committed to:

- Improving continuously the quality of our business processes, products and services by conducting management review on a routine basis and providing necessary resources adequately.
- Making the best possible decisions based on improvement of product quality and customer satisfaction.

(Established on 14 July, 2015)

Employees and Shionogi – Growing Together

Harnessing the individual strengths of each employee in career progression and human resources development

Our basic stance on human resource development is that people are the source of the Company's global competitiveness. Guided by this thinking, we have introduced the Career Development Program that aims to nurture individuals and build effective organizations. In April 2015, we established the Career Support Unit in the Human Resources Department and promoted the Career Development Program. In this program, we focus on each employee's individual strengths, and help to facilitate their growth and development. We are also working to cultivate independent employees and provide them with opportunities to challenge themselves such as training programs, correspondence courses and new job roles through the opportunity announcement system. Also, in order to accelerate the training of the Group's future leaders, we have created the President's Management Seminar and the Management Seminar, which are training sessions led by the Group's senior managers.

Promoting Diversity

At Shionogi, we believe recognizing individuality and diversity leads to greater creativity, translating into higher-value products and services for healthcare professionals, patients and their families. That's why we seek to maximize the individuality of all people who are connected to Shionogi. This is one of the standards we use to make value judgments on a daily basis. In line with this policy, we are encouraging women to take a more active role in the Group. Women currently account for 30.9% of our total workforce and 7.0% of managers. We have also appointed two women to senior management roles, including executive officer positions. The Shionogi Group has also created a working environment where every one of our employees, able-bodied or with disabilities, is assigned to jobs that give them the opportunity to work to the best of their potential.

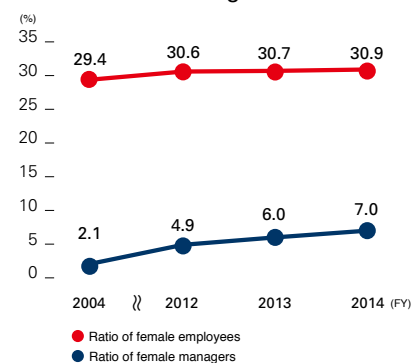
Increasing employee and team motivation by creating a culture of recognition

As part of efforts to realize the Shionogi Company Policy, we have presented "The SING of the Year" awards every year since 2012. The awards give Groupwide recognition to each winner and help to boost the motivation of all our employees and teams. Winners of the awards are selected from candidates put forward in Japan and overseas in three categories – Contribution to Company Earnings, Business and Corporate Culture Reform, and Contribution to Society. The activities of all the candidates are shared throughout the Group, providing an excellent opportunity to showcase their efforts. The awards also help to bring the whole Group together under the ideals of the Company Policy, enhancing the strength of our organization.

Working with our health insurance association to improve the health of employees

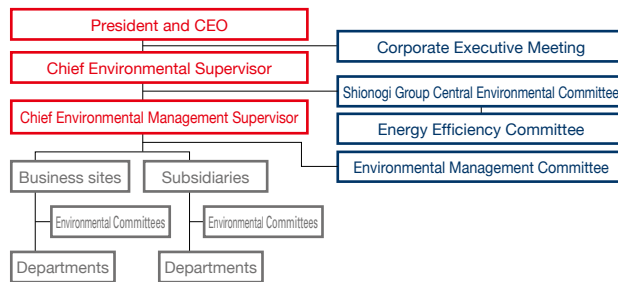
In April 2014, we formulated the Shionogi Health Declaration 2014. Under this declaration, we work closely with our health insurance association to protect and improve the health of employees and their families. We also work actively to maintain and improve working environments so that employees can fulfill their potential. To achieve the goals of the Shionogi Health Declaration, we have banned smoking inside all our offices and are promoting the creation of workplaces that protect the mental health of employees. We are also using employee data health plan that incorporate measures to tackle and prevent lifestyle diseases such as diabetes and cardiovascular conditions.

Ratio of female employees / Ratio of female managers



Recipients of "The SING of the year 2015"

Respecting the Environment



Yoshiaki Kamoya
Executive Officer

The Shionogi Group recognizes that it has an important corporate social responsibility to respect global and local environments when conducting its business activities. To reduce the environmental impact of the Group's business activities, we have established an "Environmental Policy." In line with this policy, we implement a range of environmental preservation measures aimed at protecting the global environment, preserving natural resources and ensuring our business operates in harmony with the natural environment.

Environmental Management System

Shionogi has acquired ISO 14001 certification for four business sites with large environmental impacts in its manufacturing and research divisions. Shionogi Analysis Center Co., Ltd., a subsidiary that has operations at those business sites, has also secured this certification. In addition, Shionogi Pharma Chemicals Co., Ltd., a domestic manufacturing subsidiary, has secured ISO 14001 certification, and we have assigned an environmental manager and an environmental risk control manager to monitor our Chinese pharmaceutical company, C&O Pharmaceutical Technology (Holdings) Limited. 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. Senior executives responsible for environmental issues also visit environmental facilities and members of the Company's environmental committees carry out inspections of business sites.

Starting in fiscal 2014, we conduct training courses for managers and other employees at business sites with ISO 14001 certification to increase understanding and raise awareness about environmental management systems.

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. There were no deviations from these regulations in fiscal 2014.

In Japan, a new Act for Rationalized Use and Proper Management of Fluorocarbons came into effect from fiscal 2015. In response, we are preparing reports for the authorities about steps we are taking to prevent leaks of fluorocarbons from refrigeration and air conditioning equipment.

Measuring Greenhouse Gas Emissions in the Supply Chain

Shionogi has made progress on complying with the Japanese government's General Guidelines on Supply Chain Greenhouse Gas (GHG) Emission Accounting (issued by The Ministry of Economy, Trade and Industry and the Ministry of the Environment). Companies are expected to follow these guidelines when calculating GHG emissions in their supply chains, covering procurement and manufacturing through to distribution and sales.

Initiatives at the Aburahi Botanical Gardens



Shionogi's Aburahi Botanical Gardens work closely with other botanical gardens nationwide to protect endangered plant species and rare plants. As part of our CSR activities, the facility has also started educating children about plants. In fiscal 2014, Aburahi employees helped local elementary schools create medicinal herb farms on school grounds as part of their integrated studies program. The children then used the herbs to make indigo and purple dyes with help from staff at the Medical Plant Garden of Kobe Pharmaceutical University. The Aburahi Botanical Gardens plans to actively support the local community by providing continued learning assistance for elementary schools and senior and junior high schools, and through the provision of educational materials about medicinal plants for students at university pharmaceutical faculties.

Targets of Phase 4 of the Shionogi Group Environmental Protection Plan: Fiscal 2014 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 2014 are as follows:

Targets

Environmental Protection Plan Targets and Fiscal 2014 Results

*Phase 4 targets have been revised from fiscal 2015

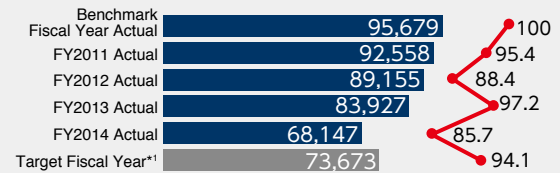
Promote measures to conserve energy and counter global warming

- Reduce CO₂ 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

01

Measures to conserve energy and counter global warming

Construction of the cogeneration power system at the Kanegasaki Plant was completed, bringing to end the program of fuel conversion work in the Medium-Term Business Plan. These initiatives have reduced the Group's CO₂ emissions. Our business sites have also installed high-efficiency transformers, air conditioning equipment and lighting, and reviewed the operation of air conditioning and water cooling facilities. Compared with the benchmark year, CO₂ emissions have been reduced by 29% and the Basic Unit for Energy has been improved by 14%. The C&O Nanking Plant in China uses energy generated by a biomass facility, which is powered by waste material from a wood processing plant.



■ CO₂ 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

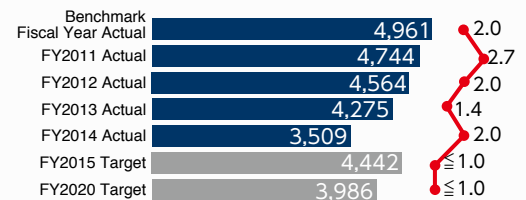
Strengthen conservation of resources and waste disposal measures

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

02

Conservation of resources and waste disposal measures

We continued to improve manufacturing processes, recover valuable materials from waste liquids and waste plastic, and cut the volume of waste liquids and other materials through the application of the 3Rs: reduce, reuse and recycle. Compared with the benchmark year, the amount of waste generated has been reduced by 29%. However, the landfill disposal rate rose to 2.0%, reflecting a temporary impact from waste generated by building removal work.



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

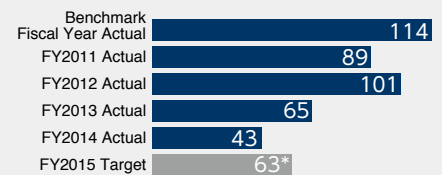
Strengthen management of chemical substances

- Reduce atmospheric emissions of dichloromethane in the manufacture of active pharmaceutical ingredients (APIs) by 45% 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)

03

Management of chemical substances

The Kanegasaki Plant continued to reduce atmospheric emissions of dichloromethane. The treatment of PCB waste was completed in fiscal 2013 at a high-level waste treatment facility. The treatment of PCB ballasts became possible from fiscal 2014, and we are now progressively seeking permission to treat equipment held in storage. We are also addressing changes to regulations related to fluorocarbons, which came into force in April 2015.



■ Atmospheric emissions of dichloromethane at the Kanegasaki Plant (tons)

Promote understanding of biodiversity

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

04

Biodiversity

We carried out appropriate management of endangered plant species at our botanical gardens at 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.

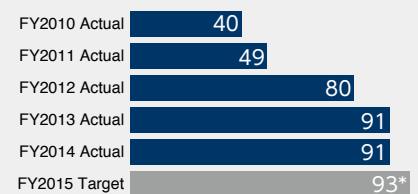
Promote the introduction of low-emission vehicles

- Allocate hybrid or electric vehicles for 93% of cars lent to MRs (except in cold regions)*

05

Introduction of low-emission vehicles

We continued to introduce hybrid vehicles in fiscal 2014, with hybrid and electric vehicles accounting for 91.0% of all vehicles lent to MRs (excluding cold regions in Japan).



■ Ratio of EVs and HVs (%)

Third-party Opinion

To improve the reliability and transparency of our environmental activity disclosures, we have asked two experts from the Institute for Environmental Management Accounting (IEMA), Professor Dr. Katsuhiko Kokubu and Eriko Nashioka, to assess our environmental stance and environmental management status and to provide advice about future activities.

Members of Boards (As of June 24, 2015)

Directors



Motozo Shiono

Chairman of the Board and Representative Director

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)

Attended all 11 Board of Directors' meetings



Isao Teshirogi, Ph.D.

President and CEO

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)

Attended all 11 Board of Directors' meetings



Takuko Sawada

Director of the Board, Senior Executive Officer, Senior Vice President, Corporate Strategy Division

1977 Joined the Company
2002 Executive General Manager, Pharmaceutical Development Division
2007 Officer and Executive General Manager, Pharmaceutical Development Division
2010 Executive Officer and Executive General Manager, Pharmaceutical Development Division
2011 Senior Executive Officer and Executive General Manager, GDO*
2013 Senior Executive Officer and Senior Vice President, GDO and Pharmaceutical Development Division
2014 Senior Executive Officer and Senior Vice President, Global Pharmaceutical Development Division
2015 Director of the Company, Senior Executive Officer and Senior Vice President, Corporate Strategy Division (incumbent)

*GDO: Global Development Office

Outside Directors



Akio Nomura

Outside Director

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 10 of 11 Board of Directors' meetings

Significant Concurrent Positions

Outside Director, Royal Hotel, Ltd.

Reason for selection

To provide objective and neutral advice to management from an independent standpoint, drawing on his extensive experience and knowledge as a business executive



Teppei Mogi

Outside Director

1989 Registration as attorney at law
1994 Partner, Oh-Ebashi Law Offices (incumbent)
2002 Partner, Oh-Ebashi LPC & Partners (incumbent)
2004 Professor, Kwansai Gakuin University Law School
2005 Part-time instructor, Kobe University Graduate School of Law
2009 Outside Director of the Company (incumbent)
2010 Part-time instructor, Kwansai Gakuin University Law School (incumbent)
2014 Outside Corporate Auditor, Niitaka Co., Ltd. (incumbent)

Attended all 11 Board of Directors' meetings

Significant Concurrent Positions

Partner, Oh-Ebashi Law Offices
Partner, Oh-Ebashi LPC & Partners
Outside Corporate Auditor, Niitaka Co., Ltd.

Reason for selection

To contribute to equitable business management compliant with laws and social norms from an independent standpoint, drawing on his sophisticated legal knowledge and broad perspective as a lawyer



Katsuhiko Machida

Outside Director

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 11 Board of Directors' meetings

Significant Concurrent Positions

None

Reason for selection

To provide objective and neutral advice to management from an independent standpoint, drawing on his extensive experience and knowledge as a business executive

Members of the Board of Auditors



Mitsuaki Ohtani, Ph.D.

Standing Member of the Board of Auditors

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)

Attended all 11 Board of Directors' meetings

Attended all 8 Board of Auditors' meetings



Akira Okamoto

Standing Member of the Board of Auditors

1978 Joined the Company
2006 General Manager, Business Support Center
2007 General Manager, General Affairs & Personnel Department
2008 General Manager, Human Resources Department
2011 General Manager, Internal Control Department
2015 Standing Member of the Board of Auditors of the Company (incumbent)

Corporate Officers

Senior Executive Officer

Takuko Sawada

Executive Officers

Takuo Fukuda

Ryuichi Kume, Ph.D.

Yoshiaki Kamoya

Takayuki Yoshioka, Ph.D.

Corporate Officers

Kohji Hanasaki, Ph.D.

Masaaki Takeyasu

John Keller, Ph.D.

Shinya Matsuzawa

Kazuhiro Hatanaka

Miyuki Hiura

Toshinobu Iwasaki, Ph.D.

Takeshi Shiota, Ph.D.

Outside Members of the Board of Auditors



Shinichi Yokoyama

Outside Member of the Board of Auditors

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
2014 Outside Corporate Auditor, Rengo Co., Ltd. (incumbent)

Attended 9 of 11 Board of Directors' meetings

Attended all 8 Board of Auditors' meetings

Significant Concurrent Positions

Outside Corporate Auditor, Sumitomo Chemical Co., Ltd.

Outside Corporate Auditor, Rengo Co., Ltd.

Reason for selection

To provide appropriate advice to management from an independent standpoint, drawing on his extensive experience and knowledge as a business executive



Kenji Fukuda

Outside Member of the Board of Auditors

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 all 11 Board of Directors' meetings

Attended all 8 Board of Auditors' meetings

Significant Concurrent Positions

Partner, Dojima Law Office

Reason for selection

To contribute to audit processes, drawing on his sophisticated legal knowledge and broad perspective as a lawyer



Koichi Tsukihara

Outside Member of the Board of Auditors

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 11 Board of Directors' meetings

Attended all 8 Board of Auditors' meetings

Significant Concurrent Positions

Outside Director, Gurunavi, Inc.

Reason for selection

To conduct appropriate audits from an independent standpoint, drawing on his extensive experience and knowledge as a business executive

Fundamental Policy

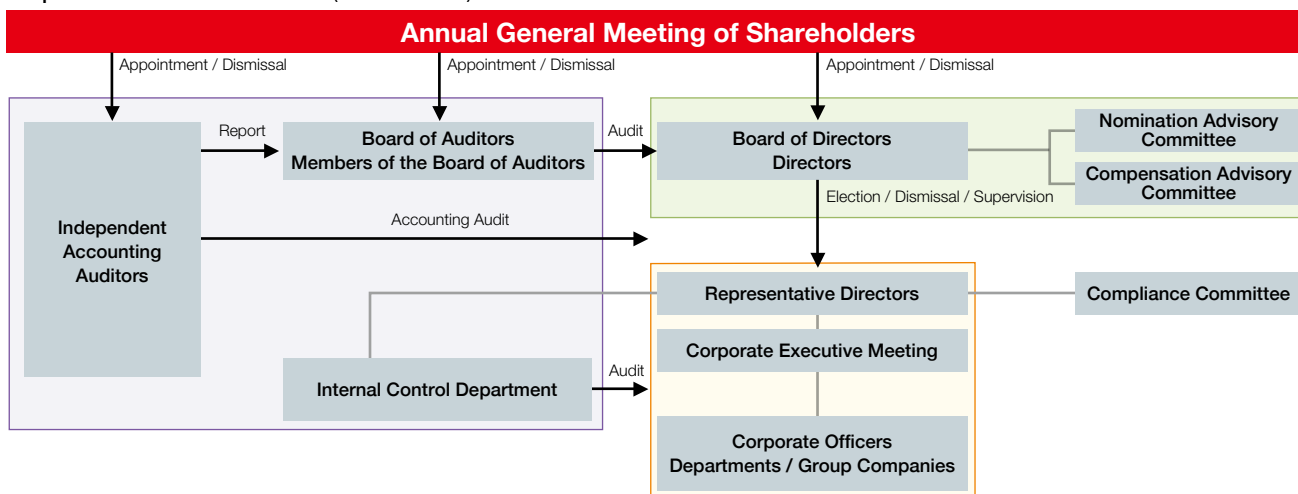
In accordance with the Company Policy – the Group’s management philosophy – we believe it is our social mission to continually discover, develop and supply useful and safe medicines that help improve the health, medical treatment and quality of life of people around the world.

Based on our firm belief that strict compliance and efforts to fulfill this social mission translate into greater corporate value, we aim to generate sustained growth and achieve increases in corporate value through constructive communication with shareholders, supported by a corporate governance structure that promotes transparent and fair management and ensures rapid and decisive decision-making, underpinning principled business management.

Corporate Governance Structure

The Shionogi Group has adopted a Company with a Board of Auditors governance structure to support efficient management oversight. Using this system, the Group is working to strengthen the audit capabilities of Auditors and the monitoring functions of the Internal Control Department to ensure business execution is based on appropriate management decisions. In order to separate business management and business execution, the directors are responsible for making management decisions in line with the Group’s medium- and long-term plans, while the executive officers are responsible for implementing business strategy, resulting in business execution based on rapid and flexible decision-making. More than half of the Company’s directors are outside appointments and we plan to reinforce business oversight and audit functions by increasing the number of outside auditors.

Corporate Governance Structure (As of March 2015)



Board of Directors

In principle, the Board of Directors meets every month to make decisions on important matters that affect Shionogi’s business and to oversee business execution. Aiming to strengthen the board’s oversight of business execution, we appointed two outside directors in fiscal 2011 and added another outside director in fiscal 2012 to promote highly transparent and equitable management by drawing on perspectives from outside the Company. In fiscal 2015, we appointed a woman to the Board of Directors and increased the number of directors to six in order to strengthen management further and promote diversity. All three outside directors are independent appointments and are tasked with ensuring accountability and a high level of transparency in management.

The Board of Directors is advised by the Nomination Advisory Committee and the Compensation Advisory Committee, which are chaired by outside directors. To ensure management decisions are equitable, these committees carefully assess the aptitude of candidates for director positions, the impact directors have on business management, and the suitability of individuals for certain roles and their respective levels of remuneration.

Business Execution Framework

Shionogi has introduced an executive officer system to support dynamic and flexible business operations, enabling the Group to respond rapidly to significant changes in the operating environment. The Company has also established

the Corporate Executive Meeting as a body to discuss business execution. It is composed of directors, auditors and the corporate officers responsible for business execution and meets every week in principle. The Corporate Executive Meeting is a forum for discussing issues related to business execution and important management matters.

Audit Framework

To ensure directors and each organization in the Company conduct their duties in a legally compliant and appropriate manner, the Company has established systems to enable members of the Board of Auditors and the Internal Control Department, which is responsible for conducting internal audits, to carry out audits of business execution and exchange opinions with the representative directors as required.

The Board of Auditors has five members, including three outside members. The members of the Board of Auditors attend meetings of key management bodies, such as the Board of Directors and the Corporate Executive Meeting, 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.

Recent Changes to the Corporate Governance Structure

Shionogi has actively reformed its corporate governance structure to increase management transparency in order to support the Group's sustained growth. These reforms are designed to reinforce oversight of business execution and to promote highly equitable management by drawing on perspectives from outside the Company.

Going forward, we will continue to implement the necessary steps to strengthen corporate governance, ensuring the Group retains the trust of stakeholders and continues to grow by adapting to changes in the operating environment.

	2003	2004	2009	2011	2012	2015
Separation of management and business execution	Directors: 14	Changes to the Articles of Incorporation • Rule on number of directors changed from "three or more" to "no more than seven" • Term of directors reduced from two years to one year	5	6	5	5
	(14 internal appointments)		(5)	(4)	(3)	(2)
	(Outside directors –)		(–) Outside directors appointed	(2)	(2)	(3)
	Corporate officers –	Corporate officer system introduced	15	9	10	11
Establishment of optional committees			Nomination Advisory Committee (internal executives)	(2)		(2)
			(outside executives)	(2)		(2)
			Compensation Advisory Committee (internal executives)	(2)		(2)
			(outside executives)	(2)		(2)
Moves to reinforce oversight and ensure transparency	Auditors: 4 (2 internal appointments) (2 outside auditors)				5 (2) (3)	

Role and Composition of Advisory Committees

Nomination Advisory Committee

The Nomination Advisory Committee supports the Board of Directors in an advisory role. The committee is chaired by an outside director and is tasked with assessing the suitability of candidates for the position of director from an equitable standpoint.

Compensation Advisory Committee

The Compensation Advisory Committee is also an advisory body for 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.

Remuneration Policy for Senior Executives

Remuneration for the Company's directors is paid within a range determined by resolutions at the Annual General Meeting of Shareholders. Remuneration comprises a basic monthly salary, bonuses paid each fiscal year linked to the Company's earnings performance, and a stock option system, which was introduced in fiscal 2011. Outside directors receive only a basic salary.

Basic salaries are determined based on the position and role of each director, taking into account the economic environment and trends in compensation. Bonuses are paid as short-term incentives and are calculated using a bonus formula that references factors such as the Group's earnings performance each fiscal year. The stock option system was introduced to motivate directors to increase shareholder value over the medium and long term. Stock options are granted based on the level of basic monthly salaries.

Remuneration for the Company's auditors is paid within a range determined by resolutions at the Annual General Meeting of Shareholders. All compensation for auditors is combined into a basic monthly salary.

● Committee Members

		Nomination Advisory Committee	Compensation Advisory Committee
Directors	Motozo Shiono	●	
	Isao Teshirogi, Ph.D.	●	●
	Takuko Sawada		
Outside Directors	Akio Nomura	chairperson	●
	Teppey Mogi	●	chairperson
	Katsuhiko Machida		
Corporate Auditors	Mitsuaki Ohtani, Ph.D.		
	Akira Okamoto		●
Outside Corporate Auditors	Shinichi Yokoyama		
	Kenji Fukuda		
	Koichi Tsukihara		

Amount of Remuneration for Directors and Members of the Board of Auditors (Fiscal 2014)

Category	Persons remunerated	Amount of remuneration paid (¥ millions)			
		Base remuneration	Bonus	Stock options	Total
Directors	5	189	45	33	268
(Outside directors among directors)	(3)	(36)	(–)	(–)	(36)
Members of the Board of Auditors	5	92	–	–	92
(Outside members of the Board of Auditors among members of the Board of Auditors)	(3)	(36)	(–)	(–)	(36)
Total	10	282	45	33	361

1. "Bonus" is the amount transferred to the reserve for bonuses for directors in fiscal 2014.
2. "Stock options" is the amount booked as stock option expenses in fiscal 2014.

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 proper time.
- Selected individuals have the personality, professional background, insight and other qualities that are sincerely valued by not only the Company's management team but also stakeholders.

Messages from the Outside Directors

For a company to earn the trust of society and continue developing, it must ensure transparency in decision-making and actively disclose information, while also voluntarily reinforcing corporate governance.

Shionogi's Board of Directors works actively to improve corporate governance and makes transparent and fair business decisions with a constant focus on accountability.

Emphasizing my independence as an outside director, I do my part to contribute to highly transparent management at Shionogi by providing advice that draws on my experience as a business manager and my expertise in the financial sector in the Kansai region.



Akio Nomura
Outside Director



Teppei Mogi
Outside Director

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 expanding their presence in global markets, senior managers need to be fully aware of their legal obligations when conducting business overseas, not just in Japan.

Using my experience in international law, I contribute to global compliance and risk management activities and support Shionogi's management decisions by providing advice in my role as an outside director, especially given the growing importance being placed on corporate governance systems in Japan.

The pharmaceuticals sector is an important growth industry for Japan. But amid escalating competition worldwide and efforts by governments to promote wider use of generic drugs, investment in research and development is becoming increasingly important for drug discovery-based pharmaceutical companies like Shionogi. Corporate management teams are therefore 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 reinforcing business oversight to make it more objective and highly effective, and by providing a broader perspective to management decisions to ensure investors can invest in Shionogi with confidence.



Katsuhiko Machida
Outside Director

Support Systems for Outside Directors and Outside Auditors

In some cases, it may be deemed necessary to provide outside directors and auditors with supplementary documents or explanations about important resolutions of the Board of Directors beforehand. In these cases, relevant personnel (Vice President of the Office of the Secretary, Vice President of the General Administration Department, etc.) provide this information to the outside directors through direct discussions or other means. Standing corporate auditors are responsible for providing this information to the outside auditors.

In addition, the standing corporate auditors are required to share information from important management meetings, cooperation with the independent accounting auditor or Internal Control Department, and from exchanges with representative directors with the other auditors.

Message from New Director

In 2014, the Japanese government positioned stronger corporate governance as a key element of its Japan Revitalization Strategy. This is part of a wider push to encourage Japanese companies to deliver sustained growth and boost corporate value over the medium and long term.

In my new post as Director and Senior Executive Officer, I intend to speed up decision-making by strengthening links between business execution and the Board of Directors, while drawing on my frontline business expertise and broader perspective. The Shionogi Group will continue to work on making a meaningful contribution to society, while also striving to increase management transparency and ensuring accountability to all its stakeholders.



Takuko Sawada

Director of the Board, Senior Executive Officer
Senior Vice President,
Corporate Strategy Division

Message from New Standing Member of the Board of Auditors



Akira Okamoto

Standing Member of the
Board of Auditors

Reinforcing corporate governance and ensuring appropriate business oversight are crucial to the continued growth of a company. In my role as Standing Corporate Auditor, I attend meetings of key bodies that make important decisions about the business, such as the Board of Directors and Corporate Executive Meeting. I provide my input as needed and conduct business and accounting audits in accordance with the Company's corporate auditing standards to verify whether directors and corporate officers responsible for business execution are carrying out their duties in a legally compliant and appropriate manner. Also, I work closely with the Internal Control Department to strengthen internal auditing processes, and work to improve the effectiveness of audits by reinforcing business oversight functions from an independent standpoint. These efforts are aimed at ensuring stakeholders retain their trust in the Shionogi Group's business activities.

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 BCP Guidelines based on its Crisis Management Standard, 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 underlying risk factors in each of its organizational units and formulates response strategies to avoid or mitigate those risks.

In order to achieve the goals of SGS2020 and maintain the Group's growth, Shionogi recognizes the importance of building a solid management base to protect its business assets. The Group is therefore working to increase physical security levels across all its operations. Every Shionogi employee endeavors to protect the Group's valuable business assets, based on a constant and high level of risk awareness.

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, use application, 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

The Shionogi Group's basic policy is "to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." We are working to make this policy a reality worldwide. Also, in order to continue growing as a global company in the life sciences field, Shionogi has to be an honest company underpinned by strong moral values.

The Group has published the Shionogi Group Compliance Policy, which we require all employees to put into practice to increase awareness about the importance of compliance. Led by the Compliance Committee, which is chaired by the President and CEO, we are promoting compliance and working to ensure employees comply with all laws and regulations, while also maintaining and improving their standards of ethical behavior as members of society.

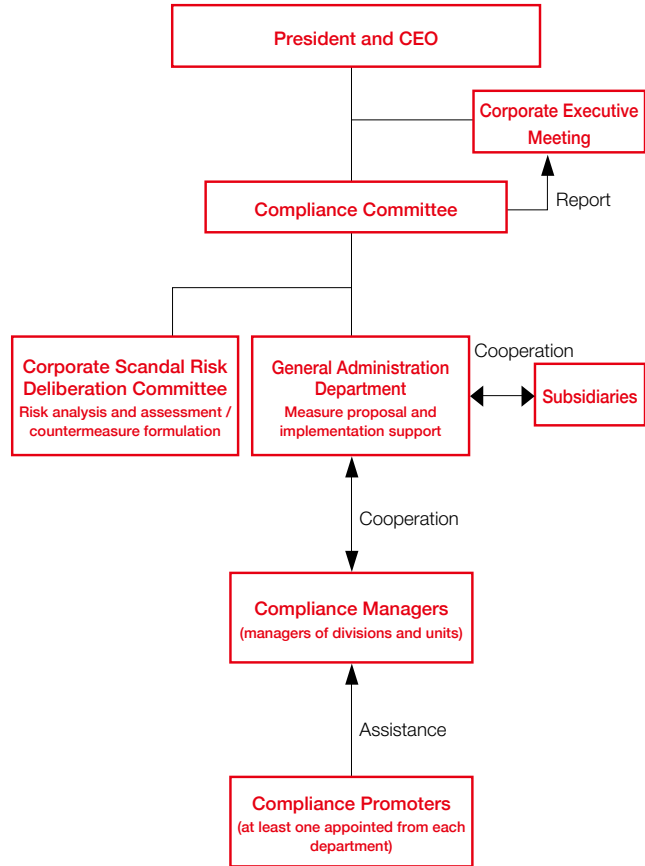
Based on clear commitments set out in the Shionogi Code of Practice and the Shionogi Group Anti-Corruption / Anti-bribery Policy, we are also striving for even higher ethical standards and transparency to ensure the public retains its trust in Shionogi as a global company.

Needless to say, compliance is vital to ensure companies remain viable and continue to develop. All our employees will endeavor to hold themselves to the highest ethical standards at all times to support the Group's growth and earn the respect of society.

Compliance Areas

Compliance in the Shionogi Group goes beyond compliance with laws, rules and regulations to include social standards and ethical behavior expected of companies and individuals.

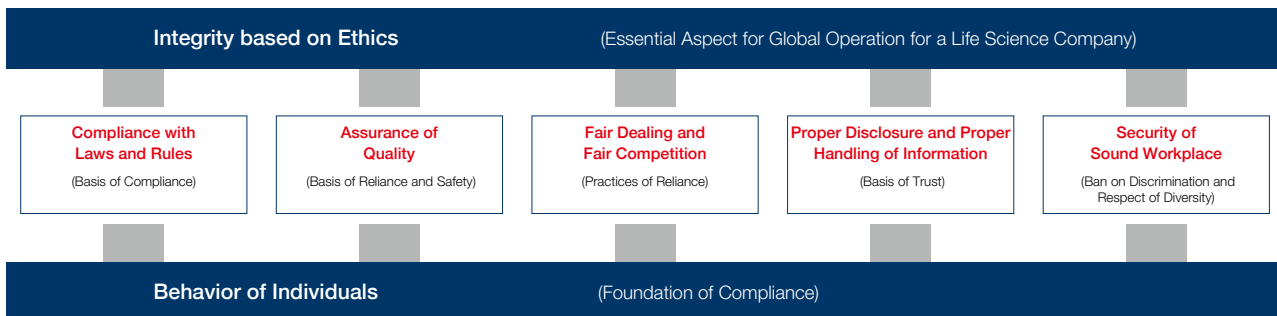
Compliance Promotion Structure (As of March 2015)



Concept Chart



2 Fundamentals & 5 Essentials



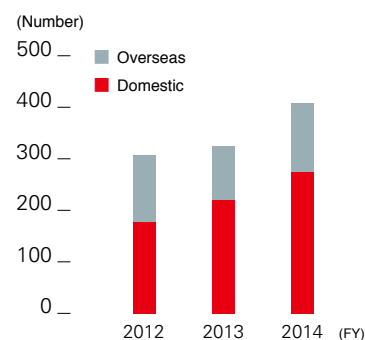
Communication with Shareholders

Investor Relations that Address Equity Market Needs

As part of its investor relations activities, the Shionogi Group actively discloses useful information that meets the needs of the equity market. At press conferences and conference calls, senior managers clearly explain the Group's management policy and earnings performance and provide more detailed information at smaller investor meetings. Shionogi also holds an annual briefing on research and development, and explains progress in target therapeutic areas.

In our Medium-Term Business Plan launched in April 2014, SGS2020, we incorporated an ROE target and set out a clear policy on shareholder returns. We have also disclosed our medium- and long-term strategy to address the patent cliff for one of our main products – the biggest issue facing Shionogi. This approach has been widely welcomed by shareholders and investors. Going forward, we intend to continue communicating closely with shareholders and other investors, reflecting their opinions and advice in our operations to increase corporate value.

Number of meetings with institutional investors and securities analysts



Shionogi first-time recipient of IR Special Award in Fiscal 2014

The Japan Investor Relations Association (JIRA) presents IR Prime Business Awards each year to companies that have actively taken steps leading to significant achievements in IR, including strong support from market participants, underpinned by a deep understanding of the role of IR. All publicly listed JIRA member companies are eligible for the awards.

Shionogi third in Fiscal 2014 Awards for Excellence in Corporate Disclosure

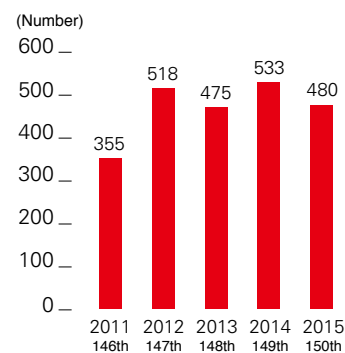
For the second year running, Shionogi has been selected in third place in the pharmaceuticals category of the Awards for Excellence in Corporate Disclosure presented by the Securities Analysts Association of Japan (SAAJ). The awards were established by the SAAJ's Corporate Disclosure Study Group in order to improve corporate disclosure in Japan. Selection is carried out by securities analysts, who assess IR activities using a range of criteria, including the quality, quantity and timing of disclosures.



150th Annual General Meeting of Shareholders

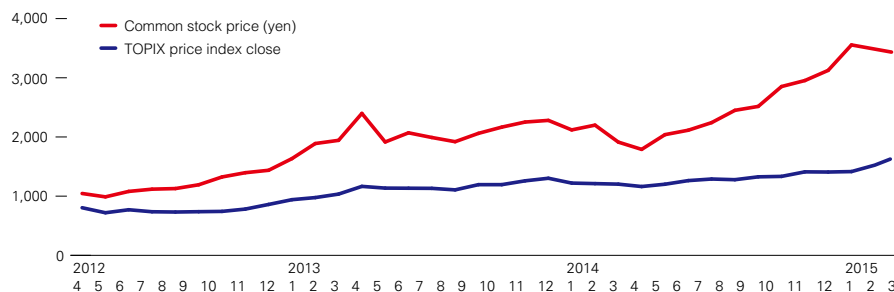
Shionogi held its 150th Annual General Meeting of Shareholders on June 24, 2015 in Osaka. A total of 480 shareholders attended the meeting. All reported matters and resolutions were approved and passed. Six shareholders tabled questions and gave their opinions on a range of topics. Please refer to the relevant sections in this annual report for more information about these topics.

Number of Shareholders Attending Annual Meeting



Main topics	Relevant page
Domestic pharmaceutical products	
Sales trends	22, 46
Sales strategy (Japan)	30
End domestic patent protection for Crestor	6
Research and development	
R&D expenses	2, 22, 46
Progress in joint research	24
Progress in development of global products	10
Corporate governance	
Compliance systems	44
Reasons for selecting outside directors	38
Litigation response systems	43, 51

Stock Price (Tokyo Stock Exchange)



11-Year Performance Highlights

The Second Medium-Term Business Plan

“Accelerating toward significant strides”

Reinforced R&D and enhanced global operating structure

■ Focused on priority therapeutic areas

(infectious diseases, pain and metabolic diseases)

■ Acquired US-based company Sciele Pharma, Inc.

	2005	2006	2007	2008	2009
For the years ended March 31:					
Net sales	¥199,365	¥196,389	¥199,759	¥214,268	¥ 227,512
Cost of sales	74,069	68,708	67,542	68,594	70,929
Selling, general and administrative expenses	96,567	98,455	103,354	105,275	124,568
Operating income	28,729	29,226	28,863	40,399	32,015
Income before income taxes and minority interests ..	31,655	38,798	31,723	39,963	30,786
Net income	18,942	22,735	18,595	25,064	15,661
Net cash provided by operating activities	28,549	16,885	14,116	15,619	29,120
Net cash used in investing activities	9,786	(12,048)	(8,418)	(5,336)	(149,056)
Net cash used in financing activities	(11,209)	(24,796)	(7,181)	(17,124)	105,294
Research and development expenses	29,409	32,257	37,456	40,290	52,822
Capital investments	5,001	11,132	11,107	13,069	10,875
Depreciation and amortization	9,412	8,653	8,798	10,666	13,468

As of March 31:

Property, plant and equipment, net	¥ 68,191	¥ 64,251	¥ 67,815	¥ 70,378	¥ 71,812
Total assets	396,999	427,683	429,569	413,704	501,853
Total long-term liabilities	27,783	38,371	36,282	29,024	114,955
Total net assets	300,065	337,434	345,752	342,236	310,094

Per share amounts:

Net income	¥ 54.64	¥ 66.55	¥ 54.61	¥ 74.21	¥ 46.75
Net assets	879.79	989.76	1,014.73	1,020.31	924.43
Dividends	12.00	16.00	16.00	22.00	28.00

Other:

Equity ratio (%)	75.5	78.8	80.4	82.7	61.7
Return on equity [ROE] (%)	6.4	7.1	5.4	7.3	4.8
Payout ratio (%)	22.0	24.0	29.3	29.6	59.9

Non-Financial Data:

Employees (Number)	5,522	4,997	4,958	4,982	6,010
CO ₂ emissions (Thousand tons – CO ₂)* ¹	–	–	–	–	–
Amount of waste generated (t)	–	–	–	–	–
Ratio of hybrid and electric vehicles (%)** ²	–	–	–	–	–

*1 The electric power CO₂ conversion uses internally specified figures.

Data are from the fiscal year ended March 31, 2010 because of a change to the scope of aggregation following enforcement of the Amended Act on Temporary Measures for Promotion of Rational Uses of Energy and Recycled Resources in 2010.

**2 Excludes cold regions of Japan

Notes:

1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥120.15 = US\$1.00, the approximate rate of exchange on March 31, 2015.

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.

3. From the fiscal year ended March 31, 2015, the Company has adopted a new accounting standard for research and development expenses (business research expenses). This change has been reflected in figures for the fiscal year ended March 31, 2014.

Third Medium-Term Business Plan
“SONG for the Real Growth”
Progress toward global growth

- Launched *Osphena* in US
- Increased sales of eight strategic products in Japan
- Established footholds in Europe and China

New Medium-Term Business Plan
Shionogi Growth Strategy 2020 (SGS2020)
Aim to grow as a drug discovery-based pharmaceutical company

- Identify and channel resources into strategic sales areas and therapeutic areas
- Growth led by FIC and LIC compounds
- Continued improvement of business operations

2010	2011	2012	2013	2014	2015	2015
					Millions of yen	Thousands of U.S. dollars
¥278,503	¥282,350	¥267,275	¥282,904	¥289,717	¥273,991	\$ 2,280,408
76,264	81,737	77,753	78,575	77,993	82,190	684,062
149,801	153,721	142,519	144,764	149,849	141,437	1,177,170
52,438	46,892	47,003	59,565	61,875	50,364	419,176
58,541	33,135	41,495	58,307	63,188	82,052	682,913
38,626	20,027	27,102	66,728	40,618	44,060	366,708
52,902	56,528	54,724	59,276	79,496	45,604	379,559
(826)	(13,947)	(38,290)	(19,960)	(20,040)	(31,697)	(263,812)
(4,979)	(27,011)	(27,749)	(37,687)	(53,799)	(46,211)	(384,611)
51,808	50,921	53,599	53,021	53,606	48,870	406,742
12,547	17,967	13,233	11,447	8,962	8,163	67,940
18,048	17,966	16,282	11,912	12,913	12,673	105,476
¥ 62,448	¥ 70,221	¥ 74,282	¥ 78,474	¥ 78,977	¥ 77,023	\$ 641,057
540,762	523,242	522,162	574,882	580,566	602,900	5,017,894
131,956	115,326	92,900	53,042	33,721	56,222	467,932
341,976	328,096	347,198	423,633	467,836	478,883	3,985,709
¥ 115.33	¥ 59.80	¥ 80.93	¥ 199.25	¥ 121.29	Yen	U.S. dollars
1,019.71	979.69	1,027.83	1,254.44	1,385.11	¥ 132.67	\$ 1.10
36.00	40.00	40.00	42.00	46.00	1,456.70	12.12
					52.00	0.43
63.2	62.7	65.9	73.1	79.9	%	
11.9	6.0	8.1	17.5	9.2	78.7	
31.2	66.9	49.4	21.1	37.9	9.4	
					39.2	
5,887	5,277	6,132	6,082	6,165	6,059	
104	87	93	89	84	68	
6,218	4,961	4,744	4,564	4,275	3,509	
–	40	49	80	91	91	

Overview of Fiscal 2014 Results

In fiscal 2014, ended March 31, 2015, our priority objective was to rapidly overcome the "Crestor Hill" caused by changes to the *Crestor* royalty agreement with AstraZeneca. We also worked to maximize the value of strategic products to strengthen the Group's product portfolio for the medium and long term. In cost control, we reduced costs by boosting productivity and by strategically allocating resources in line with clear business priorities.

At the start of the fiscal year, we projected a decline in profits year on year, but ordinary income rose and we reported our third consecutive year of record profits. This reflected royalty income and dividends that were significantly above our expectations due to strong sales of anti-HIV agent *Tivicay* (dolutegravir) and combination drug *Triumeq* containing dolutegravir (HIV franchise product) by UK company Viiv Healthcare Ltd., which has acquired the global rights for our integrase inhibitor compounds. We also recorded foreign currency translation gains due to the weak yen.

Net Sales and Profits

Net Sales

Net sales declined 5.4% year on year to ¥273,991 million.

1. Domestic Sales of Prescription Drugs

Sales of the Company's eight strategic products, centered on *Crestor*, *Irbetan* and *Cymbalta*, increased 3.1% year on year to ¥95.8 billion. However, total domestic sales of prescription drugs declined 4.1%, partly reflecting the impact of drug price revisions implemented in April 2014.

2. Exports and Overseas Subsidiaries

Sales of *Osphena* rose steadily in the US, but overall sales from exports and overseas subsidiaries declined 15.8% year on year, partly due to the sale of some brands in the previous fiscal year.

3. Royalty Income

Royalty income from *Crestor* declined 27.8% year on year after changes to the royalty agreement in the previous fiscal year. However, total royalty income contracted only 14.2% due to the start of royalty income payments for *Tivicay* from the fiscal year under review.

Gross Profit

The cost of sales rose 5.4% to ¥82,190 million and the cost of sales ratio increased from 26.9% in fiscal 2013 to 30.0% in the year under review.

As a result, gross profit declined 9.4% year on year to ¥191,801 million.

Operating Income and Net Income

Operating income declined 18.6% year on year to ¥50,364 million.

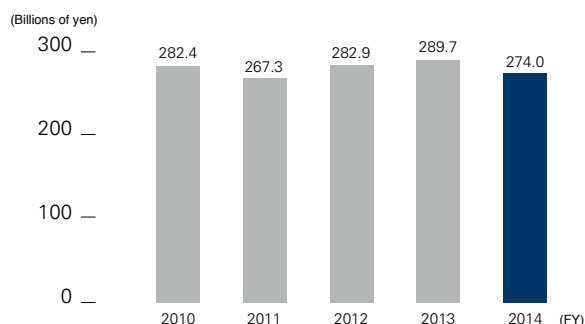
Although the Company continued to improve the efficiency of spending on sales promotion and research & development, operating income was affected by the 9.4% drop in gross profit, which reflected the impact of drug price revisions and a decline in royalty income from *Crestor*.

Net income increased 8.5% year on year to ¥44,060 million. This reflected a substantial rise in dividend income from Viiv Healthcare Ltd. due to strong sales of *Tivicay* and *Triumeq*, as well as an agreement during fiscal 2014 with Viiv Healthcare on dividend payments. Growth in net income was also supported by foreign currency translation gains due to the weak yen.

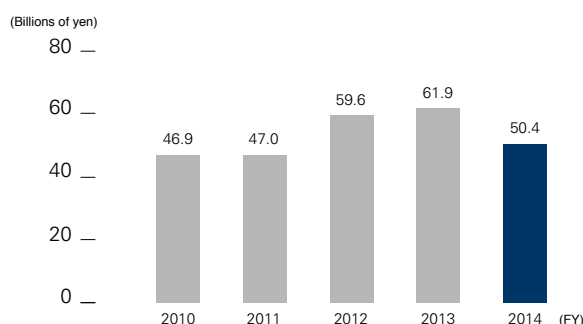
Segment Information

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.

Net Sales



Operating Income



Research and Development Expenses

1. Research Activities

The Shionogi Group's core therapeutic areas are infectious diseases and pain / CNS disorders, where it already has strengths in research and development. The Group continues to pursue research aimed at creating development candidates with the potential to become FIC or LIC compounds, while also working to improve the success rate in moving drugs from non-clinical to clinical trial stages.

In fiscal 2014, an oral anti-influenza treatment with a novel mechanism of action advanced to the development stage and the Group created new development candidates for the treatment of severe bacterial infection and neuropathic pain. S-649266, a novel siderophore cephalosporin antibiotic for intravenous injection created at a Shionogi research laboratory, has a unique "Trojan Horse" mechanism* that transports the drug inside the bacterial body. Results from non-clinical studies demonstrate effective antibacterial action against multidrug-resistant gram-negative pathogens. The compound is attracting interest as an antimicrobial agent with the potential to become a new treatment option for multidrug-resistant bacterial infections, which have become a public health issue in recent years.

Also, as part of efforts to refocus resources on strategic therapeutic areas, the Group took steps to maximize the value of advanced drug discovery technologies, including out-licensing its biologic drug development program in the metabolic disorder field to US company MedImmune, LLC.

*A method of transporting effective drug treatments to the potential site of action using the mechanism for the uptake of iron, which is necessary for bacterial growth.

2. Development Activities

In October 2013, Viiv Healthcare Ltd. filed for approval for *Triumeq* in the US and Europe. The drug received regulatory approval in the US in August 2014 and in Europe in September 2014. Approval for *Triumeq* was granted in Japan in March 2015. In addition, *Senshio* (ospemifene) received approval in Europe in January 2015 for the treatment of moderate to severe symptomatic vulvar and vaginal atrophy in post-menopausal women.

In Japan, the Group filed for the additional indications of fibromyalgia pain and chronic low back pain for *Cymbalta*, a drug with

the potential to support Shionogi's future growth. The development of a treatment for fibromyalgia pain was requested by the government, and the indication for chronic low back pain is part of the Group's product life cycle management strategy. The Group also submitted new drug applications (NDAs) for thrombocytopenia treatment S-888711 and for S-524101, sublingual tablets for the treatment of allergic rhinitis caused by house-dust mite allergen. S-524101 received regulatory approval in March 2015.

In addition, the Group made steady progress with the global development of promising compounds in its pipeline, including S-297995, a treatment for the alleviation of opioid-induced adverse effects, and S-649266. Both compounds have been positioned as potential future growth drivers for the Group. The Shionogi Group will continue to push ahead with the efficient and rapid development of new drugs in Japan, the US, Europe and Asia.

As a result of these activities, the Group's R&D expenses for fiscal 2014 totaled ¥48,870 million.

Cash Flows

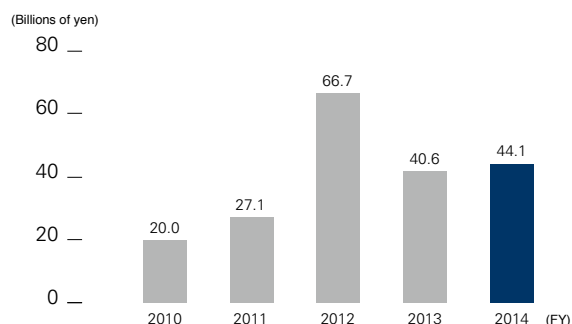
In fiscal 2014, net cash provided by operating activities totaled ¥45,604 million, a decline of ¥33,892 million compared with the previous fiscal year. This mainly reflected cash provided by an increase in income before income taxes and minority interests and a decrease in inventories, against cash used for income taxes paid, including taxes related to previous fiscal years.

Net cash used in investing activities totaled ¥31,697 million, an increase of ¥11,657 million compared with the previous fiscal year. This mainly reflected cash used for the construction of a new plant in Nanking, China for subsidiary C&O Pharmaceutical Technology (Holdings) Limited, and for purchases of investment securities.

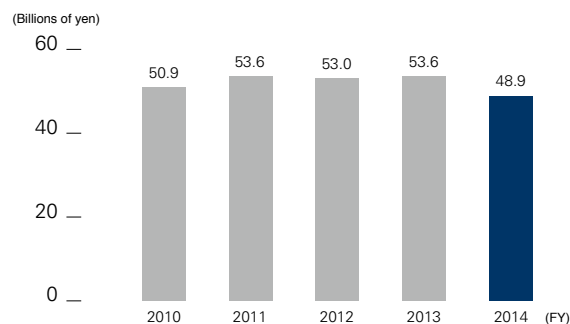
Net cash used in financing activities totaled ¥46,211 million, a decline of ¥7,588 million compared with the previous fiscal year. In the previous fiscal year the Company repaid short-term loans and long-term debt totaling ¥39,000 million, while the main item in the fiscal year under review was ¥30,000 million for the purchase of treasury stock.

As a result, cash and cash equivalents as of March 31, 2015 totaled ¥78,722 million, a decrease of ¥29,616 million compared with the end of the previous fiscal year.

Net Income



R&D Expenses



Capital Investments

In fiscal 2014, capital investment by the Shionogi Group totaled ¥8,163 million, down ¥799 million, or 8.9%, year on year.

The Company spent ¥6,292 million on capital investment, mainly to expand capacity at a solid dosage packaging facility at the Settsu Plant. Consolidated subsidiaries invested ¥1,871 million, mainly C&O Pharmaceutical Technology (Holdings) Limited in the construction of a new injectable drug facility.

Assets, Liabilities and Net Assets

As of March 31, 2015, total assets stood at ¥602,900 million, an increase of ¥22,334 million from the end of the previous fiscal year.

Current assets increased ¥11,055 million from the end of the previous fiscal year, mainly reflecting increases in short-term investments and notes and accounts receivable. Investments and other assets increased ¥13,233 million from the end of the previous fiscal year, mainly due to an increase in the market value of investments in securities, and a rise in goodwill and marketing rights denominated in foreign currencies due to the weak yen.

As of March 31, 2015, current liabilities declined ¥11,214 million, mainly due to the repayment of the current portion of long-term debt. Long-term liabilities increased ¥22,501 million, primarily reflecting the procurement of long-term debt through a convertible bond issue, some of which was used to fund the purchase of treasury stock.

As of March 31, 2015, net assets stood at ¥478,883 million, an increase of ¥11,047 million from the end of the previous fiscal year. Shareholders' equity declined ¥4,027 million. Net income increased year on year, but shareholders' equity declined due to the purchase of treasury stock and other factors. Accumulated other comprehensive income, net increased ¥14,422 million, mainly due to the impact of exchange rates and equity market conditions. Share subscription rights increased ¥62 million to ¥270 million and minority interests rose ¥590 million to ¥4,353 million.

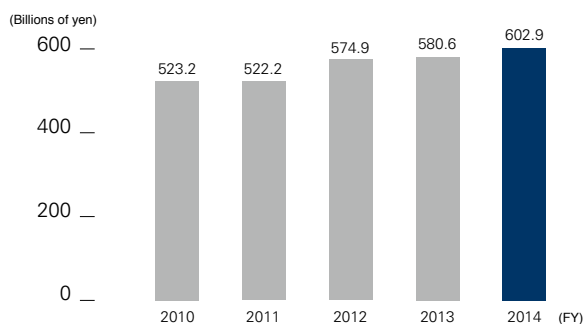
Dividends

The Shionogi Group aims to steadily increase dividends while also boosting corporate value by actively investing in its business to drive growth over the medium and long term. Targeting a steady rise in dividend payments in line with growth, Shionogi aims to return profits to shareholders based on a target dividend on equity (DOE) ratio of 3.5% or higher.

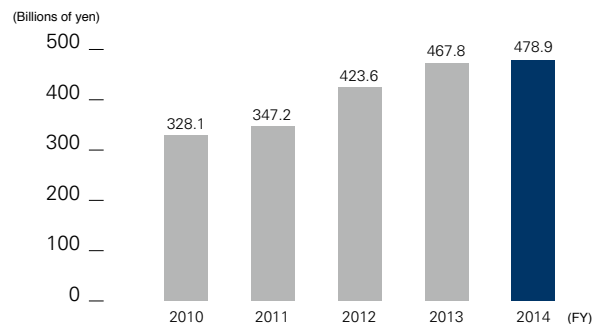
In the fiscal year under review, the Group made good progress with measures to generate growth in order to rapidly overcome the earnings impact of the end of patent protection for *Crestor*. This included growth in sales of anti-HIV agent *Tivicay* and *Triumeq* by Viiv Healthcare Ltd., which has acquired the global rights for our integrase inhibitor compounds. In light of this performance, the Company paid a year-end dividend of ¥28 per share for fiscal 2014. Including the interim dividend, the Company paid a full-year dividend of ¥52 per share, equating to a DOE ratio of 3.7%.

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, 2015.

(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 39% of its product sales and royalty income from two of its products, *Crestor* and *Irbetan* family (as of March 31, 2015). 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 2015)

Country	Products	Patents	Defendants	Court Filing Date	Current Status
US	<i>Doribax</i> (Japan product name: <i>Finibax</i>)	Drug compound	Sandoz Inc.	December 2011	Settlement (March 2015)
		Crystalline form	Sandoz Inc.	December 2012	Settlement (March 2015)
		Crystalline form	Hospira, Inc.	April 2013	Decision pending
		Crystalline form	Aurobindo Pharma Limited	January 2015	Decision pending
		Crystalline form	Apotex Inc.	January 2015	Decision pending

Consolidated Financial Statements

Consolidated Balance Sheet

March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Assets			
Current assets:			
Cash and cash equivalents (Notes 9 and 14).....	¥ 78,722	¥ 108,338	\$ 655,198
Short-term investments (Notes 6 and 14).....	30,762	6,000	256,030
Notes and accounts receivable (Note 14):			
Affiliates.....	457	503	3,804
Trade.....	70,128	63,788	583,670
Other.....	16,872	4,539	140,424
Allowance for doubtful accounts.....	(28)	(24)	(233)
	87,429	68,806	727,665
Inventories (Note 7).....	44,482	48,370	370,221
Deferred income taxes (Note 13).....	13,539	12,728	112,684
Other current assets.....	5,014	4,651	41,731
Total current assets.....	259,948	248,893	2,163,529
Property, plant and equipment:			
Land.....	8,410	9,755	69,996
Buildings and structures (Note 8).....	113,007	119,043	940,549
Machinery, equipment and vehicles (Note 10).....	79,537	83,343	661,981
Furniture and fixtures.....	36,971	37,798	307,707
Construction in progress (Note 8).....	5,416	6,864	45,077
Accumulated depreciation.....	(166,318)	(177,826)	(1,384,253)
Property, plant and equipment, net.....	77,023	78,977	641,057
Investments and other assets:			
Investments in securities (Notes 6 and 14).....	157,097	147,902	1,307,507
Investments in affiliates (Note 14).....	1,242	1,618	10,337
Asset for retirement benefits (Note 12).....	18,440	19,047	153,475
Goodwill.....	46,535	42,879	387,308
Marketing rights.....	29,056	24,355	241,831
Long-term prepaid expenses.....	558	2,226	4,644
Deferred income taxes (Note 13).....	7,187	8,016	59,817
Other assets (Note 19).....	5,814	6,653	48,389
Total investments and other assets.....	265,929	252,696	2,213,308
Total assets.....	¥ 602,900	¥ 580,566	\$ 5,017,894

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 14):			
Affiliates.....	¥ 731	¥ 1,399	\$ 6,084
Trade.....	10,843	8,229	90,246
Construction	2,187	4,718	18,202
Current portion of long-term debt (Notes 11 and 14).....	39	20,000	325
Provision for employees' bonuses	8,315	7,071	69,205
Provision for sales returns	2,873	4,321	23,912
Accrued expenses	13,371	13,977	111,286
Accrued income taxes (Notes 13 and 14).....	16,169	11,802	134,573
Deferred income taxes (Note 13).....	38	—	316
Other current liabilities (Notes 9 and 11).....	13,229	7,492	110,104
Total current liabilities.....	67,795	79,009	564,253
Long-term liabilities:			
Long-term debt (Notes 11 and 14).....	30,094	10,035	250,470
Liability for retirement benefits (Note 12).....	9,901	9,967	82,405
Deferred income taxes (Note 13).....	14,538	12,628	120,999
Long-term accounts payable — other.....	385	354	3,205
Other long-term liabilities (Notes 11 and 19).....	1,304	737	10,853
Total long-term liabilities.....	56,222	33,721	467,932
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 16):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2015 and 2014	21,280	21,280	177,112
Capital surplus	20,227	20,227	168,348
Retained earnings	455,498	429,526	3,791,077
Less treasury stock, at cost.....	(49,755)	(19,756)	(414,107)
Total shareholders' equity.....	447,250	451,277	3,722,430
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	28,675	25,290	238,660
Translation adjustments.....	3,843	(6,114)	31,985
Retirement benefit liability adjustments	(5,508)	(6,588)	(45,843)
Total accumulated other comprehensive income, net	27,010	12,588	224,802
Share subscription rights.....	270	208	2,247
Minority interests.....	4,353	3,763	36,230
Total net assets (Note 20)	478,883	467,836	3,985,709
Total liabilities and net assets	¥602,900	¥580,566	\$5,017,894

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Net sales (Notes 17 and 21)	¥273,991	¥289,717	\$2,280,408
Cost of sales (Notes 7 and 17).....	82,190	77,993	684,062
Gross profit	191,801	211,724	1,596,346
Selling, general and administrative expenses (Note 17)	141,437	149,849	1,177,170
Operating income.....	50,364	61,875	419,176
Other income (expenses):			
Interest and dividend income	22,522	2,067	187,449
Interest expense	(274)	(888)	(2,280)
Litigation expenses	(625)	(1,236)	(5,202)
Gain on sales of property, plant and equipment.....	5,585	4,203	46,484
Gain on business transfer (Note 17)	189	—	1,573
Gain on sales of investments in securities (Note 6)	87	555	724
Litigation settlement (Note 17).....	(1,306)	(651)	(10,870)
Loss on retirement of property, plant and equipment.....	(1,086)	(379)	(9,039)
Special retirement benefit expenses (Note 17).....	(383)	—	(3,188)
Loss on impairment of property, plant and equipment (Note 8).....	—	(879)	—
Business structure improvement expenses (Note 17)	—	(841)	—
Contract termination costs (Note 17).....	—	(501)	—
Loss on disposal of property, plant and equipment (Note 8)	—	(472)	—
Loss on devaluation of inventories (Note 7)	—	(451)	—
Loss on devaluation of investments in securities (Note 6)	—	(7)	—
Other, net.....	6,979	793	58,086
	31,688	1,313	263,737
Income before income taxes and minority interests.....	82,052	63,188	682,913
Income taxes (Note 13):			
Current	20,820	11,562	173,283
Prior period	13,544	—	112,726
Deferred.....	3,469	10,907	28,872
	37,833	22,469	314,881
Income before minority interests	44,219	40,719	368,032
Minority interests	(159)	(101)	(1,324)
Net income (Note 20)	¥ 44,060	¥ 40,618	\$ 366,708

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Income before minority interests	¥44,219	¥40,719	\$368,032
Other comprehensive income:			
Net unrealized holding gain on securities	3,385	9,235	28,173
Deferred gain on hedges	—	450	—
Translation adjustments	10,408	18,957	86,625
Retirement benefit liability adjustments	1,080	—	8,989
Other comprehensive income, net (Note 18)	14,873	28,642	123,787
Comprehensive income	¥59,092	¥69,361	\$491,819
Comprehensive income attributable to:			
Shareholders of Shionogi & Co., Ltd.	¥58,482	¥68,456	\$486,742
Minority interests	610	905	5,077

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2015

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, 2013, as originally reported ...	¥21,280	¥20,227	¥407,008	¥(19,742)	¥428,773	16,055
Cumulative effect of retrospective application of change in accounting policy (Note 3).....	—	—	(3,364)	—	(3,364)	—
Balance at April 1, 2013 as adjusted	21,280	20,227	403,644	(19,742)	425,409	16,055
Net income	—	—	40,618	—	40,618	—
Dividends.....	—	—	(14,736)	—	(14,736)	—
Purchases of treasury stock.....	—	—	—	(14)	(14)	—
Other changes	—	—	—	—	—	9,235
Balance at April 1, 2014, as originally reported ...	21,280	20,227	429,526	(19,756)	451,277	25,290
Cumulative effect of retrospective application of change in accounting policies (Note 3)	—	—	(2,014)	—	(2,014)	—
Balance at April 1, 2014, as adjusted	21,280	20,227	427,512	(19,756)	449,263	25,290
Net income	—	—	44,060	—	44,060	—
Dividends.....	—	—	(16,074)	—	(16,074)	—
Purchases of treasury stock.....	—	—	—	(30,017)	(30,017)	—
Disposal of treasury stock.....	—	0	—	18	18	—
Other changes	—	—	—	—	—	3,385
Balance at March 31, 2015.....	¥21,280	¥20,227	¥455,498	¥(49,755)	¥447,250	¥28,675

Millions of yen							
	Deferred loss on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2013, as originally reported ...	¥(450)	¥(24,267)	¥ —	¥ (8,662)	¥123	¥3,399	¥423,633
Cumulative effect of retrospective application of change in accounting policy (Note 3).....	—	—	—	—	—	—	(3,364)
Balance at April 1, 2013, as adjusted	(450)	(24,267)	—	(8,662)	123	3,399	420,269
Net income	—	—	—	—	—	—	40,618
Dividends.....	—	—	—	—	—	—	(14,736)
Purchases of treasury stock.....	—	—	—	—	—	—	(14)
Other changes	450	18,153	(6,588)	21,250	85	364	21,699
Balance at April 1, 2014, as originally reported ...	—	(6,114)	(6,588)	12,588	208	3,763	467,836
Cumulative effect of retrospective application of change in accounting policies (Note 3)	—	—	—	—	—	—	(2,014)
Balance at April 1, 2014, as adjusted	—	(6,114)	(6,588)	12,588	208	3,763	465,822
Net income	—	—	—	—	—	—	44,060
Dividends.....	—	—	—	—	—	—	(16,074)
Purchases of treasury stock.....	—	—	—	—	—	—	(30,017)
Disposal of treasury stock.....	—	—	—	—	—	—	18
Other changes	—	9,957	1,080	14,422	62	590	15,074
Balance at March 31, 2015	¥ —	¥ 3,843	¥(5,508)	¥27,010	¥270	¥4,353	¥478,883

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, 2014, as originally reported ...	\$177,112	\$168,348	\$3,574,915	\$(164,428)	\$3,755,947	\$210,487
Cumulative effect of retrospective application of change in accounting policies (Note 3)	—	—	(16,762)	—	(16,762)	—
Balance at April 1, 2014, as adjusted	177,112	168,348	3,558,153	(164,428)	3,739,185	210,487
Net income	—	—	366,708	—	366,708	—
Dividends	—	—	(133,784)	—	(133,784)	—
Purchases of treasury stock	—	—	—	(249,829)	(249,829)	—
Disposal of treasury stock	—	0	—	150	150	—
Other changes	—	—	—	—	—	28,173
Balance at March 31, 2015	\$177,112	\$168,348	\$3,791,077	\$(414,107)	\$3,722,430	\$238,660

Thousands of U.S. dollars (Note 5)							
	Deferred loss on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2014, as originally reported ...	\$—	\$(50,886)	\$(54,831)	\$104,770	\$1,731	\$31,319	\$3,893,767
Cumulative effect of retrospective application of change in accounting policies (Note 3)	—	—	—	—	—	—	(16,762)
Balance at April 1, 2014, as adjusted	—	(50,886)	(54,831)	104,770	1,731	31,319	3,877,005
Net income	—	—	—	—	—	—	366,708
Dividends	—	—	—	—	—	—	(133,784)
Purchases of treasury stock	—	—	—	—	—	—	(249,829)
Disposal of treasury stock	—	—	—	—	—	—	150
Other changes	—	82,871	8,988	120,032	516	4,911	125,459
Balance at March 31, 2015	\$—	\$ 31,985	\$(45,843)	\$224,802	\$2,247	\$36,230	\$3,985,709

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Operating activities			
Income before income taxes and minority interests.....	¥ 82,052	¥ 63,188	\$ 682,913
Adjustments for:			
Depreciation and amortization.....	12,673	12,913	105,476
Loss on impairment property, plant and equipment.....	—	879	—
Amortization of goodwill.....	2,978	2,713	24,786
Gain on sales or disposal of property, plant and equipment, net.....	(4,646)	(3,290)	(38,668)
Gain on sales of investments in securities.....	(87)	(555)	(724)
Loss on devaluation of investment in securities.....	—	7	—
Gain on business transfer.....	(189)	—	(1,573)
Decrease in liability for retirement benefits.....	(480)	(3,034)	(3,995)
Interest and dividend income.....	(22,522)	(2,067)	(187,449)
Interest expense.....	274	888	2,280
Other.....	(7,088)	1,441	(58,993)
Changes in operating assets and liabilities:			
Notes and accounts receivable-trade and affiliates.....	(5,752)	4,270	(47,873)
Inventories.....	4,701	774	39,126
Other current assets.....	2,681	810	22,314
Notes and accounts payable-trade and affiliates.....	530	(1,269)	4,411
Accrued expenses.....	(2,365)	(3,132)	(19,684)
Other current liabilities.....	3,469	(5,626)	28,872
Subtotal.....	66,229	68,910	551,219
Interest and dividends received.....	9,947	2,049	82,788
Interest paid.....	(314)	(911)	(2,613)
Income taxes (paid) refunded.....	(30,258)	9,448	(251,835)
Net cash provided by operating activities.....	45,604	79,496	379,559
Investing activities			
Purchases of short-term investments.....	¥ (45,529)	¥ (10,786)	\$(378,935)
Proceeds from sales and redemption of short-term investments.....	21,206	9,418	176,496
Purchases of investments in securities.....	(2,724)	(5,585)	(22,672)
Proceeds from sales of investments in securities.....	544	653	4,528
Purchases of property, plant and equipment.....	(10,641)	(6,960)	(88,564)
Proceeds from sales of property, plant and equipment.....	8,277	4,728	68,889
Purchases of intangible assets.....	(2,739)	(10,437)	(22,797)
Purchases of investments in subsidiaries.....	(24)	(954)	(200)
Proceeds from business transfer.....	236	—	1,964
Other.....	(303)	(117)	(2,521)
Net cash used in investing activities.....	(31,697)	(20,040)	(263,812)
Financing activities			
Net decrease in short-term loans payable.....	—	(7,500)	—
Repayment and redemption of long-term debt.....	(20,000)	(31,500)	(166,459)
Proceeds from issuance of bonds.....	20,070	—	167,041
Purchases of treasury stock.....	(30,051)	(14)	(250,112)
Cash dividends paid.....	(16,060)	(14,718)	(133,666)
Cash dividends paid to minority interests.....	(20)	—	(166)
Other.....	(150)	(67)	(1,249)
Net cash used in financing activities.....	(46,211)	(53,799)	(384,611)
Effect of exchange rate changes on cash and cash equivalents.....	2,688	1,138	22,372
Net (decrease) increase in cash and cash equivalents.....	(29,616)	6,795	(246,492)
Cash and cash equivalents at beginning of year.....	108,338	101,543	901,690
Cash and cash equivalents at end of year.....	¥ 78,722	¥108,338	\$ 655,198

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2015

1. Basis of Preparation

The accompanying consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and its 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, 2014 to the 2015 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.

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 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) Money in trust for cash management

Money in trust for cash management is carried at fair value.

(f) Derivatives

Derivatives are carried at fair value.

(g) Inventories

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

(h) 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.

(i) Intangible assets (other than leased 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.

(j) 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.

(k) Goodwill

Goodwill is amortized over periods of no more than 20 years by the straight-line method.

(l) Research and development expenses

Research and development expenses are charged to income when incurred.

(m) 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 reporting purposes which enter into the determination of taxable income in a different period.

(n) 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.

(o) Provision for employees' bonuses

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

(p) 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.

(q) Retirement benefits

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

The retirement benefit obligation is attributed to each period by the benefit formula basis.

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 consolidated balance sheet.

(r) Hedge accounting

The Company utilizes derivative transactions for mitigating the fluctuation risks of foreign currency assets, liabilities, forecast transactions and interest rates of loans from financial institutions. 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 of 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 movements 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.

(s) Distribution of retained earnings

Under the Company Act 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 22.)

3. Changes in Accounting Policies

(a) Accounting Standards for Retirement Benefits

The Company adopted "Accounting Standard for Retirement Benefits" (the 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 March 26, 2015) in line with certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance, effective April 1, 2014. The methods of calculating retirement benefit obligations and service costs were revised, with the method of attributing benefits to accounting periods changed from the straight-line basis to the benefit formula basis, and the method of determination of the discount rate revised from discount rates based on the average remaining years of service of the eligible employees to a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

Based on the provisional treatment set out in Section 37 of the standard, the cumulative effect of the change in accounting policy arising from the amendments relating to the determination of the retirement benefit obligations and service costs was recognized as an adjustment to retained earnings as of April 1, 2014.

As a result of this change, the liability for retirement benefits as of April 1, 2014 increased by ¥649 million (\$5,402 thousand), and the asset for retirement benefits, and retained earnings as of April 1, 2014 decreased by ¥2,479 million (\$20,633 thousand) and ¥2,014 million (\$16,762 thousand), respectively.

In addition, operating income and income before income taxes and minority interests increased by ¥162 million (\$1,348 thousand) for the year ended March 31, 2015.

Furthermore, net assets per share as of March 31, 2015 decreased by ¥5.86 (\$0.05), and net income per share and diluted net income per share for the year ended March 31, 2015 increased by ¥0.32 (\$0.00).

(b) Accounting Method for Research and Development Expenses

Up to the year ended March 31, 2014, the Group charged outsourced research and development expenses to income primarily when the project deliverables were obtained. Effective April 1, 2014, the Group changed its method for recognizing such expenses according to the progress of the research and development activities.

The Group formerly had conducted research and development activities centered on pharmaceuticals for domestic patients within Japan. However, with the globalization of new drug development and marketing, the Group's research and development activities have shifted from work done primarily by internal resources to work outsourced to third parties. The Group expects this trend to increase in the future.

In addition, the focus areas of development have been shifting from drugs for infectious diseases, which have a relatively short development period, to areas with longer development periods, such as cardiovascular disorders and pain.

Under these circumstances, the share of outsourced research and development expenses as part of total research and development expenses has increased and development periods are becoming longer. Consequently, with the previous method in which expenses were recognized upon obtaining the deliverables, the gap between the timing of the expense recognition and the progress of research and development activities became increasingly evident. As a result, the Group determined that the method of recognizing expenses according to the progress of the corresponding research and development activities would more accurately reflect the substance of the work. Considering these circumstances, since the Group has begun operation of a progress management system for outsourced research and development and established a framework for measuring expenses according to the progress of the research and development, the Group changed the method accounting for recognizing outsourced research and development expenses effective April 1, 2014.

The consolidated financial statements as of and for the year ended March 31, 2014 have been adjusted to reflect the retrospective application of this accounting method.

As a result, selling, general and administrative expenses (research and development) increased by ¥1,681 million (\$13,991 thousand), and operating income and income before income taxes and minority interests decreased by ¥1,681 million (\$13,991 thousand), respectively, compared with the amounts before the retrospective application. In addition, the balance of retained earnings as of April 1, 2013 decreased by ¥3,364 million as a result of reflecting the cumulative effects of the change in accounting method.

Furthermore, net assets per share as of March 31, 2014 decreased by ¥13.67, and net income per share and diluted net income per share for the year ended March 31, 2014 decreased by ¥3.62, respectively.

4. Accounting Standards Issued but Not Yet Effective

(a) Accounting standards for business combinations

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4).

Under these revised accounting standards, the accounting method for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were amended, the reference to "minority interests" was changed to "non-controlling interests," and the accounting method for adjustments to provisional amounts was also changed.

These standards and related guidance are effective from the beginning of the fiscal year ending on March 31, 2016. However, the accounting method for adjustments to provisional amounts will be applied for business combinations conducted on or after April 1, 2015.

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

(b) Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

On March 26, 2015, the ASBJ issued "Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force ("PITF") No.18).

The ASBJ issued the revised practical solution to reflect the change in accounting method for goodwill following a revision to U.S. GAAP in January 2014, to reflect the revision to Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22) in September 2013, and to classify how actuarial gain or loss related to retirement benefit accounting is charged to income.

This revised practical solution is effective from the beginning of the fiscal year ending on March 31, 2016.

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

5. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥120.15 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2015. 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) Marketable securities classified as other securities at March 31, 2015 and 2014 were as follows:

	Millions of yen			
	2015			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	¥ 26,528	¥37,295	¥—	¥ 63,823
Government bonds, municipal bonds, etc.	41,353	1,388	—	42,741
Other	39,700	864	—	40,564
	¥107,581	¥39,547	¥—	¥147,128

	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	85,100	816	—	85,916
	¥127,090	¥35,598	¥(9)	¥162,679

	Thousands of U.S. dollars			
	2015			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	\$220,791	\$310,404	\$—	\$ 531,195
Government bonds, municipal bonds, etc.	344,178	11,552	—	355,730
Other	330,420	7,191	—	337,611
	\$895,389	\$329,147	\$—	\$1,224,536

Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted stocks of ¥68,669 million (\$571,527 thousand) and ¥65,323 million at March 31, 2015 and 2014, respectively, are not included in the above table.

(2) Proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Proceeds from sales	¥152	¥645	\$1,265
Gross realized gain	67	555	558

(3) 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.

Information on loss on devaluation of investments in securities was omitted since there are no items to be disclosed for the year ended March 31, 2015.

The Company recognized loss on devaluation of investments in securities of ¥7 million for the year ended March 31, 2014.

7. Inventories

Inventories at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Merchandise	¥ 3,003	¥ 4,559	\$ 24,994
Finished goods	10,902	14,054	90,737
Semi-finished goods and work in process	16,825	16,818	140,033
Raw materials and supplies	13,752	12,939	114,457
	¥44,482	¥48,370	\$370,221

Cost of sales included loss on devaluation of inventories of ¥1,689 million (\$14,057 thousand) and ¥1,304 million for the years ended March 31, 2015 and 2014, respectively.

In addition, due to the termination of an agreement for sales of the antibiotic doripenem between the Group and Johnson & Johnson, the Company has recorded a loss on devaluation of inventories of ¥451 million 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 Property, Plant and Equipment

Property, plant and equipment 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 property, plant and equipment for the year ended March 31, 2014 is summarized as follows:

Location	Use	Classification	Millions of yen 2014
Aburahi Facilities (Koka, Shiga Prefecture)	Idle assets	Buildings, etc.	¥313
Shionogi Pharma Chemicals Co., Ltd., C4 Building (Tokushima, Tokushima Prefecture)	Idle assets	Construction in progress	566
			¥879

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 property, plant and equipment 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, the Company recorded a loss on impairment of property, plant and equipment in an amount equal to the carrying value of this asset.

In addition, the Company recorded a loss on disposal of property, plant and equipment of ¥472 million regarding the disposal of idle assets at Aburahi Facilities for the year ended March 31, 2014.

9. Pledged Assets

Assets pledged as collateral at March 31, 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2015	2015	2015
Cash and cash equivalents	¥7		\$58	

The corresponding liabilities secured by such collateral at March 31, 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2015	2015	2015
Deposits received from employees (included in "other current liabilities")	¥7		\$58	

10. Leases

The Group has entered into finance lease contracts which do not transfer the ownership of the leased assets. The main components of such finance leases are office automation equipment and vehicles classified as machinery, equipment and vehicles in the consolidated balance sheet.

The Group also has entered into non-cancellable operating lease contracts. Future minimum lease payments subsequent to March 31, 2015 under non-cancellable operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	2015
2016	¥ 281	¥—	\$2,339	
2017 and thereafter	871	—	7,249	
	¥1,152	¥—	\$9,588	

11. Long-Term Debt and Lease Obligations

Long-term debt and lease obligations at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	2015
Unsecured loans from banks and financial institutions due through 2019 with an average interest rate of 2.0%	¥10,039	¥ 10,035	\$ 83,554	
Zero coupon convertible bonds due in 2019	20,094	—	167,241	
Unsecured bonds due in 2014 with an average interest rate of 1.1%	—	20,000	—	
Finance lease obligations (included in "other current liabilities" and "other long-term liabilities")	708	71	5,893	
	30,841	30,106	256,688	
Less current portion	(284)	(20,035)	(2,364)	
	¥30,557	¥ 10,071	\$254,324	

Unsecured loans included loans without interest in the amount of ¥39 million (\$325 thousand) and ¥35 million at March 31, 2015 and 2014, respectively.

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2015 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 284	\$ 2,364
2017	230	1,914
2018	224	1,864
2019	10,004	83,263
2020	20,004	166,492
	¥30,746	\$255,897

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 consolidated subsidiaries have lump-sum payment plans and 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 years ended March 31, 2015 and 2014.

The changes in retirement benefit obligations are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	2015
Retirement benefit obligations at beginning of the year, as originally reported	¥81,402	¥86,671	\$677,503	
Cumulative effect of change in accounting policy (Note 3)	3,128	—	26,034	
Retirement benefit obligations at beginning of the year, as adjusted	84,530	86,671	703,537	
Service cost	2,097	2,230	17,453	
Interest cost	712	1,066	5,926	
Actuarial loss (gain)	1,775	(1,174)	14,773	
Retirement benefits paid	(5,537)	(5,347)	(46,084)	
Prior service cost	—	(2,044)	—	
Retirement benefit obligations at end of the year	¥83,577	¥81,402	\$695,605	

The changes in plan assets at fair value are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	2015
Plan assets at fair value at beginning of the year	¥90,482	¥85,763	\$753,075	
Expected return on plan assets	2,534	2,067	21,090	
Actuarial gain	1,899	3,771	15,805	
Contributions paid by the Group	1,869	3,380	15,557	
Retirement benefits paid	(4,669)	(4,499)	(38,860)	
Plan assets at fair value at end of the year	¥92,115	¥90,482	\$766,667	

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
	2015	2014	2015
Funded retirement benefit obligations	¥ 81,267	¥ 79,039	\$ 676,380
Plan assets at fair value	(92,115)	(90,482)	(766,667)
	(10,848)	(11,443)	(90,287)
Unfunded retirement benefit obligation	2,309	2,363	19,217
Net asset for retirement benefits in consolidated balance sheet	(8,539)	(9,080)	(71,070)
Liability for retirement benefits	9,901	9,967	82,405
Asset for retirement benefits	(18,440)	(19,047)	(153,475)
Net asset for retirement benefits in consolidated balance sheet	¥ (8,539)	¥ (9,080)	\$ (71,070)

The components of retirement benefit expenses for the years ended March 31, 2015 and 2014 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥ 2,097	¥ 2,230	\$ 17,453
Interest cost	712	1,065	5,926
Expected return on plan assets	(2,534)	(2,067)	(21,090)
Amortization:			
Actuarial loss	2,186	1,241	18,194
Prior service cost	(204)	(1,275)	(1,698)
Retirement benefit expenses	¥ 2,257	¥ 1,194	\$ 18,785

The components of retirement benefit liability adjustments recognized in other comprehensive income, before tax effects, are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Prior service cost	¥ (204)	¥—	\$ (1,698)
Actuarial loss	2,310	—	19,226
Total	¥ 2,106	¥—	\$ 17,528

The components of retirement benefit liability adjustments recognized in accumulated other comprehensive income, before tax effects, are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized prior service cost	¥(1,839)	¥ (2,044)	\$(15,306)
Unrecognized actuarial loss	9,964	12,274	82,930
Total	¥ 8,125	¥10,230	\$ 67,624

The percentage composition of each major category of plan assets at fair value at March 31, 2015 and 2014 was as follows:

Asset class	2015	2014
Equity securities	39%	39%
General accounts controlled by life insurance companies	27	30
Debt securities	18	14
Other	16	17
Total	100%	100%

Total plan assets as of March 31, 2015 and 2014 include 29% of retirement benefit trusts established for corporate pension plans.

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 years ended March 31, 2015 and 2014 are as follows:

	2015	2014
Discount rates	0.8%	1.2%
Expected long-term rates of return on plan asset (Weighted average)	2.8%	2.8%
Expected rate of salary increase (Weighted average)	3.4%	3.4%

3. Defined contribution plans for the years ended March 31, 2015 and 2014

The total contributions paid by the Group to the defined contribution plans were ¥1,854 million (\$15,431 thousand) and ¥1,355 million for the years ended March 31, 2015 and 2014, respectively.

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 statutory tax rates of approximately 35.6% and 38.0% for the years ended March 31, 2015 and 2014, respectively.

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, 2015 and 2014 differ from the above statutory tax rates for the following reasons:

	2015	2014
Statutory tax rates	35.6%	38.0%
Expenses not deductible for income tax purposes	0.3	0.5
Dividends not taxable for income tax purposes	(6.1)	(0.4)
Amortization of goodwill	1.3	1.6
Tax credits	(6.0)	(6.7)
Inhabitants' per capita taxes	0.1	0.2
Difference in statutory tax rates of overseas subsidiaries	(2.8)	0.0
Change in statutory tax rates of overseas subsidiary	—	(0.5)
Decrease in deferred tax assets due to change in statutory tax rates	0.1	0.4
Increase in valuation allowance	9.6	7.9
Difference incurred by preceding fiscal year's tax payment	0.0	(5.1)
Income taxes for prior period	14.7	—
Other	(0.7)	(0.3)
Effective tax rates	46.1%	35.6%

The tax effects of temporary differences at March 31, 2015 and 2014 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Tax loss carry forwards	¥ 24,384	¥ 18,467	\$ 202,946
Research and development expenses	15,931	14,915	132,593
Adjustments to the carrying value of investments in a subsidiary	13,114	—	109,147
Liability for retirement benefits	2,616	3,642	21,773
Accrued expenses and other current liabilities	3,767	3,613	31,352
Loss on revaluation of investments in securities	2,568	2,857	21,373
Provision for employees' bonuses	2,722	2,469	22,655
Provision for sales returns	1,098	1,656	9,139
Accrued enterprise taxes	1,240	1,207	10,320
Other	7,074	6,963	58,877
Valuation allowance	(43,710)	(23,684)	(363,795)
Total deferred tax assets	30,804	32,105	256,380
Deferred tax liabilities:			
Unrealized gain on other securities	(10,872)	(10,306)	(90,487)
Asset for retirement benefits	(5,133)	(6,618)	(42,722)
Investments in securities	(1,350)	(1,493)	(11,236)
Reserve for advanced depreciation of property, plant and equipment	(2,630)	(1,355)	(21,889)
Other	(4,669)	(4,217)	(38,860)
Total deferred tax liabilities	(24,654)	(23,989)	(205,194)
Net deferred tax assets	¥ 6,150	¥ 8,116	\$ 51,186

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) were promulgated on March 31, 2015 and the corporation tax rate will be reduced from fiscal years beginning on or after April 1, 2015. Accordingly, the statutory tax rate used for calculating deferred tax assets and liabilities will be reduced from 35.6% to 33.0% for the temporary differences expected to be realized or settled during the period between April 1, 2015 and March 31, 2016 and to 32.2% for the temporary differences expected to be realized or settled from April 1, 2016.

As a result of this change in tax rates, deferred income tax assets, net of deferred income tax liabilities, income taxes-deferred and net unrealized holding gain on securities increased by ¥860 million (\$7,158 thousand), ¥6 million (\$50 thousand) and ¥1,143 million (\$9,513 thousand), respectively, and retirement benefit liability adjustments decreased by ¥276 million (\$2,297 thousand) as of and for the year ended March 31, 2015.

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, 2015.

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. 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.

(e) Concentration of credit risk

At March 31, 2015 and 2014, 59% and 66%, 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, 2015 and 2014, 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		
	2015		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥ 78,722	¥ 78,722	¥ —
Notes and accounts receivable-trade and affiliates	70,585	70,585	—
Short-term investments and investments in securities and affiliates	119,190	119,190	—
Total assets	¥268,497	¥268,497	¥ —
Notes and accounts payable-trade and affiliates	¥ 11,574	¥ 11,574	¥ —
Current portion of long-term debt:			
Current portion of long-term loan	39	39	—
Accrued income taxes	16,169	16,169	—
Long-term debt:			
Bonds	20,094	23,400	3,306
Long-term loans	10,000	10,399	399
Total liabilities	¥ 57,876	¥ 61,581	¥3,705

	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-trade and affiliates	¥ 9,628	¥ 9,628	¥ —
Current portion of long-term debt:			
Current portion of 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

	Thousands of U.S. dollars		
	2015		
	Carrying value	Fair value	Difference
Cash and cash equivalents	\$ 655,198	\$ 655,198	\$ —
Notes and accounts receivable-trade and affiliates	587,474	587,474	—
Short-term investments and investments in securities and affiliates	992,010	992,010	—
Total assets	\$2,234,682	\$2,234,682	\$ —
Notes and accounts payable-trade and affiliates	\$ 96,330	\$ 96,330	\$ —
Current portion of long-term debt:			
Current portion of long-term loan	325	325	—
Accrued income taxes	134,573	134,573	—
Long-term debt:			
Bonds	167,241	194,757	27,516
Long-term loans	83,229	86,550	3,321
Total liabilities	\$ 481,698	\$ 512,535	\$30,837

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

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
Since notes and 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 mainly 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.

However, the carrying value of money in trust for cash management included in short-term investments approximates fair value, because these items are settled in a short time period.

Liabilities

- Notes and accounts payable — trade and affiliates and accrued income taxes
Since these items are settled in a short time period, their carrying value approximates fair value.
- 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.
- Bonds
The fair value of bonds is determined by quoted price offered by financial institutions.

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unlisted equity securities	¥69,912	¥66,941	\$581,873

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, 2015 and 2014.

	Millions of yen			
	2015			
	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	¥ 78,715	¥ —	¥ —	¥ —
Notes and accounts receivable-trade and affiliates	70,585	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	—	14,000	2,000
Other securities with maturities	30,762	1,581	—	—
Total	¥180,062	¥1,581	¥14,000	¥2,000

	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 bonds, municipal bonds, etc.	—	—	16,000	—
Other securities with maturities	6,000	—	926	—
Total	¥178,626	¥—	¥16,926	¥—

	Thousands of U.S. dollar			
	2015			
	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	\$ 655,139	\$ —	\$ —	\$ —
Notes and accounts receivable-trade and affiliates	587,474	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	—	116,521	16,646
Other securities with maturities	256,030	13,159	—	—
Total	\$1,498,643	\$13,159	\$116,521	\$16,646

15. Contingent Liabilities

The Company was contingently liable for the guarantee of employees' housing loans of ¥5 million (\$42 thousand) at March 31, 2015.

16. 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, 2015 and 2014 amounted to ¥5,388 million (\$44,844 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 eleven corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 26, 2014 ("the 2014 plan"). Under the terms of this plan, 42,400 shares of common stock were granted and vested immediately. The options became exercisable on July 11, 2014 and are scheduled to expire on July 10, 2044. Stock option expenses of ¥80 million (\$666 thousand) were included in selling, general and administrative expenses for the year ended March 31, 2015.

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 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.

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, 2013 and 2014 plans of the Company during the year ended March 31, 2015 is summarized as follows:

	2014 plan	2013 plan	2012 plan	2011 plan
	Number of options	Number of options	Number of options	Number of options
Outstanding as of April 1, 2014	—	43,900	79,100	45,000
Vested	42,400	—	—	—
Exercised	—	4,000	7,900	2,800
Forfeited	—	—	—	—
Outstanding as of March 31, 2015	42,400	39,900	71,200	42,200

The unit price of the stock options after vesting under the 2011, 2012, 2013 and 2014 plans of the Company as of March 31, 2015 is summarized as follow:

	2014 plan		2013 plan	
	Yen	U.S. dollars	Yen	U.S. dollars
Unit price of stock options:				
Exercise price as of March 31, 2015	¥ 1	\$ 0.01	¥ 1	\$ 0.01
Average market price per share upon exercise	—	—	1,886	15.70
Estimated fair value of unit price at grant date	1,899	15.81	1,930	16.06

	2012 plan		2011 plan	
	Yen	U.S. dollars	Yen	U.S. dollars
Unit price of stock options:				
Exercise price as of March 31, 2015	¥ 1	\$ 0.01	¥ 1	\$ 0.01
Average market price per share upon exercise	1,886	15.70	1,886	15.70
Estimated fair value of unit price at grant date	916	7.62	1,129	9.40

Valuation method for estimating fair value was the Black-Scholes model. The major assumptions used for the 2014 plan were as follows:

Major assumptions	Note	2014 plan
Estimated volatility	(a)	25.73%
Estimated remaining period	(b)	5.4 years
Estimated dividend	(c)	¥46 per share
Risk-free rate	(d)	0.158%

(a) Estimated volatility was computed by the actual stock price of the Company during the period from February 2009 to July 2014.

(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, 2014.

(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, 2015 and 2014 are summarized as follows:

	Number of shares			
	2015			
	April 1, 2014	Increase	Decrease	March 31, 2015
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	16,242,701	9,336,238	14,700	25,564,239

	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

The increase in the number of shares of treasury stock during the year ended March 31, 2015 consists of 9,329,900 shares due to the purchase of shares based on the resolution of the Board of Directors and 6,338 shares due to the purchase of fractional shares of less than one voting unit.

The decrease in the number of shares of treasury stock during the year ended March 31, 2015 is due to the exercise of share subscription rights.

The increase in the number of shares of treasury stock during the year ended March 31, 2014 is due to the purchase of fractional shares of less than one voting unit.

17. Supplementary Information on Consolidated Statement of Income

Reversal of provision for sales returns

Reversal of provision for sales returns included in net sales and cost of sales for the years ended March 31, 2015 and 2014 amounted to ¥1,447 million (\$12,043 thousand) and ¥2,139 million, respectively.

Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2015 and 2014 amounted to ¥48,870 million (\$406,742 thousand) and ¥53,606 million, respectively.

Gain on business transfer

Gain on business transfer for the year ended March 31, 2015 represents the transfer of all assets of the Company's wholly-owned subsidiary providing glycan analytical services in the United States.

Litigation settlement

Litigation settlement for the years ended March 31, 2015 and 2014 principally represents the settlement that was reached between Shionogi Inc., and Cowen Healthcare Royalty Partners.

Special retirement expenses

Special retirement expenses for the year ended March 31, 2015 are retirement expenses incurred by Shionogi Inc.

Business structure improvement expenses

Business structure improvement expenses for the year ended March 31, 2014 related to the restructuring of Shionogi Inc. including sales of the rights of Naprelan®.

Contract termination costs

Contract termination costs for the year ended March 31, 2014 relates to the termination of the contract between Shionogi Inc. and CaremarkPCS Health, LLC.

18. Other Comprehensive Income

The following table presents the analysis of other comprehensive income for the years ended March 31, 2015 and 2014.

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 4,018	¥11,212	\$ 33,442
Reclassification adjustments for gain included in net income	(67)	(547)	(558)
Before tax effect	3,951	10,665	32,884
Tax effect	(566)	(1,430)	(4,711)
Total	3,385	9,235	28,173
Deferred loss on hedges:			
Amount arising during the year	(416)	(273)	(3,462)
Reclassification adjustments for loss included in net income	416	999	3,462
Before tax effect	—	726	—
Tax effect	—	(276)	—
Total	—	450	—
Translation adjustments:			
Amount arising during the year	10,426	18,957	86,775
Reclassification adjustments for gain included in net income	(18)	—	(150)
Before tax effect	10,408	18,957	86,625
Tax effect	—	—	—
Total	10,408	18,957	86,625
Retirement benefit liability adjustments:			
Amount arising during the year	124	—	1,032
Reclassification adjustments for loss included in net income	1,982	—	16,496
Before tax effect	2,106	—	17,528
Tax effect	(1,026)	—	(8,539)
Total	1,080	—	8,989
Other comprehensive income	¥14,873	¥28,642	\$123,787

19. Related Party Transactions

Related party transactions for the years ended March 31, 2015 and 2014 and the related balances at March 31, 2015 and 2014 are summarized as follows:

(1) Principal transactions between the Company and a related party

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Shunjusha Co., Ltd.:			
Rent expense — building	¥19	¥—	\$158
Lease deposits, a component of other assets	4	—	33

(2) Principal transactions between a consolidated subsidiary and a related party

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Shunjusha Co., Ltd.:			
Rent received — land and office building	¥ 50	¥ 50	\$ 416
Rent expense — building	147	166	1,223
Management fee for leased property	4	4	33
Lease deposits, a component of other assets	42	41	350
Long-term lease deposits received, a component of other long-term liabilities	1	0	8

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, 2015 and 2014. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥100 million (\$832 thousand) at March 31, 2015 and 2014.

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

20. Amounts per Share

Amounts per share as of and for the years ended March 31, 2015 and 2014 were as follows:

	Yen		U.S. dollars
	2015	2014	2015
Net income	¥ 132.67	¥ 121.29	\$ 1.10
Diluted net income	132.04	121.23	1.10
Net assets	1,456.70	1,385.11	12.12
Cash dividends applicable to the year	52.00	46.00	0.43

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 net income per share and diluted net income per share for the years ended March 31, 2015 and 2014 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net income	¥44,060	¥40,618	\$366,708
Adjustments to net income:			
Interest income, net of tax	(4)	—	(33)

	Thousands of shares	
	2015	2014
Weighted-average number of shares of common stock outstanding	332,103	334,896
Increase in common stock:		
Bonds	1,376	—
Share subscription rights	184	167
Total	1,560	167

The financial data used in the computation of net assets per share at March 31, 2015 and 2014 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total net assets	¥478,883	¥467,836	\$3,985,709
Amounts deducted from total net assets:			
Amounts attributable to share subscription rights in total net assets	270	208	2,247
Amounts attributable to minority interests in total net assets	4,354	3,763	36,238
Net assets used in the computation of net assets per share	¥474,259	¥463,865	\$3,947,224

	Thousands of shares	
	2015	2014
Number of shares used in the computation of net assets per share	325,571	334,893

21. Segment Information

1. Segment information for the years ended March 31, 2015 and 2014

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, 2015 and 2014 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, 2015 and 2014, information on sales by product and service was omitted.

(2) Geographical information

(a) Net sales

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Japan	¥185,370	¥187,766	\$1,542,821
Europe	50,860	67,166	423,304
(United Kingdom)	(50,434)	(66,169)	(419,759)
North America	26,621	24,731	221,565
(United States of America)	(26,615)	(24,705)	(221,515)
Other	11,140	10,054	92,718
Total	¥273,991	¥289,717	\$2,280,408

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 others
- (2) North America: United States of America and others
- (3) Other: Asia and others

(b) Property, plant and equipment

As the balances of property, plant and equipment located in Japan accounted for more than 90% of the balances of property, plant and equipment recognized in the consolidated balance sheets at March 31, 2015 and 2014, information on property, plant and equipment by geographical segment was omitted.

(3) Information by major customer

Customer name	Net sales			Related segment name
	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
SUZUKEN CO., LTD.	¥66,720	¥67,363	\$555,306	Pharmaceuticals
AstraZeneca UK Limited.	¥47,829	¥66,660	\$398,077	Pharmaceuticals
TOHO PHARMACEUTICAL CO., LTD.	¥34,914	¥37,464	\$290,587	Pharmaceuticals

3. Information on loss on impairment of property, plant and equipment by reportable segment

Information on loss on impairment of property, plant and equipment by reportable segment was omitted since there are no items to be disclosed at March 31, 2015 and for the year then ended.

In addition, the Group operates as single business segment related to prescription drugs involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. Accordingly, this information at March 31, 2014 and for the year then ended was omitted.

4. Information on amortization of goodwill and remaining unamortized balance by reportable segment

As described in the above 3, the Group operates as single business segment. Accordingly, information on amortization of goodwill and remaining unamortized balance by reportable segment at March 31, 2015 and 2014 and for the years then ended was omitted.

5. Information on the remaining balance and gain on negative goodwill by reportable segment

Information on the remaining balance and gain on negative goodwill was omitted since there are no items to be disclosed at March 31, 2015 and 2014 and for the years then ended.

22. 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, 2015, was approved at a shareholders' meeting held on June 24, 2015:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥28.00 = U.S.\$ 0.23 per share)	¥9,116	\$75,872

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, 2015, 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, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As described in Note 3 (b), effective April 1, 2014, Shionogi & Co., Ltd. and its consolidated subsidiaries changed the method of accounting for research and development expenses. Our opinion is not qualified in respect of this matter.

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 23, 2015
Osaka, Japan

Corporate Information (As of March 31, 2015)

Corporate Data

Company Name

Shionogi & Co., Ltd.

Established

March 17, 1878

Incorporated

June 5, 1919

Paid-in Capital

¥21,280 million

Number of Employees

Consolidated: 6,059

Fiscal Year-End

March 31

Website

http://www.shionogi.co.jp/index_e.html

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: 24,298

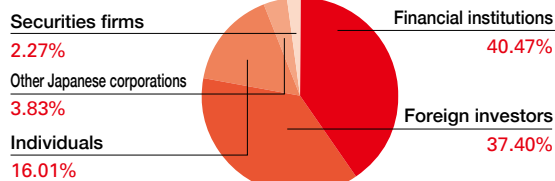
Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares
The Master Trust Bank of Japan, Ltd. (as a trustee)	26,827	8.24
Sumitomo Life Insurance Company	18,604	5.71
JP MORGAN CHASE BANK 385147	17,307	5.31
Japan Trustee Services Bank, Ltd. (as a trustee)	16,704	5.13
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	2.91
Nippon Life Insurance Company	8,409	2.58
Sumitomo Mitsui Banking Corporation	6,564	2.01
THE BANK OF NEW YORK MELLON SA/NV 10	4,386	1.34
SUZUKEN CO., LTD.	4,341	1.33
STATE STREET BANK WEST CLIENT - TREATY 505234	4,257	1.30

(Notes)

- The Company holds 25,564,239 shares of treasury stock. However, this shareholding is not included in the list of top-10 shareholders.
- The percentage of total shares is calculated as a proportion of 325,571,926 shares, which is the total number of issued shares less treasury stock of 25,564,239 shares.

Shareholder Composition



Note: Calculated Individuals including treasury stock

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, Shinsakamachi 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

Offices

Global Development Office

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

Human Health Care Division Office

2F and 12F, Shinwa Esaka Bldg., 13-33, Esaka-cho, 1-chome, Suita, Osaka 564-0063, Japan
Tel: +81-6-6821-0893

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

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

Room 1589, 15/F L'Avenue, Shanghai, 99 Xian Xia Rd., Chang Ning, Shanghai, China 200051
Tel: +86-21-6057-7089

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 7F, 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)

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

C&O Pharmaceutical Technology (Holdings) Ltd. (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: +44-20-3053-4200

Beijing Shionogi Pharmaceutical Technology Limited (2013)

Room 07, 20th Floor, Jinghui Building, No.118, Jianguo Road B, Chaoyang District, Beijing 100022
Tel: +86-10-6567-8002

Shionogi Singapore Pte. Ltd. (2013)

10 Anson Rd., #34-14 International Plaza, Singapore 079903
Tel: +65-62231617

137 Years in Business

1878

Company founded

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



Founder Gisaburo Shiono, Sr. (1854-1931)

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

1886

From Japanese medicine to Western medicine

- 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

From Western medicine to new drugs

- *Antacidin*, an antacid agent, was launched as the first drug produced.
- The corporate emblem FUNDOH was registered.



(FUNDOH from the Edo era)



Shionogi's corporate emblem

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.

1910

- A manufacturing plant, Shiono Seiyakusho, was constructed.

1919

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

1922

- Opened the Kuise Plant (now the Kuise office).

1924

- Constructed new head office in Doshomachi, Osaka (rebuilt in 1993).

1943

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

1946

- Developed the Aburahi Laboratories (now the Aburahi Facilities).

1957

- The Company Policy of Shionogi was established.

1959

- Launched sulfonamide drug *Shinomin*.

1963

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

1968

- Established the Settsu Plant.

1980

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

1982

- Launched oxacephem antibiotic *Shiomarin*.

1983

- Constructed the Kanegasaki Plant.

1997

- Launched cephem antibiotic *Floxox*.

1998

- Established the Shionogi Charter of Conduct. (revised 2012)

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-ViV Healthcare LLC).
Started joint R&D into HIV drugs.

2003

- Launched cancer pain analgesic *OxyContin* (followed by powdered version *OxiNorm* in 2007, injectable version *OxiFast* in 2012).

2005—The Second Medium-Term Business Plan Established constant flow of pipeline products through energizing and globalizing R&D.

2005

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

2008

- Launched hypertension treatment *Irbetan*. (followed by combination drug *AIMIX* in 2012, combination drug *IRTRA* in 2013)
- Established a joint research facility with Hokkaido University, Shionogi Innovation Center for Drug Discovery.
- Acquired Sciele Pharma, Inc. (now Shionogi Inc.).
- Launched acne vulgaris treatment *Differin*.
- Launched idiopathic pulmonary fibrosis treatment *Pirespa*.

2010—The Third Medium-Term Business Plan Launch of multiple products developed globally and real growth.

2010



- Launched anti-viral drug for influenza *Rapiacta*.
- Launched antidepressant drug *Cymbalta*.
- Established the PET Molecular Imaging Center at the Osaka University Graduate School of Medicine.
- Established Shionogi Inc. as the US group headquarters.

2011



- Established the Shionogi Pharmaceutical Research Center (SPRC4). Drug discovery research functions consolidated at SPRC.

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

2012

- Established a European subsidiary, Shionogi Limited (London, UK).

2013

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

2014—New Medium-Term Business Plan Shionogi Growth Strategy 2020 (SGS2020) (Grow as a drug discovery-based pharmaceutical company)

2014

- Launched HIV treatment *Tivicay* (followed by combination drug *Triumeq* in 2015).



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