SHIONOGI & CO., LTD.

Integrated Report 2017
Year ended March 31, 2017

MAXIMIZING
OUR STRENGTHS

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.

Mission

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

Vision

A company with a strong presence worldwide

A company that has pride and dreams and embraces challenges

Shionogi's Action Guidelines

Values

Customer focus

Trust

Professionalism

On-site orientation

Respect for the individual

To Our Stakeholders

Isao Teshirogi, Ph.D.
President and CEO

Motozo Shiono
Chairman of the Board and
Representative Director

Growing in Service to Society as a Drug Discovery-Based Pharmaceutical Company

Under our Medium-Term Business Plan SGS2020, we positioned infectious diseases and pain, as well as central nervous system (CNS) disorders, as our main areas of research and development. We also outlined our vision: to grow in service to society as a drug discovery-based pharmaceutical company.

In the 1960s, Shionogi successfully made its full-fledged entry into the antibiotics market. With the development and sale of proprietary antibiotics in the 1980s, we gained a firm foothold that allowed Shionogi to become the pharmaceutical manufacturer it is today. To support the treatment of patients with infectious diseases worldwide, our products were subsequently out-licensed to companies overseas.

Treatment periods for infectious diseases tend to be short, which can make turning a profit challenging. Many global pharmaceutical manufacturers have abandoned or stepped back from discovery research in this critical area.

Not Shionogi. Drawing on our expertise and strengths, the Shionogi Group remains fully committed to meeting the needs of society with aggressive R&D, especially into severe infectious diseases, viral infectious diseases, and emerging or re-emerging infectious diseases.

Of course, the Company has other strong suits. Shionogi has been supplying pain relief drugs since before World War II. In the late 1980s, we received a request from Japan's former Ministry of Health and Welfare to develop prescription narcotics for the treatment of cancer pain. This proved to be a major turning point for the Company in the area of pain relief.

Our success was underpinned by a management decision asserting that ethical drugmakers have a duty to relieve the pain of their patients. Today, this seems obvious. At the time, it was revolutionary.

We will continue to work on a daily basis to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

M. Shiono

Motozo Shiono
Chairman of the Board and
Representative Director

Isao Teshirogi, Ph.D.
President and CEO

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Editorial Policy

This Integrated 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 governance, social and environmental activities.

Period Under Review
Fiscal 2016 (April 1, 2016–March 31, 2017)
Certain activities continuing after fiscal 2016 are also included.

Scope and Organization
This Integrated Report encompasses the activities of Shionogi & Co., Ltd., 38 consolidated subsidiaries and four affiliates.

The section entitled Respecting the Environment covers all business facilities of Shionogi & Co., Ltd., and six domestic subsidiaries.

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 no provide medical advice of any kind.

External Recognition

Shionogi has earned a reputation for its past corporate social responsibility initiatives and is included in the following Socially Responsible Investment (SRI) Indices.

MSCI | 2017 Constituent MSCI ESG Leaders Indexes

MSCI | 2017 Constituent MSCI Japan Empowering Women Index (WIN)

MSCI | 2017 Constituent MSCI Japan ESG Select Leaders Index

MS-SRI | Morningstar Socially Responsible Investment Index

The Morningstar Socially Responsible Investment index is Japan's first socially responsible share index. Morningstar Japan K.K. selects for inclusion in the index 150 publicly listed Japanese companies that have been evaluated as possessing outstanding social credentials.

Investor Relations

Financial Information

- Financial Data, Supplement — http://www.shionogi.co.jp/en/ir/library/materials.html
- Presentation Materials — http://www.shionogi.co.jp/en/ir/library/explanatory.html
- Notice of AGM — http://www.shionogi.co.jp/en/ir/finance/meeting.html

Non-Financial Information

- Press Release — http://www.shionogi.co.jp/en/ir/news/2017/index.html
- EHS (Environment, Health & Safety) — http://www.shionogi.co.jp/en/company/csr/activities/environment.html
- CSR — http://www.shionogi.co.jp/en/company/csr/index.html
- Annual Reports — http://www.shionogi.co.jp/en/ir/library/annualreport.html

Message from the President

Continuing to Succeed as a Drug Discovery-Based Pharmaceutical Company

In the areas of infectious diseases and pain / CNS disorders, Shionogi has protected the health and wellbeing of people worldwide by leveraging its strengths in small-molecule drug discovery to provide innovative and affordable drugs. To maximize innovation, the Company's underlying spirit asserts that we should not solely go it alone; instead, we should collaborate with ideal partners in optimal ways. This spirit has led to the formation of strengths through alliances. And we are now establishing a strong presence through collaboration with pharmaceutical companies and academics around the world.

Isao Teshirogi, Ph.D.
President and CEO

MAXIMIZING OUR STRENGTHS

Infectious Diseases

- Antiviral drugs
- Drugs for severe infectious diseases
- Drugs for emerging and re-emerging infectious diseases

Pain / CNS Disorders

- Drugs for attention-deficit hyperactivity disorder (ADHD)
- Opioid pain relievers
- Drugs for chronic pain

Protecting People from the Threat of Infectious Diseases

- Develop new drugs against infectious diseases that lack effective medical treatments.
- Prevent the emergence of drug-resistant bacteria and viruses by promoting antimicrobial stewardship.

Creating a Society where Everyone Can Thrive

- Support reintegration of those who've become isolated from society due to anxiety, pain, or suffering.
- Lighten psychological burden to help individuals tap their innate potential and thrive.
- Maintain the dignity of the individual throughout all the stages of life

Core Therapeutic Areas

Infectious Diseases and Shionogi

Shionogi launched its first proprietary antibacterial agent, (sulfamethoxazole) in 1959, precisely 31 years after Alexander Fleming's revolutionary discovery of penicillin in 1928 enabled the control of bacterial infections. Out-licensed to Roche, *Shinomin* helped treat patients with infectious diseases worldwide. Shionogi continued to develop antibiotics, launching the first in class (FIC)*1 antibacterial agent *Shiomarin* (latamoxef sodium) in 1982, *Flumarin* (flomoxef sodium) in 1988, *Flomox* (cefcapene pivoxil hydrochloride hydrate) in 1997 and a range of other proprietary compounds that continue to influence our products today. Shionogi is also active in the field of antiviral treatments, developing a steady stream of FIC and last in class (LIC)*2 drugs such as anti-HIV agent dolutegravir, related pipeline drugs and anti-influenza drug candidate S-033188.

*1 First-in-Class: Innovative medicines with particularly high novelty and efficacy that can significantly change the existing therapeutic paradigm.
*2 Last-in-Class: Unrivaled medicines with clear superiority over others that have the same mechanism of action.

Types of Infectious Diseases We Are Researching

Severe Infections

- Bacterial infections
- Fungal infections

Research strategy:
- Develop drugs for antibiotic-resistant bacteria by ß-lactam chemistry
- Develop drugs for fatal systemic fungal infection

Viral Infections

- HIV
- Respiratory viruses

Research strategy:
- Expand HIV pipeline by FIC/LIC drug discovery
- Develop anti-respiratory virus drugs through original compound design

Emerging and Re-Emerging Infections

- Emerging and re-emerging infections

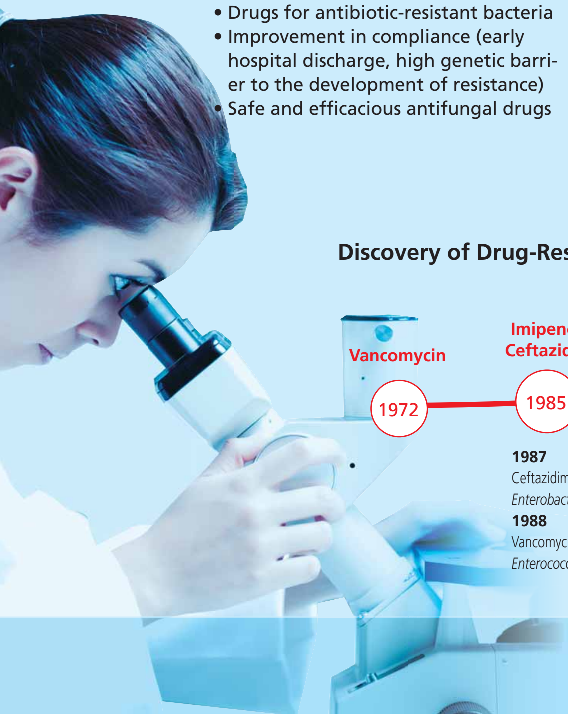
Research strategy:
- Drug discovery through external collaboration

Unmet Medical Needs and Disease Background

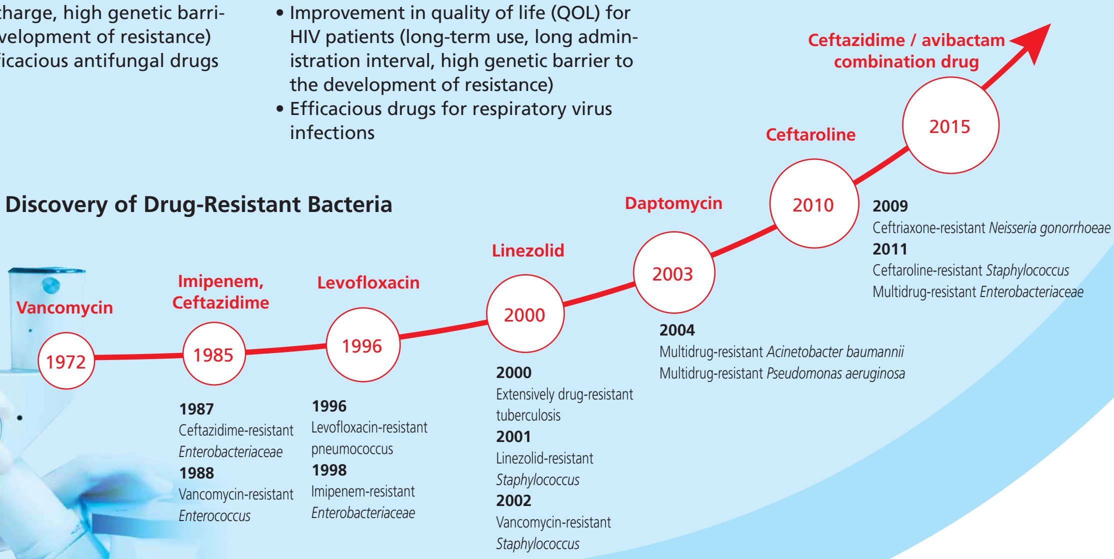
Severe Infections:
- Requirement for
  - Drugs for antibiotic-resistant bacteria
  - Improvement in compliance (early hospital discharge, high genetic barrier to the development of resistance)
  - Safe and efficacious antifungal drugs

Viral Infections:
- Increased risk of HIV infection with lifestyle changes
- Requirement for
  - Improvement in quality of life (QOL) for HIV patients (long-term use, long administration interval, high genetic barrier to the development of resistance)
  - Efficacious drugs for respiratory virus infections

Emerging and Re-Emerging Infections:
- Outbreak of emerging and re-emerging infections
- Requirement for efficacious drugs



Discovery of Drug-Resistant Bacteria



Pain and Shionogi

Shionogi has been supplying prescription and over-the-counter (OTC) drugs for pain relief since before World War II. In the late 1980s, we received a request from Japan's former Ministry of Health and Welfare to develop prescription narcotics (opioid pain relievers) for the treatment of cancer pain. This proved to be a major turning point for the Company in the area of pain relief. At the time, prescription narcotics for cancer pain were not widely used in Japan and pharmaceutical companies were reluctant to respond to requests from the government, partly due to the negative image of narcotics.

In line with the spirit of our Company Policy, we decided to take on the challenge. Since then, we have worked to promote wider use of cancer pain treatments in Japan. Today, we supply a wide range of chronic pain treatments. We have high hopes for *Symproic*, a new treatment for opioid-induced constipation (OIC) and our first-ever globally developed proprietary compound, which is set to have a positive impact on patient health worldwide.

Commitment to Sustainability

Tackling Global Issues

The UN's Sustainable Development Goals (SDGs)

In 2015, the United Nations adopted the 2030 Agenda for Sustainable Development, which outlines 17 Sustainable Development Goals (SDGs) and 169 specific targets. We believe that Goal 3—Ensure healthy lives and promote well-being for all at all ages—is especially aligned with our objective as a pharmaceutical company to improve access to healthcare. Goal 3 specifically calls for protecting the health and well-being of small children, pregnant women, and nursing mothers as well as ending the HIV/AIDS epidemic, among other targets. We are helping to end the HIV/AIDS epidemic through our R&D activities as a drug discovery-based pharmaceutical company. And through the Mother to Mother SHIONOGI Project, we are working to protect the health and well-being of small children, pregnant women, and nursing mothers.

*SDGs: Sustainable Development Goals

Our Stance on Social Responsibility

Since Shionogi was established, we have remained fully committed to developing even better medicines and delivering them to patients in need. By constantly improving our technologies and services, we have worked to enhance the positive impact of our products on patient health. In a world driven by dramatic change, this commitment remains an unshakeable feature of Shionogi.

Our Purpose was formally established in 1957 as the Company Policy of Shionogi. Today, it remains the template for the kind of company we want to be and the basis of our value to society. The fundamental tenet of this policy—to protect the health and wellbeing of the people we serve—has always been our guiding principle as a pharmaceutical company. Anchored by this principle, we will continue to deliver and create new value well into the future.

Our efforts to fulfill Our Purpose and improve everyone's access to healthcare constitute the very heart of our corporate social responsibility (CSR) and value creation.

Addressing Social Issues

We launched SGS2020 with the vision of "growing in service to society as a drug discovery-based pharmaceutical company," focusing on the two core therapeutic areas of infectious diseases and pain / CNS disorders. Our decision to focus on those two fields reflects our long track record of developing drugs to treat infections and pain.

Since the dawn of time, infectious diseases have been an inseparable part of the human condition. With Alexander Fleming's discovery of penicillin in 1928, humankind finally gained a foothold against infection. Since then, it has been a constant struggle. We race to develop drugs that are effective against various pathogens, which then build up resistance to survive, requiring renewed efforts to discover effective new medicines. Shionogi has played an important role in the global fight against infections, including emerging infectious diseases and the resurgence of existing diseases. This Shionogi strength must always be nurtured.

In pain and CNS disorders, demand for more effective treatment is rising globally amid rapidly aging demographics. New drugs and other healthcare improvements have extended average life expectancy around the world. Increasingly, attention is turning to ways of using healthcare to improve healthy life expectancy from the perspective of quality of life (QOL). Pain and deteriorating cognitive functions can have a major negative impact on QOL. By providing drugs that extend healthy life expectancy, we can make life better for people around the world.

However, developing effective treatment is not enough. To promote health and wellbeing, we must ensure treatment options are widely known, raising awareness about the importance of accessibility, while also putting in place systems that expand access to health services. Similarly, we need to improve access to healthcare in developing countries, where systems and infrastructure are typically not as robust. Educating the public about the correct use of medication is another increasingly important area.

As a pharmaceutical company, we have a role to play in driving sustained improvement in the quality of healthcare, as well as promoting health and wellbeing by supplying products, services and opportunities that bring together leaders in the healthcare sector. This is how the Shionogi Group can fulfill its responsibility to society.

Our Intellectual Property and Access to Healthcare

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

Although we do not subscribe to the idea that systems to protect IP necessarily pose an obstacle to accessing healthcare, we do recognize instances when a certain level of latitude is required. Shionogi does not currently possess patents in least developed countries (LDCs) or other low-income countries (LICs). Until the problems surrounding access to pharmaceuticals have been satisfactorily resolved, we will refrain from applying for or enforcing patents in these countries.

In addition, ViiV Healthcare Ltd. enables the low-price provision of dolutegravir—a new, groundbreaking anti-HIV agent developed by Shionogi and U.K.-based GlaxoSmithKline—to over 80 countries, including Kenya, Nigeria, and Uganda thanks to the royalty-free voluntary licensing policy. As one of the patent holders, Shionogi supports this project.

*1 LDCs: Least developed country
*2 LICs: Low Income Countries

3 GOOD HEALTH AND WELL-BEING

Addressing Social Issues

Protecting People from the Threat of Infectious Diseases

- Develop new drugs against infectious diseases that lack effective medical treatments.
- Prevent the emergence of drug-resistant bacteria and viruses by promoting antimicrobial stewardship.

Creating a Society where Everyone Can Thrive

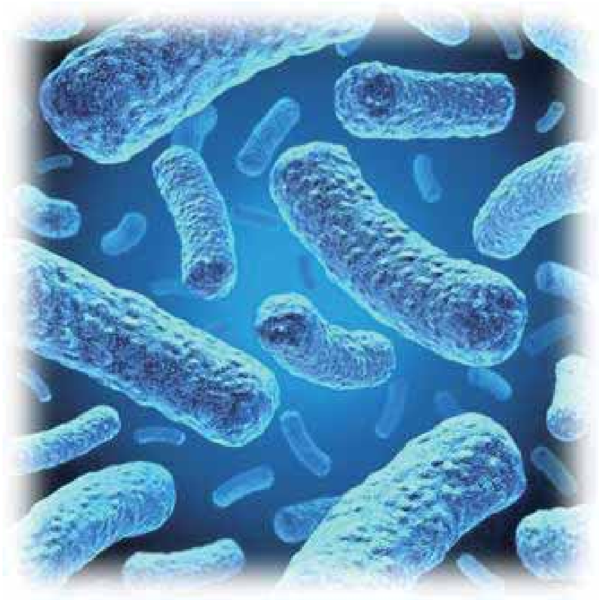
- Support reintegration of those who've become isolated from society due to anxiety, pain, or suffering.
- Lighten psychological burden to help individuals tap their innate potential and thrive.
- Maintain the dignity of the individual throughout all the stages of life

Protecting People from the Threat of Infectious Diseases

Combating Antimicrobial Resistance (AMR)

The emerging threat of multidrug resistant Gram-negative bacteria poses a major public health challenge worldwide. In 2010 Shionogi and GlaxoSmithKline began joint R&D efforts, focusing on cephalosporin antibiotic agents, with the aim of developing antibiotics with new mechanisms of action. This resulted in the successful discovery of two compounds with different profiles: S-649266 and GSK3342830. However, we wrapped up our joint efforts when we realized the urgent medical need for both compounds. Each company has concentrated management resources on one of the respective compounds to speed development along and get both into the hands of healthcare providers as soon as possible. S-649266, the compound Shionogi is continuing to develop, is currently in Phase II and Phase III trials.

We aim to step up our role in the global fight against multidrug-resistant bacteria through international collaboration, illustrated by our commitment to a joint declaration calling for greater cooperation at the World Economic Forum in Davos in January 2016 and as a signatory to the September 2016 Roadmap for Progress on Combating Antimicrobial Resistance.



Promoting Antimicrobial Stewardship

Infectious diseases, by their nature, are a transmission risk to all people. As borders become more porous and globalization gathers pace, we also face the risk of emerging and re-emerging infectious diseases, as well as antimicrobial resistance—pressing issues that must be addressed by society as a whole.

At Shionogi, antimicrobial stewardship means selecting the most appropriate antimicrobial agent, dose and administration method and ensuring treatment ends at the optimal time in order to make treatments safe and reliable, control the spread of drug-resistant bacteria and viruses, and support the effective use of healthcare resources. We organize and provide relevant information to promote appropriate use of antimicrobial agents. This involves using antimicrobial susceptibility surveillance programs to gather accurate epidemiological data, rigorously analyzing industry guidelines and improving understanding about pharmaceutical profiles.

In 2010 Shionogi established an Antimicrobial Stewardship Unit, through which we have discussed the appropriate use of antimicrobial agents with healthcare providers, as well as the importance of drug discovery. We have presently established similar organizations at subsidiaries in Taiwan, China, and Singapore to initiate discussions with a broad range of medical-related professionals and specialists. The organizations also work to disseminate correct information and conduct sales activities aimed at promoting the appropriate use of antimicrobial agents.

Measures and Policies Regarding Access to Healthcare Combating Neglected Tropical Diseases (NTDs)

Contributing to the GHIT Fund

Neglected tropical diseases (NTDs) also remain a threat to the lives of many people in developing countries amid limited progress in developing effective antibiotics. One reason for this lack of progress is that many pharmaceutical companies have withdrawn from infectious disease research due to poor prospects for substantial profits.

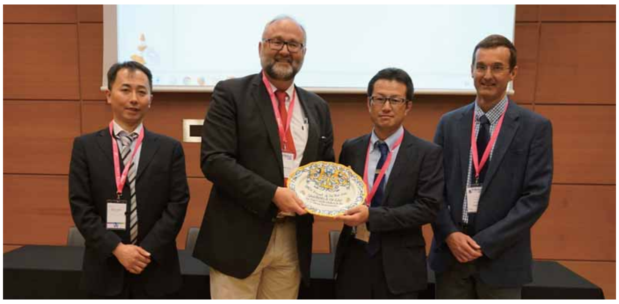
Against this backdrop, many funds are being set up worldwide to advance research into new antibiotics. In Japan, the not-for-profit GHIT Fund has been established to promote collaboration with overseas partners and provide research funding. Shionogi has been a contributor to the GHIT Fund since it was founded and has received funding to advance the discovery of new drugs that can treat multidrug-resistant tuberculosis. Under the auspices of the fund, Shionogi is also actively working to eliminate the threat of infectious diseases in general, such as taking part in a program to discover candidate compounds to treat leishmaniasis and Chagas disease.

The DND*i* Project of the Year Award 2016

In early 2015, the Drugs for Neglected Diseases initiative (DND*i*) announced that it was teaming up with Shionogi and three other pharmaceutical firms (Eisai, Takeda, and U.K.-based AstraZeneca) to launch the "Neglected Tropical Diseases Drug Discovery Booster" consortium. This project is a groundbreaking attempt to accelerate drug discovery for two highly neglected diseases—leishmaniasis and Chagas disease—and also reduce associated costs. U.S.-based Celgene and Germany-based Merck subsequently joined the consortium, bringing the total number of participant companies to six.

Two years since its launch in 2015, the consortium has started 13 screening projects for the parasites that cause leishmaniasis and Chagas disease, and most of these projects have discovered promising compounds with improved antiparasitic effects. Already, each project has reduced the costs of synthesizing compounds by tens of thousands of dollars and shortened the drug discovery period by roughly 30–50%.

In recognition of these achievements, the consortium received the DND*i* Project of the Year Award for 2016. The candidates for the award are considered by the DND*i* Board of Directors and the DND*i* Scientific Advisory Committee, which comprises around 20 external members. The award ceremony was held at the 6th World Congress on Leishmaniasis, which is held once every four years, and each company participating in the project was presented with a commemorative painted plate, for which the host city Toledo (Spain) is renowned.



R&D for AIDS Treatments

Shionogi and ViiV Healthcare have conducted joint R&D on the new HIV integrase inhibitor dolutegravir. Since December 2012, ViiV Healthcare has submitted new drug applications for dolutegravir to regulatory bodies in Japan, the United States, and Europe. The drug is currently sold around the world as *Tivicay*. Since October 2013, ViiV Healthcare has also submitted new drug applications for a triple drug combination that includes dolutegravir to regulatory bodies in Japan, the United States, and Europe. This combination is currently sold around the world as *Triumeq*.

Based on our previously stated policy regarding intellectual property and access to healthcare, Shionogi licenses the patent for dolutegravir through ViiV Healthcare to the Medicines Patent Pool at no cost. We believe this will help AIDS treatments in developing countries.

Creating a Society where Everyone Can Thrive

Collaborating to Support Children's Futures

To promote initiatives supporting the future of Osaka's children, we proposed collaboration with the Osaka prefectural government. This led to the signing of an agreement on supporting children's futures at a ceremony with Governor Ichiro Matsui in January 2017. Under this agreement, the Osaka government and Shionogi intend to closely collaborate through the following measures.

1. Support children's health: Hold classes geared toward children on the proper way to handle medicine.
2. Promote career education: Hold after-school science classes for children and career-oriented seminars for children with disabilities.
3. Support children and adults with developmental disabilities: Collaborate on raising awareness of developmental disabilities, providing career training early on, and taking other measures.
4. Promote measures that combat child poverty: Collaborate on local activities to look after and support children.

Japan's graying population now leads the world, and the low birthrate and aging population are creating major social problems. Shionogi intends to build a sustainable society by solving social problems. As a part of this effort, in July 2016 we established the Children's Future Support Preparation Office (currently the Children's Future Support Office) within the Corporate Strategy Division, and began promoting an array of initiatives. Going forward, we will promote the growth and health of children who will become future leaders and seek to lighten psychological burden in order to help build a society where individuals can tap their innate potential and thrive.

Chie Kishimoto, General Manager of the Children's Future Support Office

Mother to Mother SHIONOGI Project

We launched the Mother to Mother SHIONOGI Project in October 2015 as part of our efforts to protect the health and wellbeing of people worldwide. Under this project, we support the health of mothers and children in both Japan and Kenya through sales of our *Popon* Series of multivitamin supplements, popular for many years in the domestic market. Mothers in Japan who use *Popon* gain health benefits, while a portion of product sales, along with additional Shionogi employee contributions, is donated to a program that improves the health of mothers and children in Kenya. The program is run by World Vision International, a global NGO.

Despite its vast size, Kenya has a remarkably small number of medical clinics. This makes it difficult for expectant mothers to receive regular prenatal checkups, give birth in a clinical setting and return home healthy with their newborn child; something we take for granted in Japan. Kenya's maternal mortality rate* is staggeringly high, at around 400 deaths per 100,000 live births. In Japan, that number is just 6 per 100,000 and the world average is 210. Similarly alarming, Kenya's under-five mortality rate* is 71 deaths per 1,000 live births, while in Japan it is 3 and the world average is 46. The dire situation is an urgent call to action.

To address the health problems confronting mothers and children, Shionogi built a clinic in Ilaramatak, which opened in November 2016. Situated in Kenya's Narok County, this new facility supports a vastly underserved region where the percentage of births performed at health facilities hovers around 9.4%, far below the national average of 62%. In addition, we initiated an educational program for clinic staff, including local volunteers, and community health workers (CHWs).

Our donations have so far contributed to the construction of a local medical clinic and health network in the traditional lands of the Maasai people, helping to improve the health of local people by improving access to healthcare.

* Statistics taken from UNICEF's The State of the World's Children 2015

A clinic we opened

Photograph provided by World Vision Japan

Collaborating with Academia and Local Governments

Collaborating with Tokushima University on Botulinum Toxin

Shionogi has signed a license agreement with Tokushima University on a novel type A2 botulinum toxin candidate. Going forward, Shionogi will undertake its development, manufacturing and promotion worldwide.

Botulinum toxin is a naturally occurring protein produced by *Clostridium botulinum*. It is well known for reducing excessive muscle contraction by blocking the release of acetylcholine. This novel type A2 botulinum toxin is expected to contribute to the treatment of post-stroke spasticity of upper and lower limbs.

Today in Japan, it is estimated that there are about 2.8 million stroke patients, and about 40% of those patients suffer from post-stroke spasticity. Due to its ability to reduce excessive muscle contraction, botulinum toxin has been established as a treatment for post-stroke spasticity to help patients more readily carry on rehabilitation.

We're striving to contribute to the better health and better QOL of people all over the world by conducting in-house drug discovery research and promoting collaboration with companies and academic institutions.

A press conference

Wide Variety of Business Partners

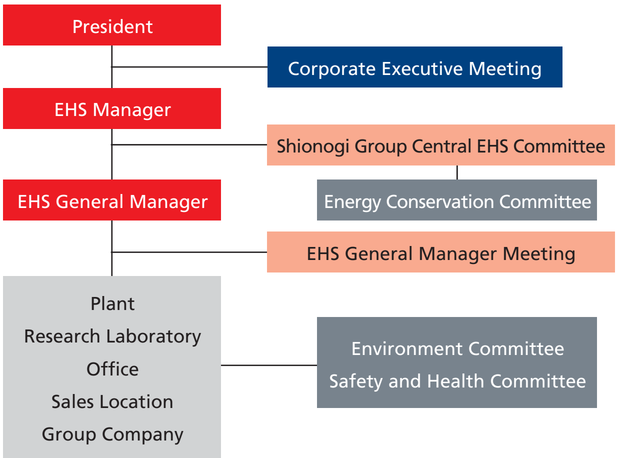
AstraZeneca
PeptiDream
ViiV Healthcare
gsk
Roche
janssen
Pharmaceutical Companies of Johnson & Johnson
PURDUE
Lilly
mundipharma
FunPep
DUCHESNAY
GHIT Fund Global Health Innovative Technology Fund
KISSEI PHARMACEUTICAL CO., LTD.
NISSAN CHEMICAL INDUSTRIES, LTD.

17 PARTNERSHIPS FOR THE GOALS

- **Anti-HIV Drugs (ViiV Healthcare), *Crestor* (AstraZeneca), *Cymbalta* (Lilly), Antibacterial agent**
  Modified contracts with alliance partners to produce win-win outcomes
- **Anti-Influenza Drugs**
  Alliance with Roche to maximize the value of drugs
- **New Partners for U.S. Business Growth**
  Strategic business alliance with Duchesnay Inc and Purdue Pharma L.P.
- **Inhibitor of Alzheimer Diseases**
  Research collaboration with Janssen

Environment, Health, and Safety (EHS) Initiatives

To build a sustainable society, it is important that companies take EHS-related measures in the course of their business activities. Shionogi has established an EHS policy and built a management system. Our EHS initiatives encompass not only the Group but also extend to engage our suppliers. We are helping to create safe workplaces and enrich society by protecting the global environment, preventing pollution, and ensuring the health and safety of all those who work with us as well as the communities in which we operate.

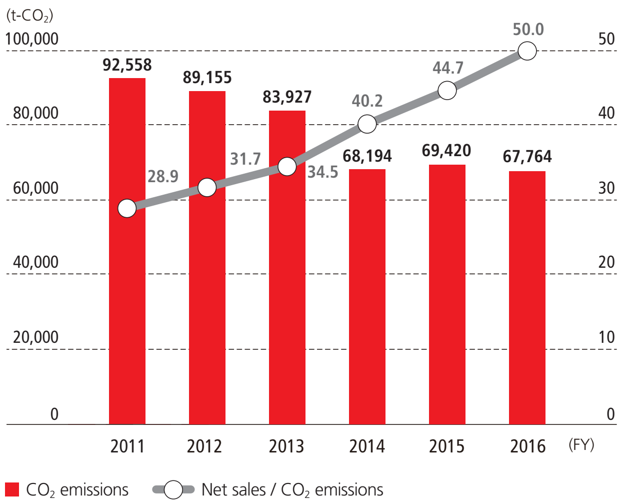


Address Climate Change Risks

As a measure to address global warming, we are working to reduce our CO_2 emissions. In addition to reducing energy consumption by installing highly efficient equipment, we are continuing to revise the ways we operate. For example, in fiscal 2014, we switched the fuel used in the energy supply equipment at the Kanegasaki Plant and installed a gas-turbine cogeneration power system, greatly reducing our CO_2 emissions.

In addition, we have adopted hybrid cars for our fleet used by sales personnel, except in frigid regions. We are also working to prevent leaks from equipment that uses chlorofluorocarbons (CFCs) and are exploring conversion to non-CFC equipment.

CO_2 emissions



Switching to Biomass Bottles

We have adopted biomass bottles (bio-polyethylene bottles) for *Cymbalta* capsules as well as *Irbetan* and *Pirespa*. The bottles are compliant with biomass plastic identification labeling standards set by the Japan BioPlastics Association.

These pharmaceutical packaging containers are made from polyethylene derived from materials leftover in sugarcane processing. By switching from conventional bottles made from petroleum-derived polyethylene, we are helping to reduce CO_2 emissions and conserve fossil fuel resources.

Protecting Aquatic Environments

Shionogi is working to protect water resources by using them more effectively and managing wastewater quality. In addition to our efforts to conserve water, at water treatment facilities we set voluntary management figures that exceed mandated levels and constantly monitor wastewater for irregularities. At plants that manufacture antibiotics, the antibiotics are first deactivated locally at each building prior to central processing at our water treatment facilities. We have confirmed that upon discharge, the levels remaining in the treated wastewater pose no threat. In addition, for new products, we limit ambient concentrations in wastewater, and have confirmed that the levels do not impact the natural environment.

Engaging Our Suppliers

To ensure eco-friendly and safe processes in manufacturing, Shionogi conducts EHS audits on suppliers that have been contracted to manufacture important active pharmaceutical ingredients. The increasing globalization of our supply chain has heightened the need for responsible procurement that encompasses environmental protection, health and safety, ethics, and labor. To promote a global standard, we joined the Pharmaceutical Supply Chain Initiative (PSCI)* and have begun taking additional measures in accordance with this initiative.

* This NPO was established in the United States in 2006 with the aim of promoting responsible procurement in the pharmaceutical industry. As of May 31, 2017, 24 companies have joined the initiative, mainly major pharmaceutical companies in Europe and the United States.
https://pscinitiative.org/home

Click the link below for more details on our EHS activities and results.
http://www.shionogi.co.jp/en/company/csr/activities/environment.html

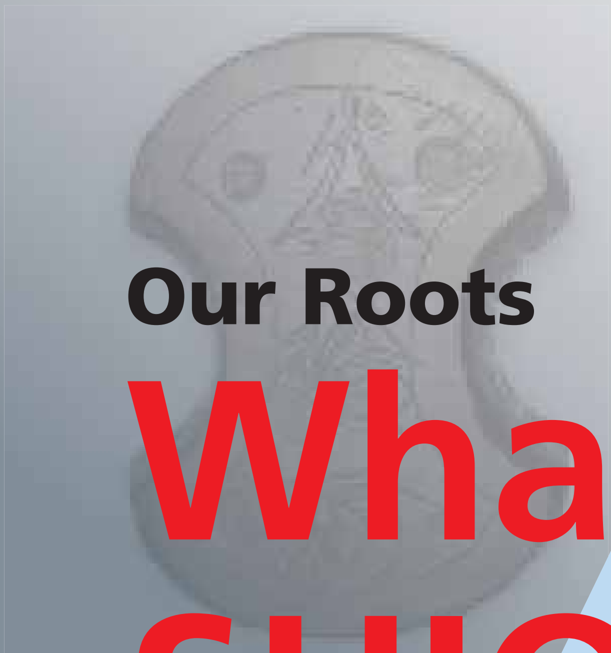
Shionogi Group EHS Policy

In support of Shionogi's mission to supply the best possible medicine to protect the health and well-being of the patients we serve, we are helping to create safe workplaces and enrich society by protecting the global environment, preventing pollution, and ensuring the health and safety of all the people who work with us as well as the communities in which we operate. Specifically, Shionogi is committed to:

1. Clarifying organizational responsibility and decision-making authority while building a high-quality EHS management system.
2. Complying with all relevant laws and regulations related to the environment, health, and safety while striving to steadily improve the EHS level.
3. Striving to continuously reduce the environmental impact and hazards of the Group's business activities, including the research and development, production, distribution, and sale of Shionogi products.
4. Raising employee awareness of EHS-related policies and topics through the prompt provision of information, regular training and practice.
5. Supporting activities to promote environmental protection, as well as health and safety, in the communities where the Group operates while building a partnership of trust with these communities through transparent disclosure and open communication.

EHS: Environment, Health and Safety

Special Feature



Our Roots
What's SHIONOGI?

Our Beginnings (1878–1950)

In 1878, the predecessor to Shionogi & Co., Ltd. opened in Doshomachi, Osaka as the drug wholesaler Shiono Gisaburo Shoten. During the intervening decades, both Shionogi and the world around it have undergone dramatic change. Still, the spirit of our founding is alive and thrives. Even today, our head office is based in Doshomachi, where the Company was founded nearly 140 years ago.

The newfound enterprise originally engaged in the wholesale of Japanese and Chinese medicines. During the course of its first eight years, Western medical science began gaining widespread popularity, and, in 1886, the young firm began importing and selling Western medicine. Shortly thereafter, the founder Gisaburo Shiono grew determined to manufacture pharmaceutical products in-house.

After his second son, Chojiro, graduated from the Pharmaceutical Department of the Faculty of Medicine and Pharmaceuticals at Tokyo Imperial University, the Company began full-fledged pharmaceutical research. The antacid agent *Antacidin*, which was developed using a German pharmaceutical book, was the first new drug developed by Shiono Gisaburo Shoten.

Founder,
Gisaburo Shiono, Sr.

Our Breakthroughs (1950–2008)

Shinomin, Our First Independently Developed Sulfonamide

In 1959, Shionogi began sales of *Shinomin*, the first sulfonamide synthesized at a Shionogi research laboratory. The product garnered praise for its superb efficacy, and, after two years, it was being sold around the world. Noticing the global growth potential of antibiotics, Shionogi built a specialized plant to manufacture them.

As one of the first Japanese companies to import medicines from overseas pharmaceutical companies, Shionogi developed an especially close relationship with U.S.-based Eli Lilly. In 1952, we obtained exclusive manufacturing and marketing rights in Japan for a new antibiotic discovered by Eli Lilly called *Ilotycin*. Then in 1966, we in-licensed the cephalosporin antibiotic *Keflin*, followed by *Keflodin* in 1967 and *Keflex* in 1976. Together, these products provided a huge boost to Shionogi's sales.

Selling Pharmaceuticals Discovered In-House

Through our alliance with Eli Lilly, we boosted not only sales but also our research and manufacturing capabilities. We advanced research related to antibiotics at Shionogi Research Laboratories, which was completed in 1961 and is now integrated into the Shionogi Pharmaceutical Research Center. This research led to the in-house discovery of *Shiomarin*, the world's first oxacephem antibiotic, which went on sale in 1982. After launching *Flumarin* in 1988 and *Flomox* in 1997, Shionogi became known as "the antibiotics expert," receiving acclaim from around the world for the academic rigor of our research.

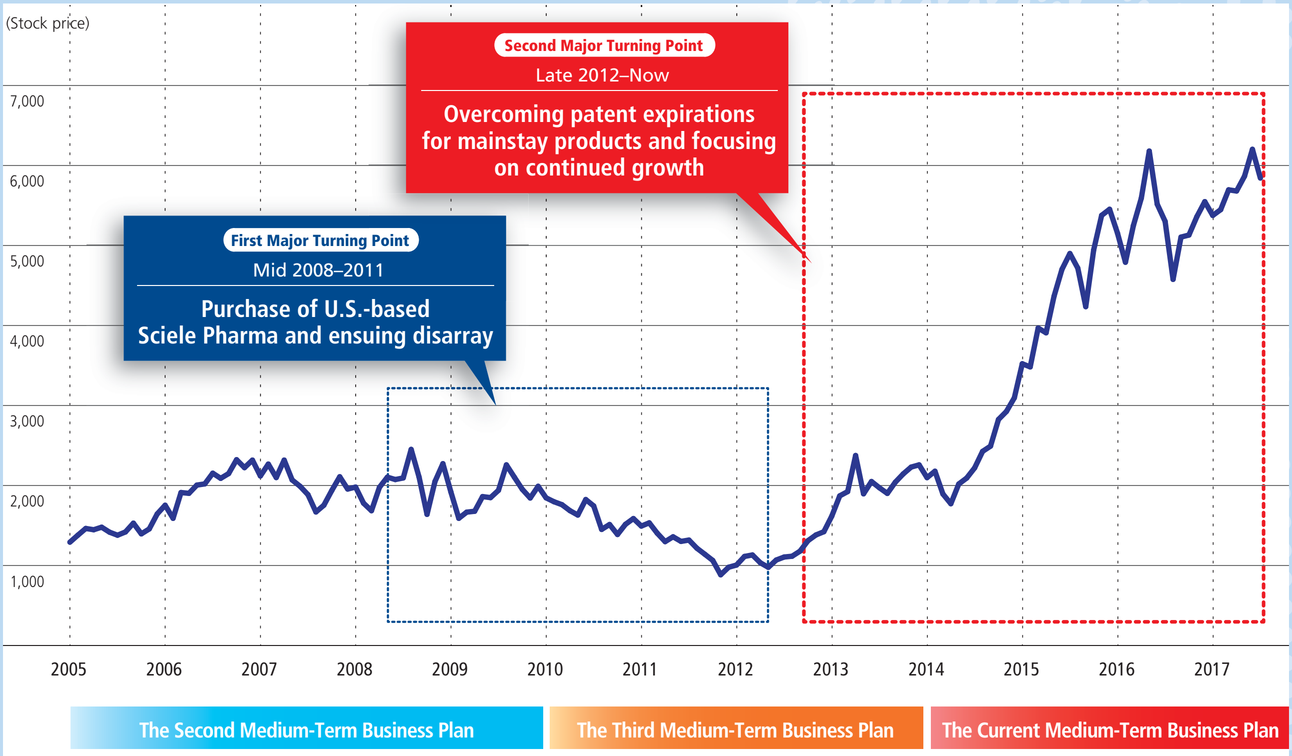
Overcoming Crisis with the Success of *Crestor*

In the early 1980s, antibiotic usage plateaued due mainly to concerns over drug-resistant bacteria. Then, from 1990 onward, usage plummeted. Due to our high dependence on antibiotics, this caused business performance to rapidly deteriorate. In 2000, Shionogi formulated the First Medium-Term Business Plan, taking its first step toward bold structural reform. Under the plan, we transferred several businesses, including agrochemicals and animal health products, to other companies. In addition, we established a development-oriented subsidiary in the United States in 2001 with the aim of narrowing the focus of our research fields and accelerating development. Furthermore, we began joint development of new drugs with U.K.-based GlaxoSmithKline.

As a result, we made steady progress in our drug development pipeline. In particular, we received a large amount of royalty income from the hyperlipidemia treatment *Crestor*, which was out-licensed to AstraZeneca. The product launched in the United States in 2003 and went on to be sold in over 100 countries worldwide. Its runaway success made Shionogi one of the world's largest pharmaceutical manufacturers.

Two Major Turning Points (2008–2017)

Having broken free from corporate overdependence on antibiotics, Shionogi purchased U.S.-based Sciele Pharma, with the ultimate aim of full-scale entry into the U.S. market. Immediately following this acquisition, the collapse of Lehman Brothers touched off the global financial crisis, throwing our undertaking into disruption. To make matters worse, the patent for *Crestor*, which had been bolstering our results, was nearing the end of its term. The future of Shionogi was at stake.



First Major Turning Point — Purchase of U.S.-Based Sciele Pharma and Ensuing Disarray

On September 2, 2008, Shionogi announced that it had purchased U.S. based Sciele Pharma for around ¥150 billion with the aim of making a full-scale entry into the U.S. market. However, less than two weeks later on September 15, Lehman Brothers filed for bankruptcy, causing the business environment to implode and share prices to plummet. Two drugs that we were planning on selling through Sciele Pharma stalled at the final stages of development. Further complicating matters, operations initially suffered from various problems, including those related to quality and supply, placing the Sciele employees under even greater pressure.

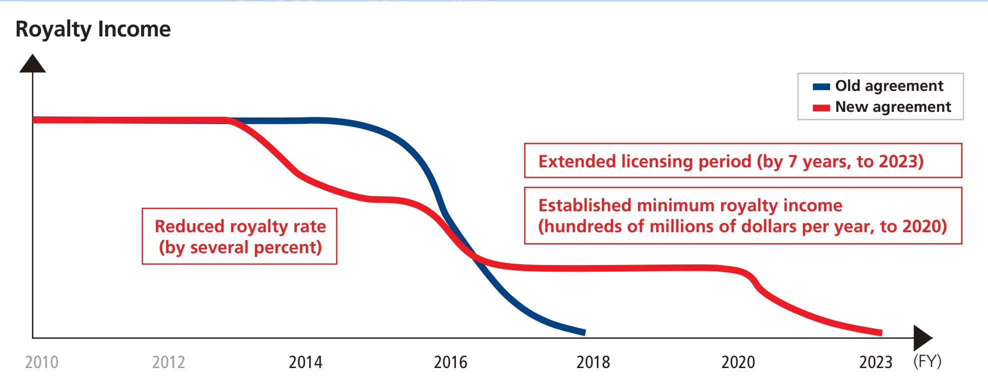
Dr. Isao Teshirogi, Shionogi's president, did not waver. He held fast to his continuing belief that the path to long-term success lies overseas. Still, this was a particularly difficult period for the Company, which had been working for many years to build an overseas sales network. As *Crestor* lacked an overseas sales channel, we out-licensed it to AstraZeneca. This meant the only profit Shionogi received was in the form of royalty income, effectively limiting our potential growth.

While Sciele Pharma initially operated at a loss, eventually our in-house developed gynecological treatment *Osphena* helped us build a foundation for growth in the U.S. market.

Second Major Turning Point

Handling the Expiration of the *Crestor* Patent

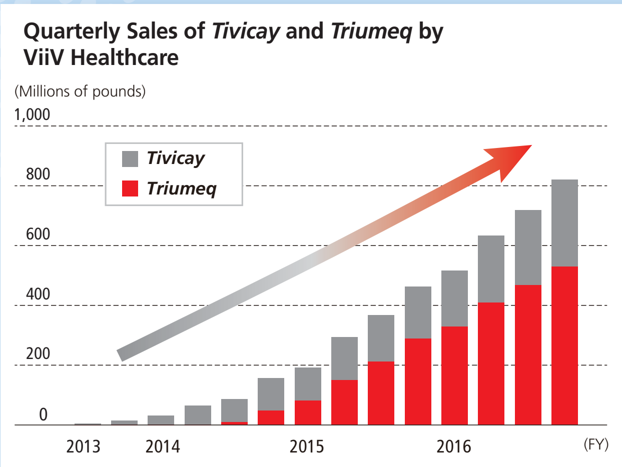
Crestor, a hyperlipidemia treatment discovered in-house, grew to blockbuster status both in Japan and overseas. At its peak in fiscal 2013, the product earned a remarkable ¥65.7 billion in royalty income, propelling the Company's results. In 2013, with just three years to go before the end of the *Crestor* patent, we modified the licensing agreement with our U.K.-based business partner AstraZeneca to lower the royalty rate in exchange for extending the period to 2023. With this change, we successfully secured an earnings base to underpin medium- and long-term growth after the patent ends while moderating the timing of the so-called *Crestor* cliff, which had been our biggest management issue.

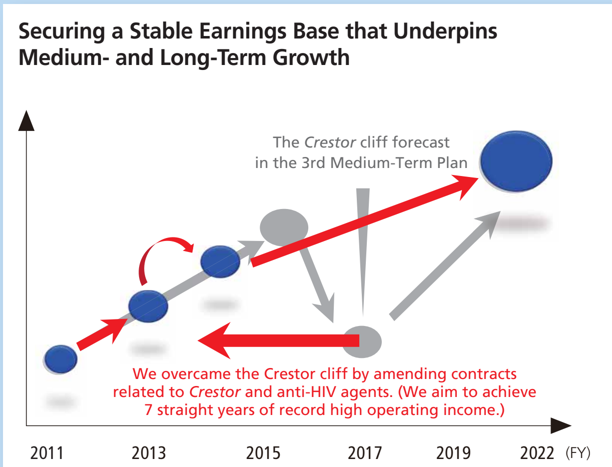


New Growth Driver: Anti-HIV Agent *Tivicay*

Although we extended the period of royalty payments for *Crestor*, we have been steadily working to develop a future mainstay product.

That product, which we developed in-house and out-licensed to ViiV Healthcare, is *Tivicay*. *Tivicay* and the combination drug containing it *Triumeq* have grown into blockbusters, selling £1,318 million worldwide in fiscal 2015. Despite the large decline in royalty income from *Crestor*, overall royalty income for fiscal 2016 rose to ¥114.9 billion. Although *Tivicay* was jointly developed by Shionogi and ViiV Healthcare, our agreement changed in 2012. ViiV Healthcare received the rights to *Tivicay* and related products while Shionogi acquired 10% of ViiV Healthcare's shares so that the Company receives dividends as a ViiV Healthcare shareholder in addition to royalty income. As ViiV Healthcare's performance has risen, so too have dividends, earning Shionogi over ¥10 billion in 2015. Through these efforts we have completely overcome the *Crestor* cliff.





Our Growth Strategy
(Medium-Term Business Plans 2000–2020)

Upon entering the 2000s, Shionogi began focusing exclusively on the pharmaceutical business and took steps to establish the infrastructure necessary for global drug development. From fiscal 2005, the Company identified priority therapeutic areas, concentrating business resources on infectious diseases, pain, and metabolic diseases. From fiscal 2010, we launched anti-HIV agent *Tivicay* and other new growth drivers as we succeeded in our transformation to a more robust profit-generating business structure.

The First Medium-Term Business Plan Laying the Foundation
(FY2000–2004)

- Focused specifically on the prescription drug business
- Established infrastructure for global drug development

The Second Medium-Term Business Plan Accelerating toward Significant Strides
(FY2005–2009)

- Focused R&D efforts on priority therapeutic areas (infectious diseases, pain, and metabolic diseases)
- Acquired U.S.-based Sciele Pharma

FY2014 Medium-Term Business Plan
Shionogi Growth Strategy 2020
(FY2014–2020)

- Vision: Growing in service to society as a drug discovery-based pharmaceutical company
- Focus resources on strategic areas: Identified infectious diseases and pain / CNS disorders as core therapeutic areas and focused on the Japanese and U.S. markets
- Achieve growth through FIC[*1] and LIC[*2] compounds
- Continuously improve business operations
- Adopted a rolling style three-year plan
- Now poised to achieve FY2020 targets of ¥125 billion in ordinary income and 15% ROE two years ahead of schedule
- Updated SGS2020 in October 2016

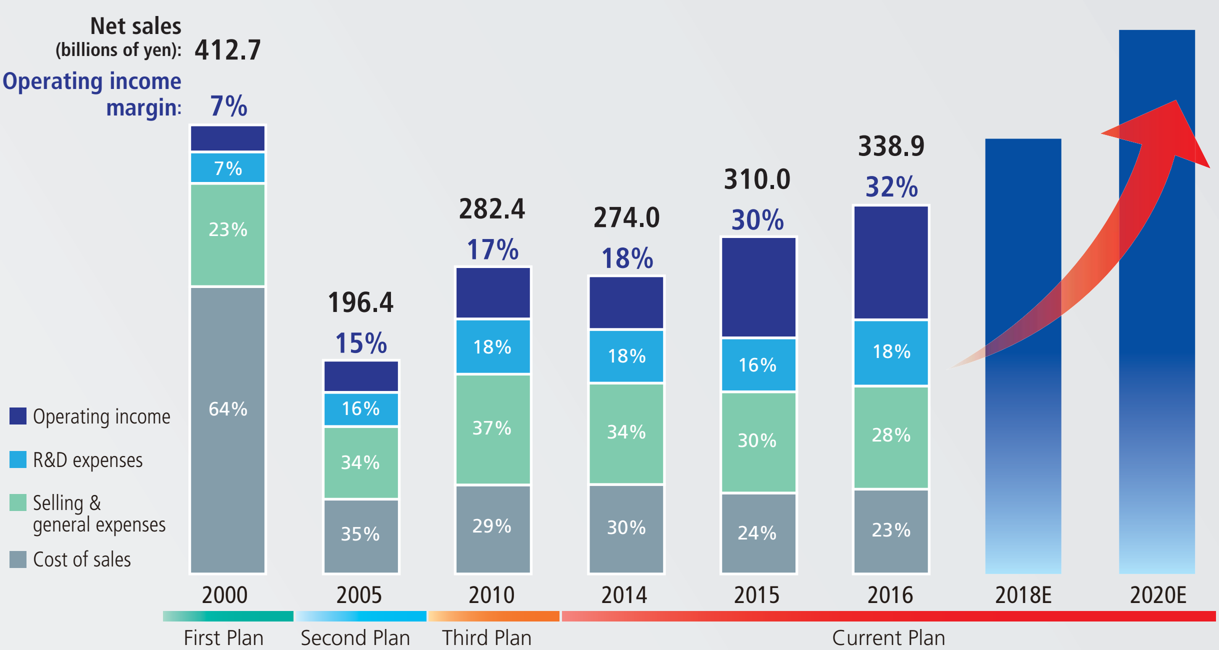
Updated FY2020 Targets

Sales of new products	¥200 billion
Ordinary income	¥150 billion
ROE	At least 15%

The Third Medium-Term Business Plan SONG for the Real Growth
(FY2010–2013)

- Shifted to a U.S. business model focused on new drugs and established bases in Europe and China
- Raised the domestic growth rate and sales ratio of strategic products
- Launched new growth drivers (*Tivicay* and *Osphena*)
- Modified agreement for HIV integrase inhibitors
- Modified *Crestor* royalty structure

Shift toward a Profit-Generating Business Structure



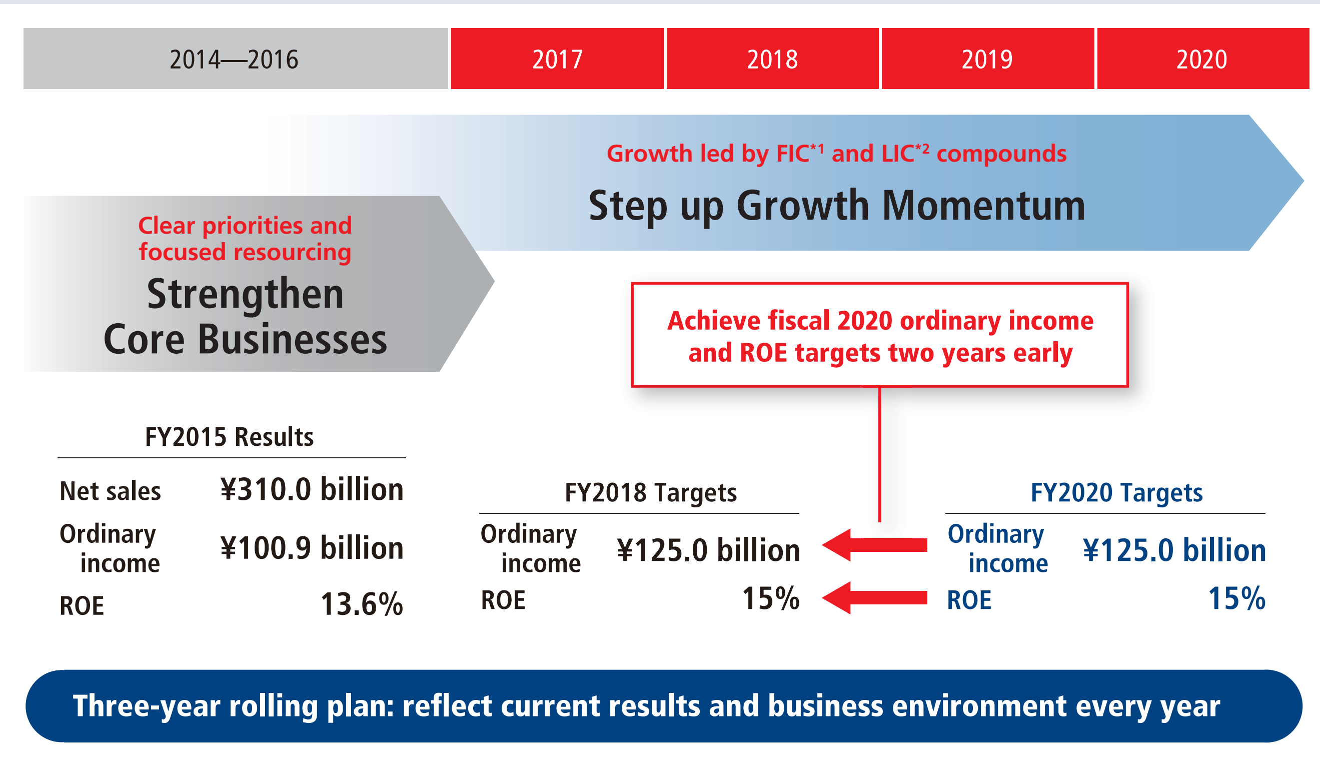
*1 First-in-Class: Innovative medicines with particularly high novelty and efficacy that can significantly change the existing therapeutic paradigm.
*2 Last-in-Class: Unrivaled medicines with clear superiority over others that have the same mechanism of action.

Our Performance and Growth Targets SGS2020 (2014–2020)

Growing in Service to Society as a Drug Discovery-Based Pharmaceutical Company

Growth Strategy for 2020

Shionogi Growth Strategy 2020 (SGS2020)



*1 First-in-Class: Innovative medicines with particularly high novelty and efficacy that can significantly change the existing therapeutic paradigm.
*2 Last-in-Class: Unrivaled medicines with clear superiority over others that have the same mechanism of action.

SGS2020 Update*3

In April 2014, we launched Shionogi Growth Strategy 2020, our current Medium-Term Business Plan, which strategically charts our growth through 2020.

This plan identified infectious diseases and pain / CNS disorders as core therapeutic areas. It also outlines our vision of growing as a drug discovery-based pharmaceutical company underpinned by impressive strength in small-molecule drug discovery. Under the plan, we aim to realize our Company Policy of striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

We focused business resources on strategic areas to boost sales while working to continuously improve business operations to lift profits. Thanks to these efforts, we are poised to achieve our initial fiscal 2020 targets for ordinary income and return on equity (ROE) two years ahead of schedule.

However, the environment surrounding Shionogi's business is changing. Going forward, we expect stark impacts from social upheaval, such as deteriorating solvency for health insurance systems as graying populations lead to increased and diversifying medical needs.

We therefore updated SGS2020 in October 2016. We set new, higher business targets and, with the aim of becoming an indispensable member of society, we outlined a new vision: Growing in service to society as a drug discovery-based pharmaceutical company.

When setting our new targets, we focused on new growth beyond 2020. To achieve this growth without relying on royalty income, we set targets for three categories: growth, efficiency, and shareholder returns.

For our growth targets, we clarified what constitutes a new product. We aim to swiftly maximize product value and provide new value to society by focusing business resources on these new products, mainly in the core therapeutic areas of infectious diseases and pain / CNS disorders. We subsequently set new numerical targets for growth for fiscal 2020: ¥200 billion in net sales of new products and ¥150 billion in ordinary income.

As for our efficiency targets, one is to raise business efficiency by enhancing our business management and cash creation capabilities. Another is to pursue efficient and effective development as well as in-house drug discovery. We then set the following numerical targets: return on invested capital (ROIC) of at least 13.5%, a cash conversion cycle (CCC) of 5.5 months, and an in-house drug discovery ratio of at least 50%.

ROE and DOE remain our KPIs for shareholder returns. We will continue to maximize corporate value while balancing shareholder returns, strategic business investment, and growth-oriented investment.

Growth Strategy

Growth Regions and Areas		Keys to Growth
Focusing on Japan and United States **Strengthening bases in Europe and Asia**	×	**Addressing society's needs**
Infectious diseases **Pain / CNS disorders**		**Balancing innovation and healthcare affordability**

KPIs

Growth

Sales of new products:	¥200 billion
Ordinary income:	¥150 billion

Efficiency

ROIC:	At least 13.5%
CCC:	5.5 months
In-house drug discovery ratio:	At least 50%

Shareholder Returns

ROE:	At least 15%
DOE:	At least 4.0%

*3 For more details on the updates to SGS2020, click the following link: http://www.shionogi.co.jp/en/ir/pdf/e_p161031_1.pdf

Our Earnings Structure

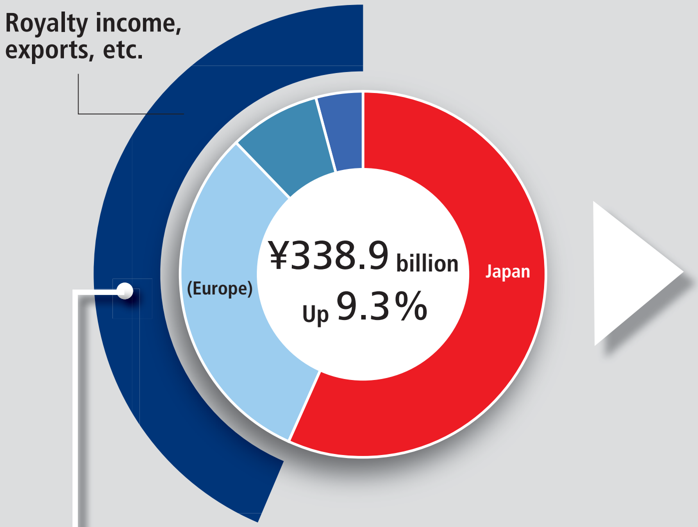
In fiscal 2016, we once again achieved higher earnings and profit. Of the ¥338.9 billion generated in net sales, ¥115.7 billion was attributable to royalty income on overseas sales. Although royalty income from *Crestor*, a hyperlipidemia treatment out-licensed to the U.K.-based AstraZeneca, had long bolstered our results, its patent came to an end in 2016. The mainstay products that will take over from *Crestor* are the HIV treatments *Tivicay* and *Triumeq*, which were developed in-house and out-licensed to ViiV Healthcare. Sales of these products have steadily expanded, with royalty income for fiscal 2016 exceeding ¥100 billion. As for S-033188, a new antiviral drug for treating influenza that is expected to become a leading product further down the line, we already signed a licensing agreement with Switzerland-based Roche.

In Japan, prescription drugs account for 90% of our net sales. The domestic market is stagnant due in part to declining drug prices, with generics expected to enter the market in rapid succession after patents for mainstay products expire. The concentration of resources on strategic areas is therefore a clear management priority in the run-up to 2020. We will continue to build a profit-generating business structure that is not dependent on royalty income.

Financial Highlights

	FY2015	FY2016	Rate of increase	FY2017 targets
Net sales	¥310.0 billion	¥338.9 billion	9.3% ↗	¥340.0 billion
Amount attributable to royalty income	¥101.8 billion	¥115.7 billion	13.7% ↗	¥145.0 billion
Operating income	¥91.4 billion	¥108.2 billion	18.3% ↗	¥112.5 billion
Ordinary income	¥100.9 billion	¥123.0 billion	22.0% ↗	¥123.5 billion
Profit attributable to owners of parent	¥66.7 billion	¥83.9 billion	25.8% ↗	¥92.0 billion
ROE	13.6%	16.3%	2.7pt ↗	

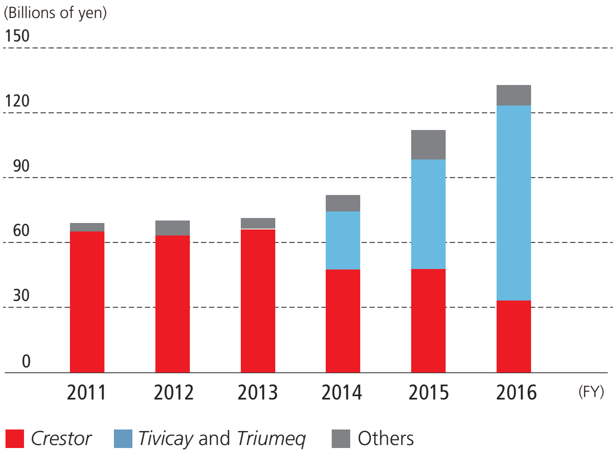
Breakdown of Net Sales



Main Contributors

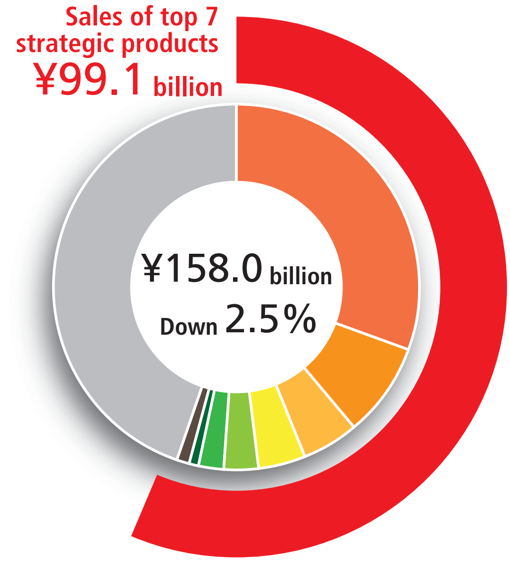
- Royalty income: **¥115.7 billion** (HIV-related: 70%; *Crestor*: 30%)
- Exports and overseas sales: ¥29.2 billion

Crestor / HIV-Related Royalty Income



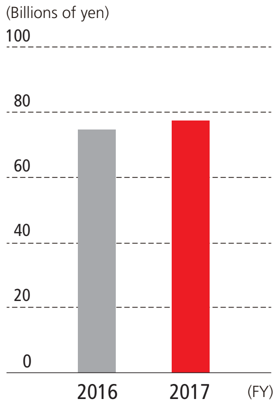
Enhance and establish U.S. businesses

Breakdown of Prescription Drug Sales in Japan

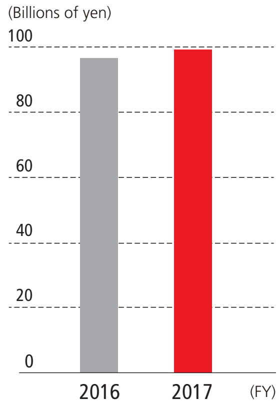


Crestor
Irbetan family
Cymbalta
OxyContin family
Pirespa
Finibax
Rapiacta
Other prescription drugs

Sales of top 3 strategic products



Sales of top 7 strategic products



Enhance domestic businesses

Build a business structure that generates profit on its own and is not dependent on royalty income

Performance and Outlook

Isao Teshirogi, Ph.D.
President and CEO

We overcame the *Crestor* cliff, and net sales, operating income, and ordinary income hit new records in fiscal 2016.

Fiscal 2016 Performance

Records Sales and Profits

Net sales amounted to ¥338.9 billion, up 9.3% year on year. This included domestic prescription drug sales of ¥158.0 billion, which struggled to overcome the decline from transferring the rights of off-patent drugs.* Sales from overseas subsidiaries and exports dropped slightly to ¥29.2 billion, but surging royalty income hit ¥115.7 billion, up 13.7% year on year.

Operating income totaled ¥108.2 billion, up 18.3%, setting a record for the second year in a row.

Ordinary income came in at ¥123.0 billion, up 22.0%, setting a record for the fifth year in a row.

Thanks to the rise in operating income, profit attributable to owners of parent increased 25.8% to ¥83.9 billion, setting a new record.

As a result, return on equity (ROE), the indicator that shows how much profit was generated from the capital shareholders invested in the Shionogi Group, reached 16.3%.

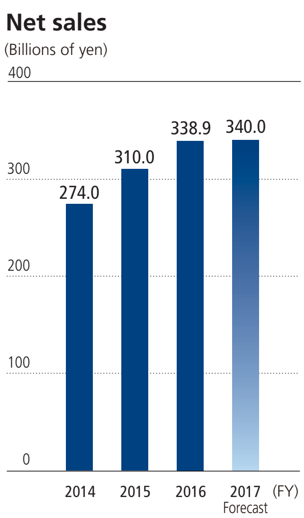
Higher Royalty Income

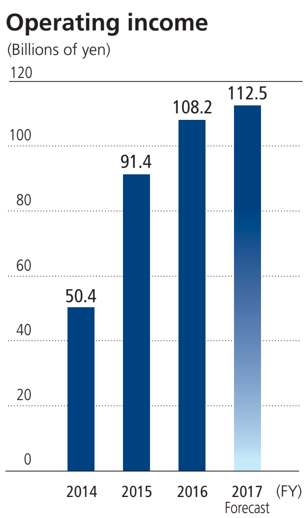
Global sales of *Tivicay*, the anti-HIV agent out-licensed to U.K.-based ViiV Healthcare, and the combination drug *Triumeq* amounted to over £2.6 billion, or around ¥360.0 billion. Royalties from ViiV Healthcare totaled ¥73.3 billion, up 8.1% year on year.

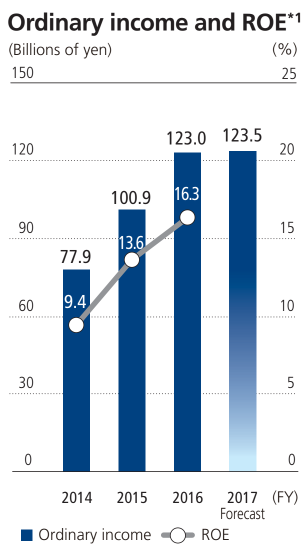
As business remained firm, the dividend income from ViiV Healthcare grew due not only to an increase in the regular annual dividend but also to the addition of an interim dividend.

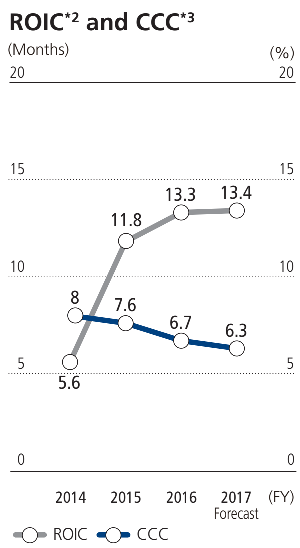
Royalty income for *Crestor* from U.K.-based AstraZeneca decreased 30.6% to ¥33.0 billion due to a change in the royalty rate. This decline, however, was outstripped by the increase in royalty and dividend income from ViiV Healthcare.

* Drugs with generic versions available because their patents have expired or their extension reevaluation period has lapsed.









*1 Return on equity: Profit attributable to owners of parent ÷ Shareholders' equity × 100 (%)
*2 Return on invested capital: After-tax operating income ÷ (Interest bearing debt + Shareholders' equity + Non-controlling interests) × 100 (%)
*3 Cash conversion cycle: The number of days between investing cash (for raw materials, product purchases, etc.) and the time when that is ultimately converted into cash again. (This indicator is used for capital efficiency.)

Efficient Management and Transferring the Rights of Off-Patent Drugs

Sales of prescription drugs in Japan declined to ¥158.0 billion due in part to NHI drug price reductions, but sales of strategic products continued to expand in the previous fiscal year. Sales of our top seven products amounted to ¥99.1 billion, up 2.7% year on year. As a result, these seven products accounted for 62.7% of the Company's total domestic prescription drug sales, up 3.2%. In addition, Shionogi transferred the rights of 24 off-patent drugs during the fiscal year, further clarifying its shift to business centered on new drugs and free from reliance on off-patent drugs.

In overseas businesses, we formed two strategic alliances: one for the opioid-induced constipation (OIC) treatment *Symproic* with Purdue Pharma, a leader in the U.S. pain treatment market; and another for the postmenopausal vulvar and vaginal atrophy (VVA) treatment *Osphena* with Duchesnay, which specializes in obstetric and gynecological businesses. We will continue to pursue efficient operations by making full use of these alliances while efficiently stewarding our own business resources.

Looking ahead, we aim to run a highly productive business that focuses on hospital markets by selling such treatments as in-house developed injectable antibiotics and treatments for thrombocytopenia associated with chronic liver disease.

Contributors to the New Records

Higher Royalty and Dividend Income

- *Tivicay* and *Triumeq* royalty income rose ¥32.8 billion year on year.
- Dividend income from ViiV Healthcare grew.

Domestic Businesses / Overseas Businesses

- Sales of our top seven strategic products grew by ¥2.6 billion.
- A new *Crestor* orally disintegrating (OD) tablet was launched, and the indications of *Cymbalta* expanded in the area of pain.
- The rights of 24 off-patent drugs were transferred.
- Strategic alliances were formed in the United States for *Symproic* and *Osphena*.

Medium- and Long-Term Issues and SGS2020 Update

Changes in the Business Environment

In recent years, the business environment surrounding the pharmaceutical industry has been drastically changing.

Shionogi has identified the following eight changes.

1. **Impact of graying populations worldwide**
2. **Economic pressure on healthcare systems**
3. **Growing problem of drug-resistant bacteria and viruses**
4. **Rising social needs for longer healthy life expectancy**
5. **Greater challenges in drug discovery**
6. **Accelerating pace of industry-academia collaboration**
7. **Increasing number of intra- and cross-industry partnerships**
8. **Tighter focus on therapeutic areas by major pharmaceutical companies**

There is an increasing need for us to leverage our own strengths to respond to these changes in the environment.

Remaining Goals

Shionogi has identified the following goals pertaining to domestic businesses, overseas businesses, and productivity.

Domestic Business Goals

Expand our lineup of new products, which center on *Cymbalta*, *Mulpleta*, and sublingual *Actair* tablets for house dust mite allergens.

Overseas Business Goals

Ensure sales and profit contributions from overseas, including the United States—the largest market—and China—a growing market.

Productivity Goals

Improve per-employee net sales and operating income excluding royalty income.

We updated SGS2020 in light of the achievements, remaining goals, and responses to changes in the environment in fiscal 2016. In fiscal 2017, we will continue working to realize the new vision outlined in the update: Grow in service to society as a drug discovery-based pharmaceutical company. (See page 20 for more details.)

Measures for Fiscal 2017

In fiscal 2017, net sales of prescription drugs in Japan are expected to decline due to the transfer of the rights of off-patent drugs in the previous year. Generic versions of strategic products in Japan are expected to enter the market at the end of fiscal 2017. Royalty income from *Crestor* will decline due to the change in the agreement made in fiscal 2013. And selling and general expenses will rise with the launch of multiple new products.

Aiming to achieve the targets set out in SGS2020, Shionogi has positioned fiscal 2017 as the starting point for ramping up its global competitiveness as a company.

In domestic businesses, we will continue focusing business resources on new products, including *Cymbalta*, the opioid-induced constipation (OIC) treatment *Symproic*, the attention-deficit hyperactivity disorder (ADHD) treatment *Intuniv*, abuse-deterrent *OxyContin* tablets, and sublingual *Actair* tablets for house dust mites, to quickly expand sales.

In overseas businesses, we have been conducting efficient operations using fewer of our own business resources while maximizing the product value of *Symproic* and *Osphena* through strategic alliances formed with Purdue Pharma and Duchesnay.

Furthermore, as we build a highly effective business base, we are preparing to establish highly productive business operations for cefiderocol and lusutrombopag, which are exclusively for the hospital market and expected to go on sale in the near future.

In both domestic and overseas businesses, we aim to improve productivity as well as per-employee net sales and operating income excluding royalty income by continually enhancing business operations. We are working hard so that all our shareholders can again experience growth with us in fiscal 2017.

Plans for New Launches and Additional Indications

FY2016 (Results)	FY2017	FY2018
Domestic Businesses		
Cymbalta •Chronic lower back pain •Pain associated with osteoarthritis ***Crestor* orally disintegrating (OD) tablets**	***Symproic*** Opioid-induced constipation (OIC)	**S-033188** Influenza virus infection
	Intuniv Pediatric ADHD	**Lisdexamfetamine** Pediatric ADHD
	Abuse-deterrent *OxyContin* tablets Chronic pain	
	Sublingual *Actair* tablets for house-dust mites (HDM) Perennial allergic rhinitis (HDM) in pediatric patients	
Overseas Businesses		
		Cefiderocol Multidrug-resistant Gram-negative bacteria infection
	Symproic Opioid-induced constipation (OIC)	***Osphena*** Vaginal dryness associated with postmenopausal vulvar and vaginal atrophy (VVA)
		Lusutrombopag Thrombocytopenia associated with chronic liver disease
		Naldemedine (Europe) Opioid-induced constipation (OIC)

Infectious diseases | Pain / CNS disorders | Frontier therapeutic areas

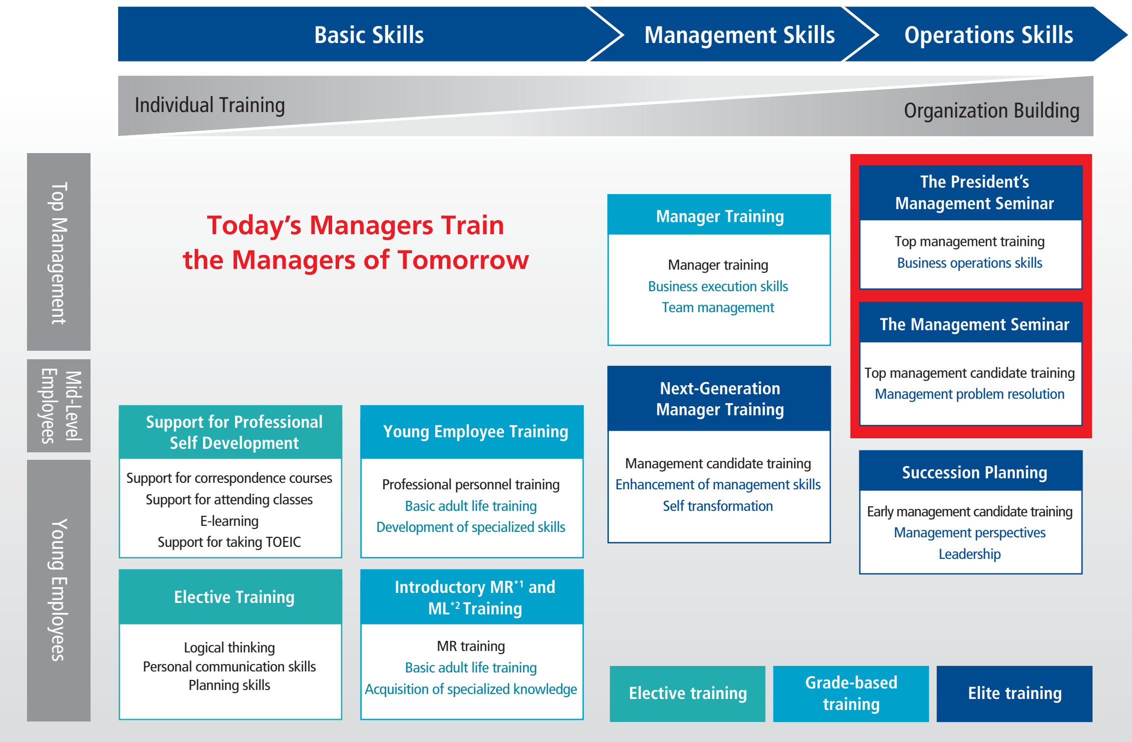
Aiming for Sustained Growth

Personnel Training Forms the Foundation for Sustained Growth

Shionogi is now working hard to develop human resources who can take over the next generation of management. To achieve sustained growth, companies require a solid base of capable personnel. We are working to train new leaders through a diverse range of personnel training programs for young, mid-level, and executive-level employees.

The President's Management Seminar, which I lead, was set up to train senior managers, while the Management Seminar is run by division heads who conduct training programs to foster Shionogi's future leaders. The President's Management Seminar began in 2012 and each year around 10 people are chosen to participate by attending monthly seminars, for a total of seven to nine seminars, over the course of the year. Five years have passed since the seminars began, and there are now over 40 graduates of the program, including four current corporate officers. Through this program, Shionogi trains its next generation of leaders by developing tenacious human resources who can consider issues from a Companywide perspective.

Training for Next-Generation Leaders



*1 Medical representative (MR): Employee who provides, collects, and disseminates information with the aim of encouraging appropriate widespread adoption of prescription drugs.
*2 Medical liaison (ML): Employee who, based on scientific discussions with doctors, helps to maximize product value and fine-tune currently marketed drugs.

Ensuring Both Innovation and Healthcare Affordability

At Shionogi, we believe that ensuring both innovation and healthcare affordability is vital to growing in service to society as a drug discovery-based pharmaceutical company. To ensure both, we need to pursue efficiency centering on small-molecule drug discovery and to continuously enhance business operations.

We continue to raise the efficiency of the value chain centering on our strength of small-molecule drug discovery and continuously discover new drugs. We also promote external alliances that routinely produce innovations from synergies with Shionogi's drug discovery capabilities.

As for the development candidates these processes produce, we ensure effective and efficient launches with regular fine-tuning through optimal planning as we attempt to maximize product value.

In addition, by continuously improving business operations from the perspectives of production, procurement, logistics, inventory management, quality, reliability, pharmaceuticals, and safety, we will continue to safely and economically provide innovative and high-quality products.

Moreover, the six newly founded domestic Group companies and the rest of the Shionogi Group are working to strengthen and improve business operations. We are all also aiming to ensure both innovation and healthcare affordability by reforming work practices, promoting diversity, addressing the needs of society (extending employment for older workers and ensuring equitable pay), and improving productivity.

Topics Our Measures to Promote Diversity

The Ministry of Health, Labour and Welfare's Equal Opportunity Employment & Work-Life Balance Award (December 12, 2016)

Shionogi has worked to promote the active participation of women in the workplace, centering its efforts on working teams set up in the headquarters of each department, including the R&D and Sales departments. This has led to the steady retention of female employees and an increase in female managers. The Company received an award in recognition of these positive results.

Selected as Health & Productivity Stock for 2nd Straight Year and Recognized as a Health & Productivity Management Organization (February 21, 2017)

The Health & Productivity Stock selection program started in 2015 as a joint effort between the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange. The program selects listed companies that undertake strategic measures aimed at managing the health of their employees. Shionogi was among 24 companies selected in 2017 and the only pharmaceutical company.

The Health & Productivity Management Organization Recognition Program began in 2017 as a joint effort between METI and the Nippon Kenko Kaigi, which comprises leaders of businesses, medical organizations, and local governments. The program cooperates with insurers to recognize companies that conduct excellent health management. In 2017, Shionogi was among the 235 companies selected for recognition.

Received Kurumin Certification from the Minister of Health, Labour and Welfare (Since April 2011)

Based on the Act on Advancement of Measures to Support Raising Next-Generation Children, this certification is given by the Minister of Health, Labour and Welfare to companies that support employees raising children. Shionogi received this certification for introducing a child support system that enables employees to raise their children while building their careers and a work schedule system that enables a range of different working styles.

Barrier-Free Communication Project

This project mainly includes employees who have hearing impairments. It was launched with the aim of eliminating barriers to communication and supplying the best possible medicine as stated in the Company Policy. In fiscal 2016, we introduced an application for internal use that converts speech to text and added subtitles to the Shionogi Group's television commercials.

Dialogue with Investors, Corporate Governance, and Shareholder Returns

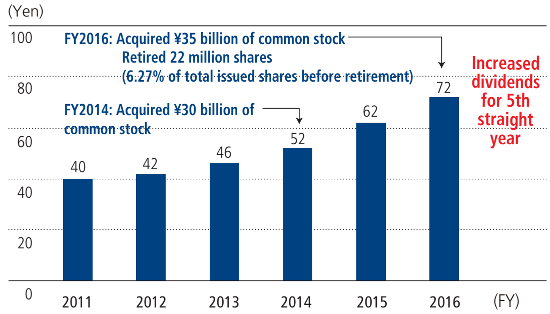
Dialogue with Investors and Corporate Governance

Around 40% of Shionogi's shares are held by foreigners. While we, of course, hold meetings in Japan, we also spend a considerable amount of time engaging in dialogue with institutional investors in the United States, Europe, and the rest of Asia. I personally handled 142 of the nearly 400 investor outreach activities that took place in fiscal 2015. I value the opportunity for dialogue with investors. Each conversation provides a source of sound criticism from a fair vantage point. I talk about my ideas in a straightforward manner, and investors tell me whether they think it's good or bad from their perspective. We strive to use this input to maintain balance in management. Let me provide two examples.

In terms of governance, the Company adopted an outside director system in 2009, the year after my appointment as President. From around 2005 or 2006, we started fielding more questions and comments about Japanese corporate governance, mainly from overseas institutional investors. Today, over half of our Board of Directors (6 of 11, or 54%), including Audit & Supervisory Board members, is comprised of outside directors. I think this accomplishment was enabled by our efforts to listen to frank opinions about the Company during conversations with investors, and our determination to make advances.

More recently, from around three or four years ago, we began getting more questions about non-financial information, including management's views on corporate growth and coexistence with society. This especially arose through dialogue with European investors. Incorporating non-financial information into action policies and other corporate matters is not always easy, but we are taking a range of steps to achieve this end, such as publishing an integrated report each year since fiscal 2015.

Dividends per Share



Shareholder Returns

We will continue striving to maximize corporate value while balancing future-oriented investments and strategic business investments. We implement shareholder return policies that provide all our shareholders with a stake in Shionogi's medium- and long-term growth.

In fiscal 2016, Shionogi made steady progress under SGS2020, and, with the aim of enhancing shareholder returns and capital efficiency, the Company acquired 6,802,100 shares of common stock between November and December 2016 as part of its shareholder return policies. In addition, Shionogi retired 22 million shares of common stock on January 10, 2017. The 22 million shares had accounted for 6.27% of all shares issued and outstanding.

Shionogi increased its annual dividend by ¥10 from the previous fiscal year to ¥72 per share, generating a total return ratio of 69.1%. We increased dividends because we achieved record net sales, ordinary income, and operating income in fiscal 2016. Turning to our priority benchmarks for dividends, return on equity (ROE) reached 16.3%, and dividends on equity (DOE) rose to 4.5%.

Going forward, we will continue implementing shareholder return policies that provide all our shareholders with a stake in Shionogi's growth.

Value Creation Process

Discovery Research

Advancing Our Discovery Research Program, Utilizing Our Peptide Drug Discovery Platform while Focusing Research on Small-Molecule Drug Discovery

In fiscal 2016, the Shionogi Group advanced its discovery research program, utilizing its peptide drug discovery platform while focusing research on small-molecule discovery for the creation of FIC and LIC compounds.

As a result, the Company discovered multiple development candidates and drugs currently under development in core therapeutic areas (infectious diseases and pain / CNS disorders) and frontier therapeutic areas (obesity / geriatric metabolic disease and cancer / immune disorders).

In addition, we have been working tirelessly on drug discovery through open innovation. By engaging in joint research with companies and academic institutions around the world, the Group has enhanced its drug discovery program and built up development assets that will become competitive strengths.

Society's Needs for New Drugs

New, Higher Expectations

The pharmaceutical industry is under increasing pressure to discover revolutionary new drugs while also striving to meet expectations for affordable healthcare.

To Meet Expectations and Grow in Service to Society, We Must:

Provide Reliable and Effective Drugs	Improve Healthcare Affordability	Improve Success Rate of In-House Drug Development
Develop high-quality, high-value products that fulfill needs	Reduce cost of goods sold and achieve streamlined, insightful development	Apply CMC research from the initial stages of drug discovery and developments
Deliver relief and reliability to all	Realize sensible cost performance	Provide new solutions to drug discovery research

Drug development candidates

1. New neuropathic pain treatment
2. New obesity drug
3. New botulinum toxin formulation (in-licensed from Tokushima University)

Drugs under development

S-600918 (neuropathic pain)

GSK3342830, which was discovered through joint research with GlaxoSmithKline, entered Phase I clinical trials.

A cardiovascular disease program, which has been licensed to U.S.-based MedImmune, entered Phase I clinical trials.

Development assets in the field of diabetes have been out-licensed to global pharmaceutical companies.

Multiple drug discovery programs using peptide drug discovery platform technology have commenced.

In the updated version of SGS2020 released on October 31, 2016, Shionogi outlined two growth strategies looking toward 2020: 1) addressing society's needs and 2) ensuring both innovation and healthcare affordability. Through our efforts, we aim to help build a sustainable society and achieve our vision of growing in service to society as a drug-based pharmaceutical company.

Ensuring both innovation and healthcare affordability through small-molecule and nonstandard peptide drug discovery

	Small-molecule drugs	Nonstandard-peptide drugs	Antibody-based drugs
Molecular weight	**500 or below**	**500 to 2,000**	Around 150,000
Specificity	**Medium to high**	**High**	High
Side effects	**Few to moderate**	**Few**	Few
Intracellular targets	**Targetable**	**Targetable**	Untargetable
Manufacturing costs	**Low**	**Low**	High

Innovation

Develop drugs with intracellular targets, which are difficult for antibody-based drugs.

×

Healthcare Affordability

Achieve balance with healthcare affordability by reducing manufacturing costs.

Collaborating with PeptiDream on Nonstandard Peptide Drug Discovery

Shionogi entered into a joint R&D agreement with PeptiDream in February 2016 to discover nonstandard multi-target peptides. We have been moving ahead with this project with the aim of pursuing synergies with our long-established strength in small-molecule drug discovery.

In June 2017, Shionogi became the first Japan-based company to receive a non-exclusive licensing agreement for the use of PeptiDream's unique peptide discovery platform system (PDPS). Under this agreement, we have taken on new joint R&D projects with PeptiDream and accelerated innovation by bringing together the strengths of both companies.

For more information on PeptiDream, visit the link below.
http://www.peptidream.com/

Founding PeptiStar for R&D, Manufacture, and Sale of Nonstandard Peptide APIs

PeptiDream is collaborating with Shionogi and other pharmaceutical companies around the world to advance R&D for nonstandard peptide drugs. However, no country in the world is home to a contract manufacturing organization (CMO) that can stably provide high quality nonstandard peptide active pharmaceutical ingredients (APIs). With this in mind, Shionogi, PeptiDream and Sekisui Chemical signed an agreement in August 2017 to establish PeptiStar, a new CMO possessing specialized technology for nonstandard peptide drugs, with the aim of helping to expand the market for these drugs.

Underpinned by the knowledge and technologies related to nonstandard peptide drugs possessed by PeptiDream, this new venture will bring together expertise and knowhow from across Japan. The company will strive to promote R&D into methods of synthesizing and manufacturing peptide APIs in Japan, which leads the world in this area, as well as to realize the manufacture and sale of these APIs.

PeptiStar

For an overview of PeptiStar, refer to the press release dated August 7, 2017.
http://www.shionogi.co.jp/company/news/2017/qdv9fu00000173iz-att/170807.pdf (Japanese only)

CMC Research*1

Responding to Society's Changing Needs for New Drugs and Establishing Four New Synthesis Technologies

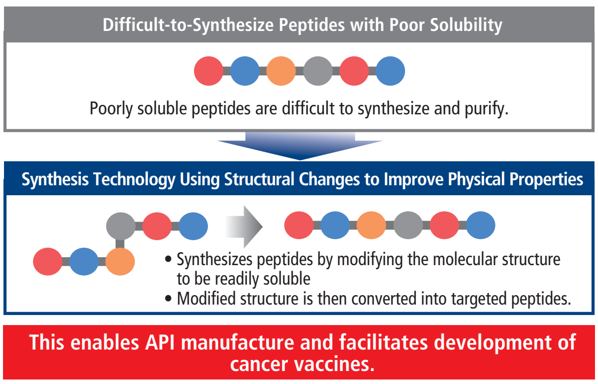
In fiscal 2016, we were able to establish a solid foundation of new CMC technologies, including synthesis technology to modify peptides with very low solubility, uniformity technology for ultra-low doses, formulation technology for inhalation drug delivery systems (DDSs), and highly sensitive analytical technology that meets global standards.

Furthermore, to meet society's need for the discovery of revolutionary new drugs that take into account healthcare affordability, we will continue to take measures aimed at economically providing patients with high value-added products.

*1 Chemistry, manufacturing and control (CMC) research encompasses API manufacturing process research, pharmaceutical development research, and quality control research.

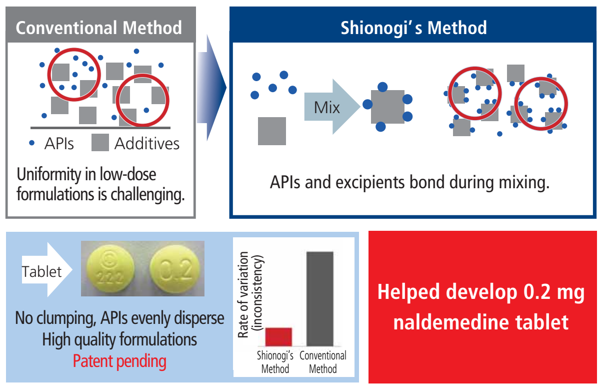
Peptide Synthesis Technology Overcomes Poor Solubility

We succeeded in establishing a method for synthesizing peptides by changing the structure of peptides with low solubility to make them highly soluble, more than doubling the yield while reducing impurities to less than one fifth. This technology has enabled the manufacture of APIs for the development of cancer peptide vaccines.



Uniformity Technology for Ultra-low Doses Conventional Method

By bonding APIs and excipients, we succeeded in establishing maintaining uniform API content in ultra-low doses. This technology enables the manufacture of the 0.2 mg naldemedine tablet.



Formulation Technology for Inhalation DDSs

To develop inhalation drug delivery systems (DDSs), active ingredients need to be micronized. This, however, allows the ingredients to aggregate very easily, making it hard to reach the lungs. Shionogi has succeeded in micronization technology for inhalation DDSs that promotes good absorption into the lungs by forming an optimal complex with the micronized API. This technology enables efficient delivery of drugs to the lungs and trachea, making inhalation around 40 times more efficient. This innovative technology serves as a base that can be applied to a wide range of development candidates.

Highly Sensitive Analytical Technology that Meets Global Standards

Under conventional methods of testing for residual metals in pharmaceutical products, successful detection required on the order of several dozen ppm, but was still unable to identify individual metal types. Now, however, we are able to detect less than 1 ppm and identify individual metal types. We achieved this by introducing inductively coupled plasma mass spectrometry (ICP-MS) following the adoption of new standards by the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH). We were subsequently able to refine this technology as a base for analytical techniques that are effective on less than 0.1 ppm, can still pinpoint specific metals and require less time for configuration.

Drug Development

Managing the Costs of Clinical Trials and Strengthening Global Operations

Development Achievements

In fiscal 2016, with the implementation of the Shionogi Group's first independent full-fledged global Phase III clinical trials, the Group worked to manage the cost of the trials and strengthen its global operations.

As a result, we were able to receive approval in Japan and the United States for the in-house discovered naldemedine and apply for approval in Europe.

As for cefiderocol, the treatment candidate for multidrug-resistant Gram-negative bacterial infections, we finished global Phase II clinical trials for complicated urinary tract infections and are advancing with global Phase II clinical trials for hospital-acquired and ventilator-associated pneumonia.

We are presently conducting Phase III clinical trials in Japan and overseas on S-033188, a drug candidate to battle influenza with a new mechanism of action.

Cymbalta acquired approval in Japan for an additional indication of osteoarthritis-associated pain in December 2016.

As for abuse-deterrent*1 *OxyContin* tablets, a treatment for chronic pain, we applied for marketing approval in Japan and, in response to a request from the Ministry of Health, Labour and Welfare's study group,*2 applied for an additional indication for relieving moderate to severe chronic pain.

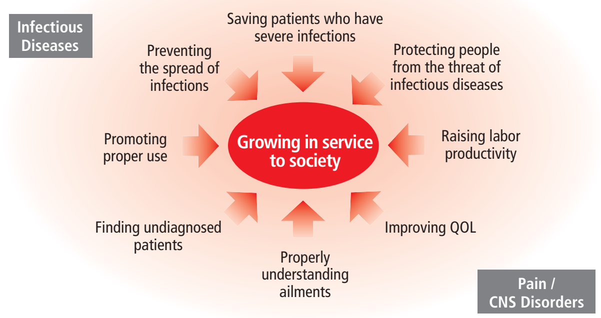
In March 2017, we received approval in Japan for *Intuniv*, the attention-deficit hyperactivity disorder (ADHD) treatment that we have been jointly developing with Ireland-based Shire plc.

And as for *Actair* sublingual tablets, we have applied in Japan to treat children between five and 11 years old in addition to the current adult patients.

*1 Tablets specially designed to prevent abuse
*2 The Study Group on Unapproved and Off Label Drugs of High Medical Need

Striving toward SGS2020

Raising Shionogi's profile by continuing to globally provide drugs under development.



Naldemedine Opioid-induced constipation (OIC)	• Acquired approval in Japan and the United States, and applied for approval in Europe
Cefiderocol Multidrug-resistant Gram-negative bacterial infections	• Completed global Phase II trials for complicated urinary tract infections • Began global Phase III clinical trials for hospital-acquired and ventilator-associated pneumonia
S-033188 Influenza infections	• Began global Phase III clinical trials
Cymbalta	• Acquired approval in Japan for additional indication of relieving osteoarthritis-associated pain
Abuse-deterrent *OxyContin* tablets	• Acquired approval in Japan
Intuniv Attention-deficit hyperactivity disorder (ADHD)	• Acquired approval in Japan
Actair sublingual tablets	• Applied to additionally treat pediatric patients in Japan

Pipeline (as of Oct. 2017)

	Preclinical	Phase I	Phase II	Phase III	Filed
Global			**Cefiderocol** Multidrug-resistant Gram-negative bacterial infections	**S-033188 (baloxavir marboxil)** Influenza virus infection	**Naldemedine (EU)** Opioid-induced constipation
			S-120083 Inflammatory pain	**Cefiderocol** Multidrug-resistant Gram-negative bacterial infections	
	Antibody drug candidate against pseudomonas	**S-117957** **Insomnia**	**S-707106** Type 2 diabetes	**Lusutrombopag** Thrombocytopenia	
	Central neuropathic pain	**S-237648** **Obesity**	**S-488210** Head and neck squamous cell carcinoma		
	Obesity		**epertinib** Malignant tumor		
	LCM inhalation		**S-588410** Bladder cancer		
In Japan			**Cefiderocol** Multidrug-resistant Gram-negative bacterial infections	**Cefiderocol** Multidrug-resistant Gram-negative bacterial infections	**S-033188 (baloxavir marboxil)** Influenza virus infection (Pediatric)
			S-237648 Obesity	**Intuniv** ADHD (adult)	**S-033188 (baloxavir marboxil)** Influenza virus Infection (pediatric)
		S-010887 Neuropathic pain	**S-525606** Allergic rhinitis caused by Japanese cedar allergen	**Cymbalta** Depression	**Oxycodone** Moderate to severe chronic pain
		S-600918 Neuropathic pain	**S-588410** Bladder cancer	**S-588410** Esophageal cancer	**Oxycodone** Tamper resistant formulation
					Lisdexamfetamine ADHD (pediatric)
					Actair Pediatric patients with perennial allergic rhinitis
Out-licensed				**DTG*+3TC** Treatment for HIV infection	**DTG+RPV** Treatment for HIV infection
		GSK3342830 Multidrug-resistant Gram-negative bacterial infections		**CAB LAP** Prevention for HIV infection	
				CAB + RPV LAP Treatment for HIV infection	
	Janssen/Shionogi Project compound Alzheimer's disease			**Janssen/Shionogi BACE inhibitor** Alzheimer's disease	
				Osphena Vaginal dryness associated with postmenopausal VVA	

•Infectious diseases •Pain/CNS •Metabolic disorder •Frontier

*DTG (generic name: dolutegravir)

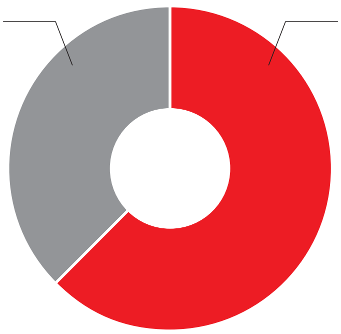
Domestic Business

Sales of Strategic Products Steadily Expanding

Due in part to NHI drug price reductions, sales of prescription drugs in Japan declined to ¥158.0 billion. Nevertheless, sales of strategic products continued to expand in the previous fiscal year. Sales of our top seven products*1 amounted to ¥99.1 billion, up 2.7% year on year. As a result, these seven products accounted for 62.7% of the Company's total domestic prescription drug sales, up 3.2%. In addition, Shionogi transferred the rights of 24 off-patent drugs during the fiscal year, further clarifying its shift to business centered on new drugs and free from reliance on off-patent drugs.

*1 Top seven strategic products: *Crestor, Cymbalta, Irbetan tablets, OxyContin tablets, Finibax, Pirespa tablets, Rapiacta*

Sales Ratio Product Group



Top Strategic Prescription Drugs in Japan

Cymbalta capsules
(Treatment for depression, anxiety, diabetic neuropathic pain, fibromyalgia pain, chronic lower back pain, and osteoarthritis pain)
Launched April 2010

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

Cymbalta received approval in Japan for the additional indication of pain associated with fibromyalgia in May 2015 and for the additional indication of chronic lower back pain in March 2016.

***Crestor* tablets**
***Crestor* OD tablets**
(Treatment for hyperlipidemia)
Crestor tablets launched April 2005, *Crestor* OD tablets launched June 2016

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 peace of mind. *Crestor* OD tablets were developed using Shionogi technology to improve patient adherence. The tablets are hard yet disintegrate rapidly.

***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

Irbetan is a long-acting angiotensin II receptor blocker (ARB) with a powerful hypotensive effect lasting 24 hours that helps protect organs from metabolic syndrome. 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.

***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

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

***Pirespa* tablets**
(Treatment for idiopathic pulmonary fibrosis)
Launched December 2008

Pirespa is the world's first drug to be indicated for idiopathic pulmonary fibrosis. *Pirespa* is expected to inhibit the decrease in vital capacity and slow the progression of idiopathic pulmonary fibrosis.

***Finibax* for intravenous drip infusion**
***Finibax* solution kit for intravenous drip infusion**
(Carbapenem antibiotic)
Launched September 2005 (kit: launched June 2006)

Shionogi-developed *Finibax* is a carbapenem 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.

***Rapiacta* for intravenous drip infusion**
(Antiviral drug for influenza)
Launched January 2010

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.

Global Business Operations

Transforming Our Business Structure through Strategic Partnerships

In overseas businesses, we formed two strategic alliances: one for the opioid-induced constipation (OIC) treatment *Symproic* with Purdue Pharma, a leader in the U.S. pain treatment market; and another for the postmenopausal vulvar and vaginal atrophy (VVA) treatment *Osphena* with Duchesnay, which specializes in obstetric and gynecological businesses. We will continue to pursue efficient operations by making full use of these alliances while efficiently stewarding our own business resources.

Looking ahead, we aim to run a highly productive business that focuses on hospital markets by selling such treatments as in-house developed injectable antibiotics and treatments for thrombocytopenia associated with chronic liver disease.

CEO John Keller's Take on Rebuilding the U.S. Business

Shionogi INC.,CEO,
John Keller

Following *Osphena's* launch in 2013, we began delivering it to patients in the United States who were suffering from moderate to severe dyspareunia associated with postmenopausal vulvar and vaginal atrophy (VVA). As a result, prescriptions for the drug exceeded 9,000 per week and totaled over one million. In addition, we have largely completed the clinical trials required to request FDA approval for the additional indication of vaginal dryness associated with VVA.

However, under the Medium-Term Business Plan SGS2020, we are focusing business resources on the core therapeutic areas of infectious diseases and pain / CNS disorders. In the development pipeline, there is not another candidate to follow *Osphena* in the gynecological field. To maximize the product value of *Osphena* going forward, we have shifted to a partnership with Duchesnay in the U.S. market. This positions the future of the drug with a leading company in women's health that seeks to realize *Osphena's* full potential and continue investment.

To sharpen our focus on a few select strategies, Shionogi Inc. (SI) had to undertake a drastic reorganization. The results have been favorable enough to contribute to the successful implementation of SGS2020. In fiscal 2017, we leveraged our alliance with Purdue Pharma to concentrate on the new and early launch of *Symproic* while preparing for entry into hospital/highly specialized markets with cefiderocol and lusutrombopag, which both fall into our core therapeutic area of infectious diseases. SI has entered the critical phase following rebirth. By focusing on what we need to do with fewer business resources and maximizing the potential of our new products, we aim to break even in fiscal 2018 and go into the black in fiscal 2019.

Corporate Governance

All the Company's directors are committed to supporting sustained growth and increasing corporate value over the medium and long term.

Board of Directors
Back row from left: Keiichi Ando, Takuko Sawada, Akio Nomura, Teppei Mogi; Front row from left: Motozo Shiono, Isao Teshirogi, Ph.D.

Basic Views and Guidelines on Corporate Governance

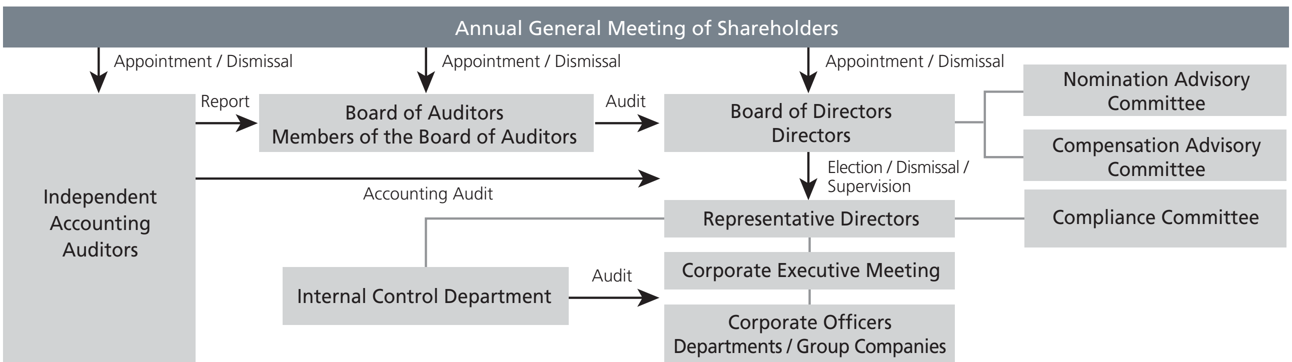
The Shionogi Group has created a corporate governance structure to make its Company Policy – the Group's corporate philosophy – a reality worldwide. In accordance with the spirit of Japan's Corporate Governance Code, the Group defines corporate governance as a structure for transparent, fair, timely and decisive decision-making that pays due attention to the needs and perspectives of shareholders, customers, employees, local communities and other stakeholders. Based on this, the Board of Directors formulated the Group's Basic Views and Guidelines on Corporate Governance in October 2015 to realize the best possible corporate governance.

In accordance with the Group's Basic Views and Guidelines on Corporate Governance, the Shionogi Group will fulfill its fiduciary responsibility to shareholders and its obligations to all stakeholders in order to deliver sustained growth and increase corporate value over the medium and long term.

Corporate Governance Structure

The Shionogi Group has adopted a Company with a Board of Auditors governance structure to support efficient management oversight. Under this system, the Group is working to strengthen the audit capabilities of our 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. Half the Company's directors are outside appointments and we plan to enhance their supervisory functions further to reinforce management oversight.

Corporate Governance Structure (As of June 30, 2017)



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 2009 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 our first female director to the board 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.

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, comprising two standing members and three outside members. All three outside members of the Board of Auditors are independent appointments. 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.

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.

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 in a fair and equitable manner.

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.

		Nomination Advisory Committee	Compensation Advisory Committee
Directors	Motozo Shiono	●	
	Isao Teshirogi, Ph.D.	●	●
	Takuko Sawada		
Outside Directors	Akio Nomura	Chairperson	●
	Teppei Mogi	●	Chairperson
	Keiichi Ando		
Corporate Auditors	Akira Okamoto		●
	Ikuo Kato		
Outside Corporate Auditors	Shinichi Yokoyama		
	Kenji Fukuda		
	Masahide Hirasawa		

● Committee members

Board of Auditors
Back row from left:
Akira Okamoto, Ikuo Kato
Front row from left:
Shinichi Yokoyama, Kenji Fukuda, Masahide Hirasawa

Results of the Analysis and Evaluation of the Board's Effectiveness

The Company conducted a survey of directors and auditors and held separate meetings with them to analyze and evaluate the effectiveness of the Board of Directors in 2016. The evaluation focused on systems, roles, responsibilities and operational matters related to directors and the Board of Directors, in accordance with the Group's Basic Views and Guidelines on Corporate Governance. The following is a summary of the results.

1. Framework

In our evaluation, the Board of Directors has secured the number of independent outside directors necessary for strengthening oversight of business execution and conducting fair management from an outside perspective. The Board further secured the necessary framework from the viewpoint of securing various elements and diversity, including diversity of expertise and experience, by reappointing an outside director with expertise in finance in 2016.

2. Roles and Responsibilities

To enhance reporting on operation of compliance and internal controls, which was an issue in the previous fiscal year, and reporting on management development, the status of compliance activities was reported at meetings of the Board of Directors, and the status of management development was reported at meetings between outside directors and the president to exchange opinions.

In view of the improvements above, in our evaluation, the Board of Directors engages in constructive discussions on supervision of business execution and decision-making on important matters that have an impact on the Company's management, and fulfills its roles and responsibilities, including supervision of business execution, management development and risk management.

The Board of Directors plans to continue to enhance reports on compliance, the operation of internal controls, and management development, and will also supervise business execution, management development and risk management.

3. Operation

To enhance the quality and quantity of information provided to the Board of Directors, which was an issue in the previous fiscal year, the general manager in charge of the Corporate Executive Meeting provided explanations on topics discussed at the Corporate Executive Meeting, the deliberative body for business execution, when making advance briefings on Board of Directors meeting documents.

In view of the improvements above, in our evaluation, the Board of Directors is operating appropriately from the standpoint of scheduling the Board of Directors meetings, providing the Board of Directors meeting documents and other information and securing the meeting time necessary for active discussion with free and constructive debate and exchange of opinions by all members, including outside directors and auditors.

To further stimulate discussion, the Board of Directors will enhance advance briefings and secure time for deliberation of important and highly specialized matters.

Based on the above, we assess that the Company's Board of Directors is operating appropriately and its effectiveness has been secured. We will use the results of this self-evaluation as a basis for making continuous improvement to make the Board of Directors even more effective.

Independence Standards

Requirements and Independence Standards for Outside Independent Directors and Auditors

Requirements

1. Outside directors and auditors shall possess and be able to properly exercise exceptional insight and capabilities based on experience and specialized knowledge in management.
2. Outside directors and auditors shall fully understand their roles and take every opportunity to provide candid opinions and advice to the Company's management.
3. Outside directors and auditors shall possess the character necessary to build stable working relationships with the Company's management and its stakeholders.
4. Outside directors and auditors shall not act contrary to the interests of shareholders and shall not have a conflict of interest with the Company.

Independence Standards

1. Outside directors and auditors shall not be a director, auditor, executive officer or employee of a company that is among the Group's major shareholders (a company that owns more than 10 percent of the Group's outstanding shares or is one of the Group's top ten shareholders) or is among the companies of which the Group is a major shareholder (a company that the Group owns more than 10 percent of outstanding shares or a company of whom the Group is a top ten shareholder).
2. Outside directors and auditors shall not be a director, auditor, executive officer or employee of a company that is among the Group's major suppliers (companies for which transactions with the Group account for more than 1 percent of its or the Group's revenue).
3. Excluding director or auditor remuneration from the Group, outside directors and auditors shall not receive annual remuneration in excess of ¥10 million nor receive remuneration that exceeds 1 percent of the annual revenue of the company or organization to which they belong.
4. Outside directors and auditors shall not have a position with a company or organization to which the Group contributes more than ¥10 million annually.
5. The tenure of the Group's outside directors shall not exceed 10 years.
6. The tenure of the Group's outside auditors shall not exceed 12 years (3 terms).

Members of Boards

(As of June 30, 2017)

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 12 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 12 Board of Directors' meetings

Takuko Sawada

Director, Senior Executive Officer

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, Global Development Office
2013 Senior Executive Officer and Senior Vice President, Global Development Office 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)
2017 Director of the Company, Senior Executive Officer and Senior Vice President, Corporate Strategy Division (incumbent)

Attended all 12 Board of Directors' meetings

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 all 12 Board of Directors' meetings

Significant Concurrent Position:
Outside Director, Royal Hotel, Ltd.

Teppei Mogi

Outside Director

1989 Registration as attorney at law
1989 Joined Oh-Ebashi Law Offices
1994 Partner, Oh-Ebashi Law Offices (incumbent)
2002 Partner, Oh-Ebashi LPC & Partners (incumbent)
2004 Professor, Kwansei Gakuin University Law School
2005 Part-time instructor, Kobe University Graduate School of Law
2009 Outside Director of the Company (incumbent)
2010 Part-time instructor, Kwansei Gakuin University Law School (incumbent)
2014 Outside Corporate Auditor, Niitaka Co., Ltd.
2015 Outside Corporate Auditor of KURABO INDUSTRIES LTD.
2015 Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd. (incumbent)
2016 Outside Director (Audit & Supervisory Committee member) of KURABO INDUSTRIES LTD. (incumbent)

Attended all 12 Board of Directors' meetings

Significant Concurrent Positions:
Partner, Oh-Ebashi Law Offices
Partner, Oh-Ebashi LPC & Partners
Outside Director (Audit & Supervisory Committee member) of NIITAKA Co., Ltd
Outside Director (Audit & Supervisory Committee member) of KURABO INDUSTRIES LTD.

Keiichi Ando

Outside Director

2003 Executive Officer, Sumitomo Mitsui Banking Corporation
2006 Managing Executive Officer, Sumitomo Mitsui Banking Corporation
2009 Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation
2010 Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation
2012 Representative Director, President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD
2016 Outside Director of the Company (incumbent)
2016 Representative Director and President, Ginsen Co., Ltd. (incumbent)
2017 Outside Director of Tsubakimoto Chain Co. (incumbent)

Attended all 10 Board of Directors' meetings

Significant Concurrent Positions:
Representative Director and President, Ginsen Co., Ltd.
Outside Director of Tsubakimoto Chain Co. (incumbent)

Standing Members of the Board of Auditors

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)

Attended all 12 Board of Directors' meetings
Attended all 8 Board of Auditors' meetings

Ikuo Kato
Standing Member of the Board of Auditors

1988 Joined the Company
2007 General Manager, Development Research Laboratories
2010 General Manager, Drug Development Research Laboratories
2011 General Manager, Drug Development Research Laboratories and Representative Director and President, Shionogi TechnoAdvance Research & Co., Ltd
2013 General Manager, Drug Development Research Laboratories and Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd
2014 Representative Director and Chairman, Shionogi TechnoAdvance Research & Co., Ltd
2016 Standing Member of the Board of Auditors of the Company (incumbent)

Attended all 10 Board of Directors' meetings
Attended all 6 Board of Auditors' meetings

Corporate Officers

Senior Executive Officer

Takuko Sawada
Takuo Fukuda
Ryuichi Kume, Ph.D.
Yoshiaki Kamoya
Takayuki Yoshioka, Ph.D.
Kohji Hanasaki, Ph.D.
John Keller, Ph.D.

Corporate Officer

Masaaki Takeyasu
Kazuhiro Hatanaka
Miyuki Hiura
Toshinobu Iwasaki, Ph.D.
Takeshi Shiota, Ph.D.
Noriyuki Kishida
Ryuichi Kiyama, 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)
2014 Retired as Director and Corporate Advisor, Sumitomo Life Insurance Company

Attended all 12 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.

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 12 Board of Directors' meetings
Attended all 8 Board of Auditors' meetings

Significant Concurrent Position:
Partner, Dojima Law Office

Masahide Hirasawa
Outside Member of the Board of Auditors

2003 Managing Director and Managing Executive Officer, Sumitomo Mitsui Banking Corporation
Director, Sumitomo Mitsui Financial Group, Inc.
2004 Representative Director, Senior Managing Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation
2005 Representative Director, Deputy President and Managing Executive Officer, Sumitomo Mitsui Banking Corporation
2007 Director, Corporate Auditor (Part-Time), Sumitomo Mitsui Banking Corporation
Corporate Auditor, Sumitomo Mitsui Financial Group, Inc.
2009 Chairman of the Board and Representative Director, Royal Hotel, Ltd. (incumbent)
Outside Corporate Auditor, Mazda Motor Corporation (incumbent)
2012 Outside Corporate Auditor, Asahi Broadcasting Corporation (incumbent)
2017 Outside Corporate Auditor of the Company (incumbent)

Significant Concurrent Positions:
Representative Director and Chairman of the Board, Royal Hotel K.K.
Outside Corporate Auditor, Mazda Motor Corporation
Outside Corporate Auditor, Asahi Broadcasting Corporation

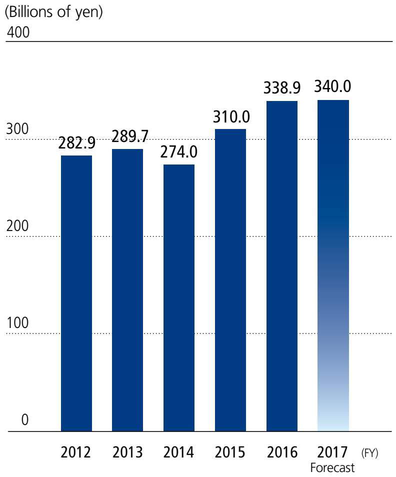
Performance Data

Net sales of 338.9 billion yen exceeded our target.

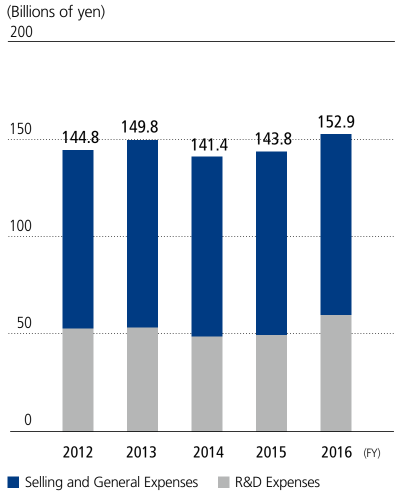
- Royalty income strongly increased due to global sales of the HIV franchise.
- Sales of strategic products grew in Japan.

Operating income, and Profit Attributable to Owners of Parent each reached record highs.

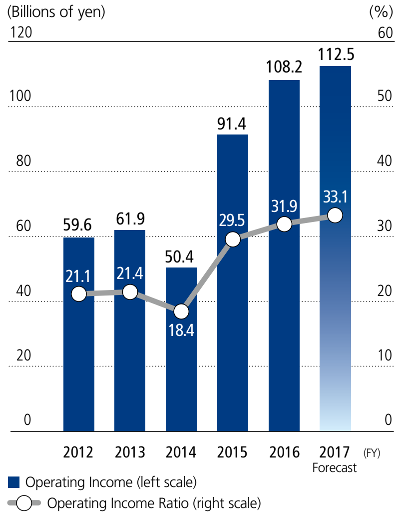
Net Sales



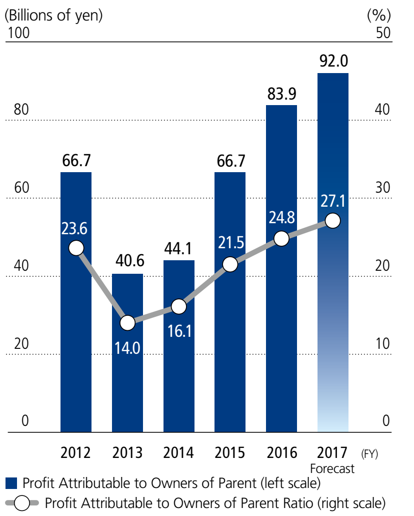
Selling, General and Administrative Expenses



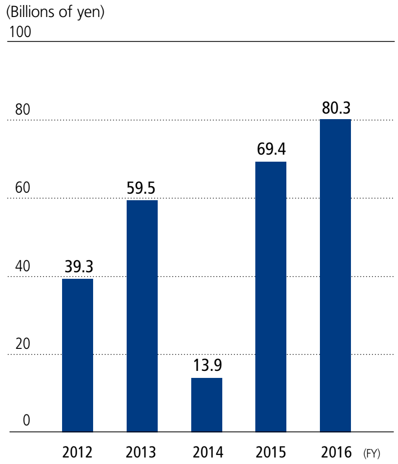
Operating Income, Operating Income Ratio



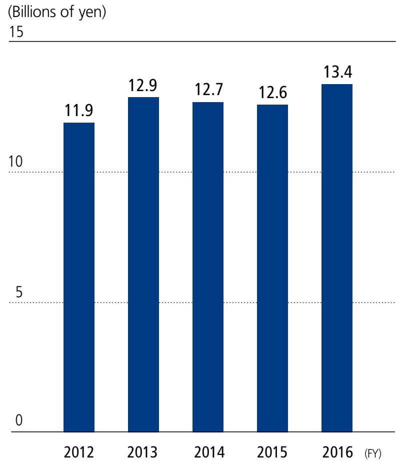
Profit Attributable to Owners of Parent*1, Profit Attributable to Owners of Parent Ratio



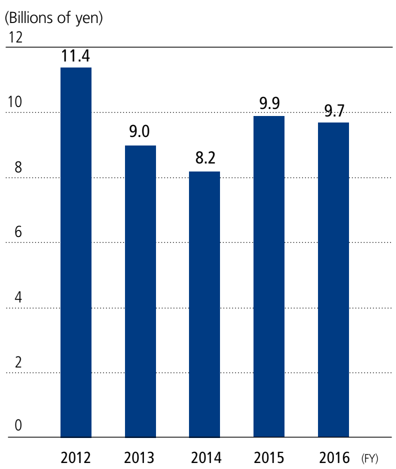
Free Cash Flow*2



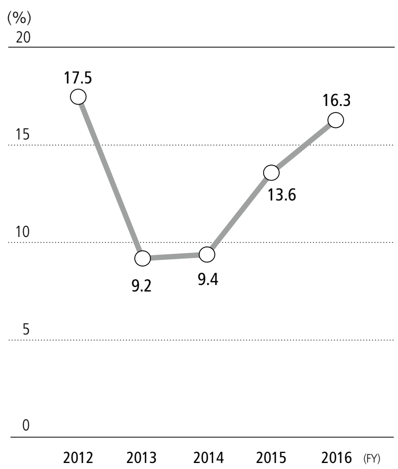
Depreciation and Amortization



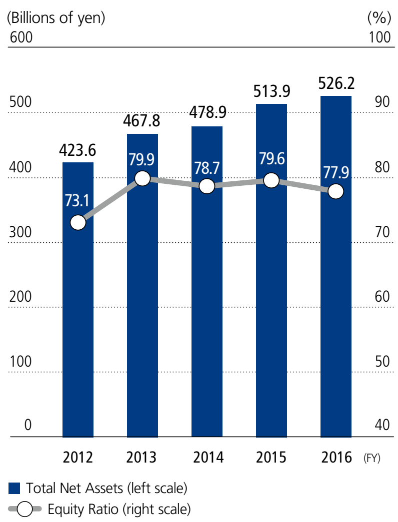
Capital Investments



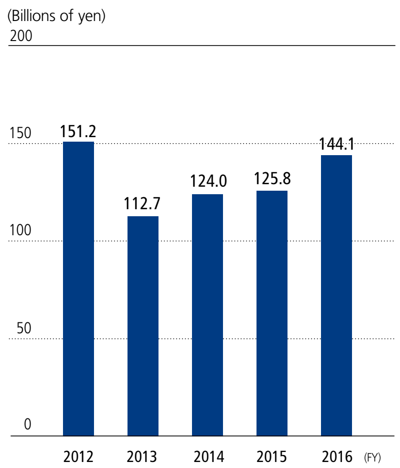
ROE



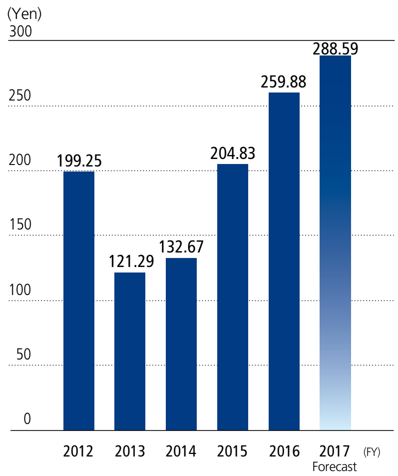
Total Net Assets, Equity Ratio



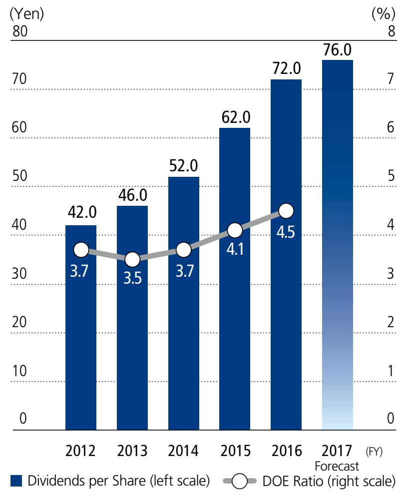
Liabilities



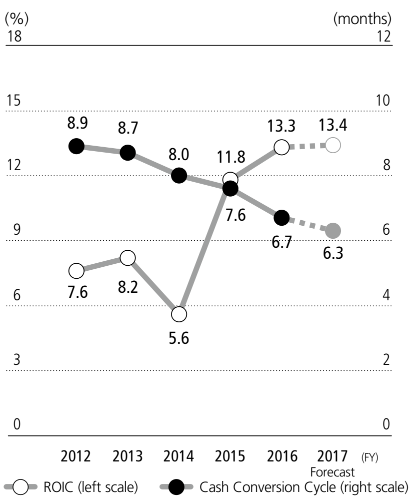
Profit Attributable to Owners of Parent per Share



Dividends per Share, Divided on Equity Ratio



ROIC, Cash Conversion Cycle



*1: 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.

*2: Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

Management's Discussion and Analysis

Net Sales

Net sales rose 9.3% year on year to ¥338,890 million.

1. Domestic Sales of Prescription Drugs
   Sales of the top seven strategic prescription drugs in Japan remained firm, increasing 2.7% year on year to ¥99.1 billion. Despite the effect from NHI drug price reductions, overall sales of strategic products continued to increase.

   As a result, these seven products accounted for 62.7% of the Company's total domestic prescription drug sales, up 3.2%. In addition, Shionogi transferred the rights of 24 off-patent drugs during the fiscal year, further clarifying its shift to business centered on new drugs and free from reliance on off-patent drugs.

2. Exports and Overseas Subsidiaries
   Sales from overseas businesses fell 1.7% year on year to ¥29.2 billion despite the contribution from the licensing and sale of products from our U.S.-based subsidiary Shionogi Inc.

   In overseas businesses, we formed two strategic alliances: one for the opioid-induced constipation (OIC) treatment Symproic with Purdue Pharma, a leader in the U.S. pain treatment market; and another for the post-menopausal vulvar and vaginal atrophy (VVA) treatment Osphena with Duchesnay, which specializes in obstetric and gynecological businesses. We will continue to pursue efficient operations by making full use of these alliances while efficiently stewarding our own business resources.

3. Royalty Income
   Global sales of Tivicay, the anti-HIV agent out-licensed to ViiV Healthcare, and the combination drug Triumeq amounted to over £2.6 billion, or around ¥360.0 billion. Royalties from ViiV Healthcare totaled ¥73.3 billion, up 81.1% year on year.

Gross Profit

The cost of sales rose 4.0% to ¥77,777 million and the cost of sales ratio improved from 24.1% in fiscal 2015 to 23.0% in the year under review. As a result, gross profit increased 11.0% year on year to ¥261,113 million.

Operating Income and Profit Attributable to Owners of Parent

Operating income increased 18.3% year on year to ¥108,178 million, setting a new record high for the second year in a row. Profit growth was buoyed by our continuing efforts to promote more efficient use of selling, general and administrative expenses, despite our ongoing commitment to research and development.

Reflecting growth in operating and other income, profit attributable to owners of parent increased by 25.8% year on year to ¥83,881 million, a new record high for Shionogi.

Cash Flows

In fiscal 2016, net cash provided by operating activities totaled ¥111,903 million, an increase of ¥9,613 million compared with the previous fiscal year. This mainly reflected the increase in profit before income taxes, which outstripped the increase in income taxes paid.

Net cash used in investing activities totaled ¥31,644 million, a decrease of ¥1,251 million compared with the previous fiscal year. The improvement mainly reflected increased proceeds from time deposits (with original maturities exceeding three months), despite a decrease in proceeds from short-term investments.

Net cash used in financing activities totaled ¥57,411 million, mainly for purchases of treasury stock and cash dividends paid.

As a result, cash and cash equivalents as of March 31, 2017 totaled ¥149,324 million, an increase of ¥21,580 million compared with the end of the previous fiscal year.

Capital Investments

The Shionogi Group (Shionogi & Co., Ltd. and its consolidated subsidiaries) continued to invest in manufacturing, research and development, and marketing facilities to increase sales, reduce costs and support the smooth operation of the business in areas such as new product launches and research and development.

In fiscal 2016, capital investment by the Shionogi Group totaled ¥9,659 million, a decrease of ¥284 million, or 2.9%, year on year. Capital investment by Shionogi & Co., Ltd. totaled ¥8,793 million. Spending was mainly focused on manufacturing facilities at the CMC R&D Division Tokushima Site. Most investment projects were funded from internal sources. There were no sales or disposals of property, plant and equipment during the fiscal year that had a material impact on the Group's manufacturing capabilities.

Assets, Liabilities and Net Assets

As of March 31, 2017, total assets stood at ¥670,271 million, an increase of ¥30,632 million from a year prior.

Current assets increased ¥27,774 million from the end of the previous fiscal year, mainly reflecting an increase in cash and cash equivalents as well as in notes and accounts receivable. Property, plant and equipment increased ¥114 million from the end of the previous fiscal year. Investments and other assets increased ¥2,744 million from the end of the previous fiscal year due mainly to an increase in marketing rights, which more than offset a decrease in investment in securities attributable mainly to exchange rates.

Current liabilities increased ¥18,612 million due primarily to increases in accrued income taxes as well as notes and accounts payable for construction. Long-term liabilities declined ¥315 million.

As of March 31, 2017, total net assets stood at ¥526,211 million, a year-on-year increase of ¥12,335 million. Shareholders' equity rose ¥26,752 million, mainly reflecting an increase in profit attributable to owners of parent and a decrease in distribution of retained earnings. Total accumulated other comprehensive income declined ¥13,870 million due primarily to the impact of exchange rates. Share subscription rights increased ¥64 million to ¥416 million and non-controlling interests declined ¥611 million to ¥3,475 million.

Dividends

When updating its Medium-Term Business Plan Shionogi Growth Strategy 2020 (SGS2020) in October 2016, Shionogi raised its target dividend on equity (DOE) ratio upward to at least 4.0%, from 3.5%, for the fiscal year ended March 31, 2017.

Sales of anti-HIV drugs by ViiV Healthcare are growing steadily, as are royalties for these drugs. The Group owns a 10% stake in ViiV Healthcare and these shares are delivering dividend growth. In addition to the firm sales growth of Shionogi's new products and the steady progress of its R&D activities, the Company acquired and retired treasury stock during fiscal 2016. Given these factors, the Company paid a year-end dividend of ¥38 per share for fiscal 2016, up ¥4 from the previous year. Including the interim dividend, the Company paid a full-year dividend of ¥72 per share.

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.

	2007	2008	2009	2010
For the years ended March 31:				
Net sales	¥ 199,759	¥ 214,268	¥227,512	¥ 278,503
Cost of sales	67,542	68,594	70,929	76,264
Selling, general and administrative expenses	103,354	105,275	124,568	149,801
Operating income	28,863	40,399	32,015	52,438
Profit before income taxes	31,723	39,963	30,786	58,541
Profit attributable to owners of parent	18,595	25,064	15,661	38,626
Net cash provided by operating activities	14,116	15,619	29,120	52,902
Net cash used in investing activities	(8,418)	(5,336)	(149,056)	(826)
Net cash used in financing activities	(7,181)	(17,124)	105,294	(4,979)
Research and development expenses	37,456	40,290	52,822	51,808
Capital investments	11,107	13,069	10,875	12,547
Depreciation and amortization	8,798	10,666	13,468	18,048
As of March 31:				
Property, plant and equipment, net	¥ 67,815	¥ 70,378	¥ 71,812	¥ 62,448
Total assets	429,569	413,704	501,853	540,762
Total long-term liabilities	36,282	29,024	114,955	131,956
Total net assets	345,752	342,236	310,094	341,976
Per share amounts:				
Profit attributable to owners of parent	¥ 54.61	¥ 74.21	¥ 46.75	¥ 115.33
Net assets	1,014.73	1,020.31	924.43	1,019.71
Dividend	16.00	22.00	28.00	36.00
Other:				
Equity ratio	80.4	82.7	61.7	63.2
Return on equity [ROE]	5.4	7.3	4.8	11.9
Payout ratio	29.3	29.6	59.9	31.2
Non-Financial Data:				
Employees (Number)	4,958	4,982	6,010	5,887
CO_2 emissions (Thousand tons – CO_2)*1	—	—	—	104
Amount of waste generated (t)	—	—	—	6,218
Ratio of hybrid and electric vehicles (%)*2	—	—	—	—

*1 The electric power CO_2 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

Third Medium-Term Business Plan	New 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	**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

Millions of yen							Thousands of U.S. dollars
2011	2012	2013	2014	2015	2016	2017	2017
¥282,350	¥267,275	¥ 282,904	¥ 289,717	¥ 273,991	¥ 309,973	**¥ 338,890**	**$3,020,679**
81,737	77,753	78,575	77,993	82,190	74,758	**77,777**	**693,261**
153,721	142,519	144,764	149,849	141,437	143,809	**152,935**	**1,363,179**
46,892	47,003	59,565	61,875	50,364	91,406	**108,178**	**964,239**
33,135	41,495	58,307	63,188	82,052	97,453	**122,695**	**1,093,636**
20,027	27,102	66,728	40,618	44,060	66,687	**83,880**	**747,660**
56,528	54,724	59,276	79,496	45,604	102,290	**111,903**	**997,441**
(13,947)	(38,290)	(19,960)	(20,040)	(31,697)	(32,895)	**(31,644)**	**(282,057)**
(27,011)	(27,749)	(37,687)	(53,799)	(46,211)	(18,525)	**(57,411)**	**(511,730)**
50,921	53,599	53,021	53,606	48,870	49,788	**59,908**	**533,987**
17,967	13,233	11,447	8,962	8,163	9,943	**9,659**	**86,095**
17,966	16,282	11,912	12,913	12,673	12,579	**13,363**	**119,110**
Millions of yen							Thousands of U.S. dollars
¥ 70,221	¥ 74,282	¥ 78,474	¥ 78,977	¥ 77,023	¥ 78,674	**¥ 78,788**	**$ 702,273**
523,242	522,162	574,882	580,566	602,900	639,639	**670,271**	**5,974,427**
115,326	92,900	53,042	33,721	56,222	53,779	**53,464**	**476,549**
328,096	347,198	423,633	467,836	478,883	513,877	**526,212**	**4,690,365**
Yen							U.S. dollars
¥ 59.80	¥ 80.93	¥ 199.25	¥ 121.29	¥ 132.67	¥ 204.83	**¥ 259.88**	**2.32**
979.69	1,027.83	1,254.44	1,385.11	1,456.70	1,564.73	**1,638.46**	**14.60**
40.00	40.00	42.00	46.00	52.00	62.00	**72.00**	**0.64**
%							
62.7	65.9	73.1	79.9	78.7	79.6	**77.9**	
6.0	8.1	17.5	9.2	9.4	13.6	**16.3**	
66.9	49.4	21.1	37.9	39.2	30.3	**27.7**	
5,277	6,132	6,082	6,165	6,059	5,896	**5,511**	
87	93	89	84	68	69	**68**	
4,961	4,744	4,564	4,275	3,509	3,944	**3,820**	
40	49	80	91	91	93	**100**	

Notes:
1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥112.19= US$1.00, the approximate rate of exchange on March 31, 2017.
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.
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.

Consolidated Financial Statements

Consolidated Balance Sheet

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
Assets	2017	2016	2017
Current assets:			
Cash and cash equivalents (Note 12)	**¥149,324**	¥127,744	**$1,330,992**
Short-term investments (Notes 5 and 12)	**57,324**	49,687	**510,955**
Notes and accounts receivable (Note 12):			
Affiliates	**235**	328	**2,094**
Trade	**59,320**	64,880	**528,746**
Other	**19,264**	11,309	**171,709**
Allowance for doubtful accounts	**(35)**	(45)	**(312)**
	78,784	76,472	**702,237**
Inventories (Note 6)	**41,388**	42,183	**368,910**
Deferred income taxes (Note 11)	**11,347**	13,302	**101,141**
Other current assets	**5,218**	6,223	**46,510**
Total current assets	**343,385**	315,611	**3,060,745**
Property, plant and equipment:			
Land	**8,411**	8,408	**74,971**
Buildings and structures (Note 7)	**119,587**	114,978	**1,065,933**
Machinery, equipment and vehicles (Note 8)	**83,446**	80,516	**743,792**
Furniture and fixtures	**38,240**	37,520	**340,850**
Construction in progress	**2,874**	7,872	**25,617**
Accumulated depreciation	**(173,770)**	(170,620)	**(1,548,890)**
Property, plant and equipment, net	**78,788**	78,674	**702,273**
Investments and other assets:			
Investments in securities (Notes 5 and 12)	**134,728**	145,209	**1,200,891**
Investments in affiliates	**1,816**	1,816	**16,187**
Asset for retirement benefits (Note 10)	**18,408**	19,664	**164,079**
Goodwill	**37,631**	41,208	**335,422**
Marketing rights (Note 7)	**49,969**	26,283	**445,396**
Long-term prepaid expenses	**600**	412	**5,348**
Other assets (Note 17)	**4,946**	10,762	**44,086**
Total investments and other assets	**248,098**	245,354	**2,211,409**
Total assets	**¥670,271**	¥639,639	**$5,974,427**

See accompanying notes to consolidated financial statements.

Liabilities and net assets	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 4) 2017
Current liabilities:			
Notes and accounts payable (Note 12):			
Affiliates	¥ 1,088	¥ 1,209	$ 9,698
Trade	10,857	9,841	96,773
Construction	11,829	4,810	105,437
Provision for employees' bonuses	9,183	10,119	81,852
Provision for sales returns	1,566	2,414	13,958
Accrued expenses	17,707	14,578	157,830
Accrued income taxes (Notes 11 and 12)	26,441	19,397	235,681
Other current liabilities (Note 9)	11,924	9,615	106,284
Total current liabilities	90,595	71,983	807,513
Long-term liabilities:			
Long-term debt (Notes 9 and 12)	30,054	30,074	267,885
Liability for retirement benefits (Note 10)	9,582	9,448	85,409
Deferred income taxes (Note 11)	9,372	12,857	83,537
Long-term accounts payable – other	3,537	279	31,527
Other long-term liabilities (Notes 9 and 17)	919	1,121	8,191
Total long-term liabilities	53,464	53,779	476,549
Contingent liabilities			
Net assets:			
Shareholders' equity (Note 14):			
Common stock: Authorized: 1,000,000,000 shares Issued: 329,136,165 shares in 2017 and 351,136,165 shares in 2016	21,280	21,280	189,678
Capital surplus	20,227	20,227	180,292
Retained earnings	508,050	503,947	4,528,479
Less treasury stock, at cost	(27,111)	(49,760)	(241,652)
Total shareholders' equity	522,446	495,694	4,656,797
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	25,042	26,748	223,211
Deferred gain on hedges	122	—	1,088
Translation adjustments	(20,027)	(7,334)	(178,510)
Retirement benefit liability adjustments	(5,262)	(5,669)	(46,903)
Total accumulated other comprehensive income, net	(125)	13,745	(1,114)
Share subscription rights	416	352	3,708
Non-controlling interests	3,475	4,086	30,974
Total net assets (Note 18)	526,212	513,877	4,690,365
Total liabilities and net assets	¥670,271	¥639,639	$5,974,427

Consolidated Statement of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	**2017**
Net sales (Notes 15 and 19)	**¥338,890**	¥309,973	**$3,020,679**
Cost of sales (Notes 6 and 15)	**77,777**	74,758	**693,261**
Gross profit	**261,113**	235,215	**2,327,418**
Selling, general and administrative expenses (Note 15)	**152,935**	143,809	**1,363,179**
Operating income	**108,178**	91,406	**964,239**
Other income (expenses):			
Interest and dividend income	**18,840**	11,911	**167,929**
Interest expense	**(220)**	(208)	**(1,961)**
Litigation expenses	**(758)**	(339)	**(6,756)**
Loss on disposal of property, plant and equipment	**(542)**	(286)	**(4,831)**
Exchange loss, net	**(1,305)**	(828)	**(11,632)**
Gain on sales of investments in securities (Note 5)	**2,182**	3,066	**19,449**
Business structure improvement expenses (Note 15)	**(2,159)**	—	**(19,244)**
Loss on impairment of fixed assets (Note 7)	**(359)**	(2,583)	**(3,200)**
Litigation settlement (Note 15)	**—**	(1,900)	**—**
Special retirement benefit expenses (Note 15)	**—**	(1,295)	**—**
Loss on devaluation of investments in securities (Note 5)	**(14)**	(705)	**(125)**
Other, net	**(1,148)**	(786)	**(10,232)**
	14,517	6,047	**129,397**
Profit before income taxes	**122,695**	97,453	**1,093,636**
Income taxes (Note 11):			
Current	**35,745**	28,724	**318,611**
Deferred	**3,339**	2,101	**29,762**
	39,084	30,825	**348,373**
Profit	**83,611**	66,628	**745,263**
Profit (loss) attributable to:			
Non-controlling interests	**(269)**	(59)	**(2,397)**
Owners of parent (Note 18)	**¥ 83,880**	¥ 66,687	**$ 747,660**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Profit	**¥83,611**	¥66,628	**$745,263**
Other comprehensive loss:			
Net unrealized holding loss on securities	**(1,706)**	(1,927)	**(15,206)**
Deferred gain on hedges	**122**	–	**1,088**
Translation adjustments	**(13,036)**	(11,385)	**(116,197)**
Retirement benefit liability adjustments	**407**	(161)	**3,628**
Other comprehensive loss (Note 16)	**(14,213)**	(13,473)	**(126,687)**
Comprehensive income	**¥69,398**	¥53,155	**$618,576**
Comprehensive income (loss) attributable to:			
Owners of parent	**¥70,009**	¥53,422	**$624,022**
Non-controlling interests	**(611)**	(267)	**(5,446)**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	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, 2015	¥21,280	¥20,227	¥455,498	¥(49,755)	¥447,250	¥28,675
Profit attributable to owners of parent	—	—	66,687	—	66,687	—
Dividends	—	—	(18,232)	—	(18,232)	—
Purchases of treasury stock	—	—	—	(25)	(25)	—
Disposal of treasury stock	—	(6)	—	20	14	—
Other changes	—	6	(6)	—	—	(1,927)
Balance at April 1, 2016	21,280	20,227	503,947	(49,760)	495,694	26,748
Profit attributable to owners of parent	**—**	**—**	**83,880**	**—**	**83,880**	**—**
Dividends	**—**	**—**	**(22,140)**	**—**	**(22,140)**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**(35,015)**	**(35,015)**	**—**
Disposal of treasury stock	**—**	**(4)**	**—**	**31**	**27**	**—**
Retirement of treasury stock	**—**	**(57,633)**	**—**	**57,633**	**—**	**—**
Other changes	**—**	**57,637**	**(57,637)**	**—**	**—**	**(1,706)**
Balance at March 31, 2017	**¥21,280**	**¥20,227**	**¥508,050**	**¥(27,111)**	**¥522,446**	**¥25,042**

	Millions of yen						
	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥ —	¥ 3,843	¥(5,508)	¥27,010	¥270	¥4,353	¥478,883
Profit attributable to owners of parent	—	—	—	—	—	—	66,687
Dividends	—	—	—	—	—	—	(18,232)
Purchases of treasury stock	—	—	—	—	—	—	(25)
Disposal of treasury stock	—	—	—	—	—	—	14
Other changes	—	(11,177)	(161)	(13,265)	82	(267)	(13,450)
Balance at April 1, 2016	—	(7,334)	(5,669)	13,745	352	4,086	513,877
Profit attributable to owners of parent	**—**	**—**	**—**	**—**	**—**	**—**	**83,880**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(22,140)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(35,015)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**27**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other changes	**122**	**(12,693)**	**407**	**(13,870)**	**64**	**(611)**	**(14,417)**
Balance at March 31, 2017	**¥122**	**¥(20,027)**	**¥(5,262)**	**¥ (125)**	**¥416**	**¥3,475**	**¥526,212**

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities
Balance at April 1, 2016	$189,678	$180,292	$4,491,907	$(443,533)	$4,418,344	$238,417
Profit attributable to owners of parent	—	—	**747,660**	—	**747,660**	—
Dividends	—	—	**(197,343)**	—	**(197,343)**	—
Purchases of treasury stock	—	—	—	**(312,104)**	**(312,104)**	—
Disposal of treasury stock	—	**(36)**	—	**276**	**240**	—
Retirement of treasury stock	—	**(513,709)**	—	**513,709**	—	—
Other changes	—	**513,745**	**(513,745)**	—	—	**(15,206)**
Balance at March 31, 2017	**$189,678**	**$180,292**	**$4,528,479**	**$(241,652)**	**$4,656,797**	**$223,211**

	Thousands of U.S. dollars (Note 4)						
	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2016	$ —	$ (65,371)	$(50,531)	$122,515	$3,138	$36,420	$4,580,417
Profit attributable to owners of parent	—	—	—	—	—	—	**747,660**
Dividends	—	—	—	—	—	—	**(197,343)**
Purchases of treasury stock	—	—	—	—	—	—	**(312,104)**
Disposal of treasury stock	—	—	—	—	—	—	**240**
Retirement of treasury stock	—	—	—	—	—	—	—
Other changes	**1,088**	**(113,139)**	**3,628**	**(123,629)**	**570**	**(5,446)**	**(128,505)**
Balance at March 31, 2017	**$1,088**	**$(178,510)**	**$(46,903)**	**$ (1,114)**	**$3,708**	**$30,974**	**$4,690,365**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Operating activities			
Profit before income taxes	**¥122,695**	¥ 97,453	**$1,093,636**
Adjustments for:			
Depreciation and amortization	**13,363**	12,579	**119,110**
Loss on impairment of fixed assets	**359**	2,583	**3,200**
Amortization of goodwill	**2,978**	3,291	**26,544**
Loss on sales or disposal of property, plant and equipment, net	**537**	282	**4,786**
Gain on sales of investments in securities	**(2,182)**	(3,066)	**(19,449)**
Loss on devaluation of investments in securities	**14**	705	**125**
Increase (decrease) in liability for retirement benefits	**1,977**	(1,722)	**17,622**
Interest and dividend income	**(18,840)**	(11,911)	**(167,929)**
Interest expense	**220**	208	**1,961**
Exchange loss, net	**813**	3,632	**7,246**
Other	**749**	(2,167)	**6,676**
Changes in operating assets and liabilities:			
Notes and accounts receivable-trade and affiliates	**5,804**	5,196	**51,734**
Inventories	**626**	1,940	**5,580**
Other current assets	**(1,564)**	908	**(13,941)**
Notes and accounts payable-trade and affiliates	**893**	761	**7,960**
Accrued expenses	**1,749**	1,231	**15,590**
Other current liabilities	**2,686**	1,172	**23,941**
Subtotal	**132,877**	113,075	**1,184,392**
Interest and dividends received	**13,274**	14,874	**118,317**
Interest paid	**(208)**	(192)	**(1,854)**
Income taxes paid	**(34,040)**	(25,467)	**(303,414)**
Net cash provided by operating activities	**111,903**	102,290	**997,441**
Investing activities			
Purchases of short-term investments	**¥ (54,614)**	¥ (71,288)	**$ (486,799)**
Proceeds from sales and redemption of short-term investments	**45,842**	50,218	**408,610**
Purchases of investments in securities	**(32)**	(246)	**(285)**
Proceeds from sales of investments in securities	**2**	4,022	**18**
Purchases of property, plant and equipment	**(10,434)**	(8,175)	**(93,003)**
Proceeds from sales of property, plant and equipment	**22**	12	**196**
Purchases of intangible assets	**(12,826)**	(6,925)	**(114,324)**
Purchases of investments in capital of an affiliate	**—**	(543)	**—**
Other	**396**	30	**3,530**
Net cash used in investing activities	**(31,644)**	(32,895)	**(282,057)**
Financing activities			
Repayment and redemption of long-term debt	**—**	(38)	**—**
Purchases of treasury stock	**(35,015)**	(25)	**(312,104)**
Cash dividends paid	**(22,112)**	(18,217)	**(197,094)**
Other	**(284)**	(245)	**(2,532)**
Net cash used in financing activities	**(57,411)**	(18,525)	**(511,730)**
Effect of exchange rate changes on cash and cash equivalents	**(1,268)**	(1,848)	**(11,302)**
Net increase in cash and cash equivalents	**21,580**	49,022	**192,352**
Cash and cash equivalents at beginning of year	**127,744**	78,722	**1,138,640**
Cash and cash equivalents at end of year	**¥149,324**	¥127,744	**$1,330,992**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2017

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, 2016 to the 2017 presentation. Such reclassifications had no effect on consolidated profit 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.

The Company has not applied the equity method to its investments in four affiliates, including TAKATA Pharmaceutical Co., Ltd., for the purpose of the consolidated financial statements for the year ended March 31, 2017 since the effects on profit and retained earnings on the accompanying consolidated financial statements were immaterial.

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

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

The fiscal year end of seventeen overseas consolidated subsidiaries is December 31, which is different from that of the Company. These subsidiaries are consolidated by using the financial statements as of and for the year ended December 31. The fiscal year end of one overseas consolidated subsidiary is June 30. 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 non-controlling interests are translated at their historical exchange rates. Adjustments resulting from translating the foreign currency financial statements are not included in the determination of profit or loss and are reported as "Translation adjustments" in accumulated other comprehensible income and "Non-controlling 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 which are readily convertible to cash subject to an insignificant risk of any change in value and which were purchased with an original maturity of three months or less.

(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 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 the effectiveness of its hedging activities by comparing 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 hedge 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 20.)

3. Additional Information

Implementation Guidance on Recoverability of Deferred Tax Assets

Effective April 1, 2016, the Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan, Guidance No. 26 of March 28, 2016).

4. 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 ¥112.19 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2017. 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.

5. Short-Term Investments and Investments in Securities

(1) Marketable securities classified as other securities at March 31, 2017 and 2016 were as follows:

	Millions of yen			
	2017			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	**¥ 24,540**	**¥31,440**	**¥135**	**¥ 55,845**
Government bonds, municipal bonds, etc.	**43,334**	**1,392**	**—**	**44,726**
Other	**77,800**	**451**	**—**	**78,251**
	¥145,674	**¥33,283**	**¥135**	**¥178,822**

	Millions of yen			
	2016			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	¥ 25,413	¥32,827	¥629	¥ 57,612
Government bonds, municipal bonds, etc.	38,844	1,750	—	40,593
Other	80,700	676	—	81,376
	¥144,957	¥35,253	¥629	¥179,581

	Thousands of U.S. dollars			
	2017			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	**$ 218,736**	**$280,239**	**$1,203**	**$ 497,772**
Government bonds, municipal bonds, etc.	**386,256**	**12,407**	**—**	**398,663**
Other	**693,466**	**4,020**	**—**	**697,486**
	$1,298,458	**$296,666**	**$1,203**	**$1,593,921**

Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted stocks of ¥54,705 million ($487,610 thousand) and ¥62,828 million at March 31, 2017 and 2016, 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, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Proceeds from sales	**¥2,293**	¥4,016	**$20,439**
Gross realized gain	**2,182**	3,066	**19,449**

(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.

The Company recognized loss on devaluation of investments in securities of ¥14 million ($125 thousand) and ¥705 million for the years ended March 31, 2017 and 2016, respectively.

6. Inventories

Inventories at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise	**¥ 6,282**	¥ 4,338	**$ 55,994**
Finished goods	**9,093**	13,416	**81,050**
Semi-finished goods and work in process	**12,072**	12,348	**107,603**
Raw materials and supplies	**13,941**	12,081	**124,263**
	¥41,388	¥42,183	**$368,910**

Cost of sales included loss on devaluation of inventories of ¥1,208 million ($10,767 thousand) and ¥1,185 million for the years ended March 31, 2017 and 2016, respectively.

7. Loss on Impairment of Fixed Assets

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

The Group recognized loss on impairment of fixed assets for the year ended March 31, 2017 as follows:

			Millions of yen	Thousands of U.S. dollars
Location	Use	Classification	2017	2017
Settsu Plant Building No.602, etc. (Settsu, Osaka Prefecture)	Idle assets	Buildings, etc.	**¥359**	**$3,200**

The Company made the decision to remove idle assets at the Settsu Plant. As a result, the Company recorded a loss on impairment of fixed assets in an amount equal to the carrying value of these idle assets.

The Group recognized loss on impairment of fixed assets for the year ended March 31, 2016 as follows:

			Millions of yen
Location	Description	Items	2016
The United Kingdom	Marketing rights for a prescription drug	Marketing rights	¥2,379
The United States	Marketing rights for a prescription drug	Marketing rights	204
			¥2,583

Due to the termination of a development collaboration agreement between Shionogi Limited., which is a subsidiary in the United Kingdom, and Egalet Corporation, Shionogi Limited. recognized a loss on impairment equal to the carrying value of the corresponding marketing rights related to the compound in development. In addition, Shionogi Inc. in the United States recognized a loss on impairment equal to the reduction in the carrying value to the net realizable value of the corresponding marketing rights for a product as a result of the sale of the rights.

8. 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 security devices 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, 2017 under non-cancellable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,	2017	2017
2018	**¥290**	**$2,585**
2019 and thereafter	**122**	**1,087**
	¥412	**$3,672**

9. Long-Term Debt and Lease Obligations

Long-term debt and lease obligations at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unsecured loans from banks and financial institutions due through 2019 with an average interest rate of 2.0%	**¥10,000**	¥10,000	**$ 89,135**
Zero coupon convertible bonds due in 2019	**20,054**	20,074	**178,750**
Finance lease obligations (included in "other current liabilities" and "other long-term liabilities")	**491**	613	**4,377**
	30,545	30,687	**272,262**
Less current portion	**(309)**	(282)	**(2,754)**
	¥30,236	¥30,405	**$269,508**

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2017 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,	2017	2017
2018	**¥ 309**	**$ 2,754**
2019	**10,115**	**90,160**
2020	**20,085**	**179,027**
2021	**36**	**321**
	¥30,545	**$272,262**

10. Retirement Benefits

(1) Overview

The Company has a defined benefit pension plan known as a "cash balance plan," which allows pension benefits to fluctuate in accordance with market interest rates, and it also has a lump-sum payment plan and a defined contribution pension plan. Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In 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, 2017 and 2016

The changes in retirement benefit obligations are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations at beginning of the year	**¥78,292**	¥83,577	**$697,852**
Service cost	**1,994**	2,062	**17,773**
Interest cost	**660**	693	**5,883**
Actuarial loss (gain)	**639**	(1,390)	**5,696**
Retirement benefits paid	**(6,373)**	(6,650)	**(56,806)**
Retirement benefit obligations at end of the year	**¥75,212**	¥78,292	**$670,398**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at fair value at beginning of the year	**¥88,508**	¥92,115	**$788,912**
Expected return on plan assets	**2,390**	2,579	**21,303**
Actuarial loss	**(2,611)**	(2,648)	**(23,273)**
Contributions paid by the Group	**1,151**	1,487	**10,259**
Retirement benefits paid	**(5,401)**	(5,025)	**(48,141)**
Plan assets at fair value at end of the year	**¥84,037**	¥88,508	**$749,060**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	**¥73,122**	¥ 76,072	**$651,769**
Plan assets at fair value	**(84,037)**	(88,508)	**(749,059)**
	(10,915)	(12,436)	**(97,290)**
Unfunded retirement benefit obligation	**2,089**	2,220	**18,620**
Net asset for retirement benefits in consolidated balance sheet	**(8,826)**	(10,216)	**(78,670)**
Liability for retirement benefits	**9,582**	9,448	**85,409**
Asset for retirement benefits	**(18,408)**	(19,664)	**(164,079)**
Net asset for retirement benefits in consolidated balance sheet	**¥ (8,826)**	¥(10,216)	**$ (78,670)**

The components of retirement benefit expenses for the years ended March 31, 2017 and 2016 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	**¥1,994**	¥2,062	**$17,773**
Interest cost	**660**	693	**5,883**
Expected return on plan assets	**(2,390)**	(2,579)	**(21,303)**
Amortization:			
Actuarial loss	**4,041**	1,418	**36,019**
Prior service cost	**(204)**	(204)	**(1,818)**
Retirement benefit expenses	**¥4,101**	¥1,390	**$36,554**

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
	2017	2016	2017
Prior service cost	**¥(205)**	¥(204)	**$(1,827)**
Actuarial loss	**791**	160	**7,050**
Total	**¥ 586**	¥ (44)	**$ 5,223**

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
	2017	2016	2017
Unrecognized prior service cost	**¥(1,431)**	¥(1,635)	**$(12,755)**
Unrecognized actuarial loss	**9,013**	9,804	**80,337**
Total	**¥ 7,582**	¥ 8,169	**$ 67,582**

The percentage composition of each major category of plan assets at fair value at March 31, 2017 and 2016 was as follows:

Asset class	2017	2016
Equity securities	**26%**	37%
General accounts controlled by life insurance companies	**25**	25
Debt securities	**26**	16
Other	**23**	22
Total	**100%**	100%

Total plan assets as of March 31, 2017 and 2016 include 29% and 30% of retirement benefit trusts established for corporate pension plans, respectively.

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, 2017 and 2016 are as follows:

	2017	2016
Discount rate	0.8%	0.8%
Expected long-term rate of return on plan assets (Weighted average)	2.7%	2.8%
Expected rate of salary increase (Weighted average)	3.4%	3.4%

(3) Defined contribution plans for the years ended March 31, 2017 and 2016

The total contributions paid by the Group to the defined contribution plans were ¥1,655 million ($14,752 thousand) and ¥1,879 million for the years ended March 31, 2017 and 2016, respectively.

11. 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 30.8% and 33.0% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 differ from the above statutory tax rates for the following reasons:

	2017	2016
Statutory tax rates	**30.8%**	33.0 %
Expenses not deductible for income tax purposes	**0.2**	0.3
Dividends not taxable for income tax purposes	**(2.9)**	(2.2)
Amortization of goodwill	**1.0**	1.3
Tax credits	**(4.3)**	(5.7)
Inhabitants' per capita taxes	**0.1**	0.1
Difference in statutory tax rates of overseas subsidiaries	**(1.5)**	(1.3)
Decrease in deferred tax assets due to change in statutory tax rates	**—**	0.0
Increase in valuation allowance	**8.7**	6.9
Other	**(0.2)**	(0.8)
Effective tax rates	**31.9%**	31.6%

The tax effects of temporary differences at March 31, 2017 and 2016 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Tax loss carry forwards	**¥33,352**	¥31,720	**$297,281**
Loss on revaluation of investments in affiliates	**18,217**	2,007	**162,376**
Adjustments to the carrying value of investments in a subsidiary	**12,462**	12,462	**111,080**
Research and development expenses	**8,711**	5,672	**77,645**
Intangible assets	**4,341**	7,625	**38,693**
Provision for employees' bonuses	**2,835**	3,104	**25,270**
Accrued expenses and other current liabilities	**2,606**	2,330	**23,229**
Loss on revaluation of investments in securities	**2,503**	2,521	**22,310**
Accrued enterprise taxes	**1,057**	1,460	**9,422**
Liability for retirement benefits	**910**	–	**8,111**
Provision for sales returns	**597**	920	**5,321**
Other	**6,958**	6,215	**62,020**
Valuation allowance	**(76,522)**	(50,916)	**(682,075)**
Total deferred tax assets	**18,027**	25,120	**160,683**
Deferred tax liabilities:			
Unrealized gain on other securities	**(8,121)**	(8,505)	**(72,386)**
Reserve for advanced depreciation of property, plant and equipment	**(1,798)**	(2,469)	**(16,027)**
Investments in securities	**(1,283)**	(1,283)	**(11,436)**
Asset for retirement benefits	**—**	(2,905)	**—**
Other	**(4,838)**	(4,349)	**(43,123)**
Total deferred tax liabilities	**(16,040)**	(19,511)	**(142,972)**
Net deferred tax assets	**¥ 1,987**	¥ 5,609	**$ 17,711**

12. Financial Instruments

(1) Overview

(a) Policies for financial instruments

The Company obtains necessary funding principally by bank borrowings and bond issuance under the business plan for its main business for 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 latter 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 three years, at the longest, subsequent to March 31, 2017.

Derivative transactions are made for hedging foreign currency fluctuation risk of trade receivables, trade payables, forecasted transactions and intercompany loans receivable 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, forecasted transactions and intercompany loans receivable.

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 and currency option contracts 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, 2017 and 2016, 52% and 56%, 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, 2017 and 2016, 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		
	2017		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥149,324	¥149,324	¥ —
Notes and accounts receivable-trade and affiliates	59,555	59,555	—
Short-term investments and investments in securities	137,346	137,346	—
Total assets	¥346,225	¥346,225	¥ —
Notes and accounts payable-trade and affiliates	¥11,945	¥11,945	¥ —
Accrued income taxes	26,441	26,441	—
Long-term debt:			
Bonds	20,054	28,450	8,396
Long-term loans	10,000	10,247	247
Total liabilities	¥68,440	¥77,083	¥8,643
Derivative transactions (*)	145	145	—

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

	Millions of yen		
	2016		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥127,744	¥127,744	¥ —
Notes and accounts receivable-trade and affiliates	65,208	65,208	—
Short-term investments and investments in securities	132,068	132,068	—
Total assets	¥325,020	¥325,020	¥ —
Notes and accounts payable-trade and affiliates	¥11,050	¥11,050	¥ —
Accrued income taxes	19,397	19,397	—
Long-term debt:			
Bonds	20,074	27,260	7,186
Long-term loans	10,000	10,405	405
Total liabilities	¥60,521	¥68,112	¥7,591
Derivative transactions (*)	(26)	(26)	—

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

	Thousands of U.S. dollars		
	2017		
	Carrying value	Fair value	Difference
Cash and cash equivalents	**$1,330,992**	**$1,330,992**	**$ —**
Notes and accounts receivable-trade and affiliates	**530,840**	**530,840**	**—**
Short-term investments and investments in securities	**1,224,227**	**1,224,227**	**—**
Total assets	**$3,086,059**	**$3,086,059**	**$ —**
Notes and accounts payable-trade and affiliates	**$ 106,471**	**$ 106,471**	**$ —**
Accrued income taxes	**235,681**	**235,681**	**—**
Long-term debt:			
Bonds	**178,750**	**253,587**	**74,837**
Long-term loans	**89,135**	**91,336**	**2,201**
Total liabilities	**$ 610,037**	**$ 687,075**	**$77,038**
Derivative transactions (*)	**1,292**	**1,292**	**—**

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

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

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 5 “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.

Bonds

The fair value of bonds is determined by quoted price offered by financial institutions.

Long-term loans

The fair value of long-term loans is based on the present value of the total of principal and interest discounted by the estimated interest rates to be applied if similar new loans are made.

Derivative transactions

Please refer to Note 13 “Derivative Transactions” of these notes to the consolidated financial statements.

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	**¥54,706**	¥62,828	**$487,619**

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, 2017 and 2016

	Millions of yen			
	2017			
	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	**¥149,319**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable-trade and affiliates	**59,555**	**—**	**—**	**—**
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	**—**	**8,000**	**6,000**	**2,000**
Other securities with maturities	**57,324**	**1,510**	**—**	**—**
Total	**¥266,198**	**¥9,510**	**¥6,000**	**¥2,000**

	Millions of yen 2016			
	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	¥127,738	¥ —	¥ —	¥ —
Notes and accounts receivable-trade and affiliates	65,208	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	—	14,000	2,000
Other securities with maturities	49,687	1,514	—	—
Total	¥242,633	¥1,514	¥14,000	¥2,000

	Thousands of U.S. dollars 2017			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**$1,330,948**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable-trade and affiliates	**530,840**	**—**	**—**	**—**
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	**—**	**71,308**	**53,481**	**17,827**
Other securities with maturities	**510,955**	**13,459**	**—**	**—**
Total	**$2,372,743**	**$84,767**	**$53,481**	**$17,827**

13. Derivative Transactions

(1) Derivative transactions for which hedge accounting does not apply

Currency-related transactions

		Millions of yen 2017			
		Contract value			
Classification	Transaction	Notional amount	Portion of notional amount over one year	Estimated fair value	Unrealized loss
Over-the-counter transaction	Forward exchange contracts				
	Selling: USD	**¥44,876**	**¥—**	**¥(32)**	**¥(32)**

		Millions of yen 2016			
		Contract value			
Classification	Transaction	Notional amount	Portion of notional amount over one year	Estimated fair value	Unrealized loss
Over-the-counter transaction	Forward exchange contracts				
	Selling: USD	¥44,756	¥—	¥(26)	¥(26)

		Thousands of U.S. dollars 2017			
		Contract value			
Classification	Transaction	Notional amount	Portion of notional amount over one year	Estimated fair value	Unrealized loss
Over-the-counter transaction	Forward exchange contracts				
	Selling: USD	**$400,000**	**$—**	**$(285)**	**$(285)**

Note: Fair values are calculated based on the prices provided by counterparty financial institutions.

(2) Derivative transactions to which hedge accounting applies

Currency-related transactions

		Millions of yen 2017		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one yea	Fair value
Forward exchange contracts				
Selling: USD	Forecasted transactions	**¥10,097**	**¥—**	**¥168**
Buying: USD	Forecasted transactions	**1,571**	**—**	**13**
Currency options				
Buying call options: USD	Forecasted transactions	**7,180**	**—**	**16**
Selling put options: USD	Forecasted transactions	**7,180**	**—**	**(20)**

		Thousands of U.S. dollars 2017		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one yea	Fair value
Forward exchange contracts				
Selling: USD	Forecasted transactions	**$89,999**	**$—**	**$1,497**
Buying: USD	Forecasted transactions	**14,003**	**—**	**116**
Currency options				
Buying call options: USD	Forecasted transactions	**63,999**	**—**	**143**
Selling put options: USD	Forecasted transactions	**63,999**	**—**	**(178)**

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

There are no items to be disclosed for the year ended March 31, 2016.

14. 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, 2017 and 2016 amounted to ¥5,388 million ($48,026 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 three directors and ten corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 23, 2016 ("the 2016 plan"). Under the terms of this plan, 17,300 shares of common stock were granted and vested immediately. The options became exercisable on July 9, 2016 and are scheduled to expire on July 8, 2046. Stock option expenses of ¥91 million ($811 thousand) were included in selling, general and administrative expenses for the year ended March 31, 2017.

In accordance with the Act, a stock option plan for three directors and eleven corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 24, 2015 ("the 2015 plan"). Under the terms of this plan, 21,100 shares of common stock were granted and vested immediately. The options became exercisable on July 10, 2015 and are scheduled to expire on July 9, 2045. Stock option expenses of ¥93 million were included in selling, general and administrative expenses for the year ended March 31, 2016.

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.

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.

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, 2014, 2015 and 2016 plans of the Company during the year ended March 31, 2017 is summarized as follows:

	2016 plan	2015 plan	2014 plan	2013 plan	2012 plan	2011 plan
	(Number of options)					
Outstanding as of April 1, 2016	—	21,100	40,400	37,900	67,400	39,600
Vested	17,300	—	—	—	—	—
Exercised	—	900	4,100	4,100	4,100	2,800
Forfeited	—	—	—	—	—	—
Outstanding as of March 31, 2017	17,300	20,200	36,300	33,800	63,300	36,800

The unit price of the stock options after vesting under the 2011, 2012, 2013, 2014, 2015 and 2016 plans of the Company as of March 31, 2017 is summarized as follows:

	2016 plan		2015 plan		2014 plan	
	(Yen)	(U.S. dollars)	(Yen)	(U.S. dollars)	(Yen)	(U.S. dollars)
Unit price of stock options:						
Exercise price as of March 31, 2017	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01
Average market price per share upon exercise	—	—	5,137	45.79	5,137	45.79
Estimated fair value of unit price at grant date	5,256	46.85	4,553	40.58	1,899	16.93

	2013 plan		2012 plan		2011 plan	
	(Yen)	(U.S. dollars)	(Yen)	(U.S. dollars)	(Yen)	(U.S. dollars)
Unit price of stock options:						
Exercise price as of March 31, 2017	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01
Average market price per share upon exercise	5,137	45.79	5,137	45.79	5,137	45.79
Estimated fair value of unit price at grant date	1,930	17.20	916	8.16	1,129	10.06

Valuation method for estimating fair value was the Black-Scholes model. The major assumptions used for the 2016 plan were as follows:

Major assumptions	Note	2016 plan
Estimated volatility	(a)	30.29%
Estimated remaining period	(b)	4.7 years
Estimated dividend	(c)	¥62 per share
Risk-free rate	(d)	(0.360)%

(a) Estimated volatility was computed by the actual stock price of the Company during the period from October 2011 to July 2016.

(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, 2016.

(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, 2017 and 2016 are summarized as follows:

	Number of shares			
	2017			
	April 1,2016	Increase	Decrease	March 31, 2017
Issued shares of common stock	**351,136,165**	**—**	**22,000,000**	**329,136,165**
Treasury stock	**25,559,022**	**6,804,854**	**22,016,000**	**10,347,876**

	Number of shares			
	2016			
	April 1,2015	Increase	Decrease	March 31, 2016
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	25,564,239	5,183	10,400	25,559,022

The decrease in the number of shares of common stock during the year ended March 31, 2017 is due to the retirement of treasury stock.

The increase in the number of shares of treasury stock during the year ended March 31, 2017 consists of 6,802,100 shares due to the purchase of treasury stock based on resolution of the Board of Directors and 2,754 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, 2017 consists of 22,000,000 shares due to the retirement of treasury stock and 16,000 shares due to the exercise of share subscription rights.

The increase in the number of shares of treasury stock during the year ended March 31, 2016 is 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, 2016 is due to the exercise of share subscription rights.

15. 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, 2017 and 2016 amounted to ¥848 million ($7,559 thousand) and ¥459 million, respectively.

Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2017 and 2016 amounted to ¥59,908 million ($533,987 thousand) and ¥49,788 million, respectively.

Business structure improvement expenses

Business structure improvement expenses for the year ended March 31, 2017 were attributable to the reorganization of Shionogi Inc., a subsidiary in the United States.

Litigation settlement

Litigation settlement for the year ended March 31, 2016 represents the settlement that was reached between the Company and Eli Lilly Japan K.K.

Special retirement expenses

Special retirement expenses for the year ended March 31, 2016 is retirement expenses incurred by the Company and Shionogi Inc.

16. Other Comprehensive Income

The following table presents the analysis of other comprehensive loss for the years ended March 31, 2017 and 2016.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding gain on securities:			
Amount arising during the year	**¥ 76**	¥(1,929)	**$ 677**
Reclassification adjustments included in profit or loss	**(2,166)**	(2,362)	**(19,306)**
Before tax effect	**(2,090)**	(4,291)	**(18,629)**
Tax effect	**384**	2,364	**3,423**
Total	**(1,706)**	(1,927)	**(15,206)**
Deferred gain on hedges:			
Amount arising during the year	**288**	(249)	**2,567**
Reclassification adjustments included in profit or loss	**(111)**	249	**(989)**
Before tax effect	**177**	—	**1,578**
Tax effect	**(55)**	—	**(490)**
Total	**122**	—	**1,088**
Translation adjustments:			
Amount arising during the year	**(13,036)**	(11,385)	**(116,197)**
Reclassification adjustments included in profit or loss	**—**	—	**—**
Before tax effect	**(13,036)**	(11,385)	**(116,197)**
Tax effect	**—**	—	**—**
Total	**(13,036)**	(11,385)	**(116,197)**
Retirement benefit liability adjustments:			
Amount arising during the year	**(3,250)**	(1,259)	**(28,969)**
Reclassification adjustments included in profit or loss	**3,836**	1,215	**34,192**
Before tax effect	**586**	(44)	**5,223**
Tax effect	**(179)**	(117)	**(1,595)**
Total	**407**	(161)	**3,628**
Other comprehensive loss	**¥(14,213)**	¥(13,473)	**$(126,687)**

17. Related Party Transactions

Related party transactions for the years ended March 31, 2017 and 2016 and the related balances at March 31, 2017 and 2016 are summarized as follows:

Principal transactions between a consolidated subsidiary and a related party

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Shunjusha Co., Ltd.:			
Rent received – land and office building	¥ 51	¥ 50	$ 455
Rent expense – building	148	166	1,319
Management fee for leased property	4	4	36
Lease deposits, a component of other assets	42	46	374
Long-term lease deposits received, a component of other long-term liabilities	1	1	9

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, 2017 and 2016. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥100 million ($891 thousand) at March 31, 2017 and 2016.

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

18. Amounts per Share

Amounts per share as of and for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Profit	¥ 259.88	¥ 204.83	$ 2.32
Diluted profit	255.87	201.70	2.28
Net assets	1,638.46	1,564.73	14.60
Cash dividends applicable to the year	72.00	62.00	0.64

Profit per share is computed based on the profit attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted profit per share is computed based on the profit 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 profit per share and diluted profit per share for the years ended March 31, 2017 and 2016 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Profit attributable to owners of parent	¥83,880	¥66,687	$747,660
Adjustments to profit attributable to owners of parent:			
Interest income, net of tax	(14)	(13)	(125)

	Thousands of shares	
	2017	2016
Weighted-average number of shares of common stock outstanding	322,767	325,578
Increase in common stock:		
Bonds	4,799	4,788
Share subscription rights	203	200
Total	5,002	4,988

The financial data used in the computation of net assets per share at March 31, 2017 and 2016 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets	¥526,212	¥513,877	$4,690,365
Amounts deducted from total net assets:			
Amounts attributable to share subscription rights in total net assets	(416)	(352)	(3,708)
Amounts attributable to non-controlling interests in total net assets	(3,475)	(4,086)	(30,974)
Net assets used in the computation of net assets per share	¥522,321	¥509,439	$4,655,683

	Thousands of shares	
	2017	2016
Number of shares used in the computation of net assets per share	318,788	325,577

19. Segment Information

1. Segment information for the years ended March 31, 2017 and 2016

The Group operates as a single business segment related to prescription drugs involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. While 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, 2017 and 2016 was omitted.

2. Related information

(1) Information on sales by product and service

As the amount of sales to the 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, 2017 and 2016, information on sales by product and service was omitted.

(2) Geographical information

(a) Net sales

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Japan	¥190,431	¥175,534	$1,697,397
Europe	116,182	102,393	1,035,582
(United Kingdom)	(113,811)	(96,682)	(1,014,449)
North America	22,442	21,088	200,036
(United States of America)	(22,438)	(21,082)	(200,000)
Other	9,835	10,958	87,664
Total	¥338,890	¥309,973	$3,020,679

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, 2017 and 2016, information on property, plant and equipment by geographical segment was omitted.

(3) Information by major customer

	Net sales			
	Millions of yen		Thousands of U.S. dollars	
Customer name	2017	2016	2017	Related segment name
Viiv Healthcare UK Limited.	¥73,294	¥40,474	$653,302	Pharmaceuticals
SUZUKEN CO., LTD.	¥53,382	¥60,351	$475,818	Pharmaceuticals

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

The Group operates as a 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, 2017 and 2016, and for the years 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 a single business segment. Accordingly, information on amortization of goodwill and remaining unamortized balance by reportable segment at March 31, 2017 and 2016 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, 2017 and 2016 and for the years then ended.

20. 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, 2017, was approved at a shareholders' meeting held on June 22, 2017:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Cash dividends (¥38.00 = U.S.$0.34 per share)	¥12,114	$107,978

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, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shionogi & Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

June 21, 2017
Osaka, Japan

Ernst & Young ShinNihon LLC

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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, 2017.

(1) Systemic and Regulatory Risk

In the pharmaceutical industry, revisions to Japan's 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, tougher Japanese and overseas regulations in areas such as the development and manufacturing of pharmaceuticals could present the Group with additional expenses or make it difficult for its products to comply with regulations. This could impact the Group's performance.

(2) Risk of Adverse Drug Reactions

Pharmaceuticals entail the risk of unanticipated adverse drug reactions that could lead to the 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 generics after such expiry could affect the results of the Shionogi Group.

(5) Risk of Dependence on Certain Products

Crestor product sales and royalty income from Crestor, Tivicay and Triumeq roughly account for a combined 44% of net sales (fiscal year ended March 31, 2017). If an unexpected factor were to cause a drop in or the discontinuation of the sales of one of these products, this could impact the Group's performance.

(6) Risk of Alliances with Other Companies

The Shionogi Group engages in diverse forms of alliances with other companies with respect to joint research, joint research, development and marketing, and other activities. These alliances include collaboration with research and development projects, in and out licensing of technologies and also marketing. If such collaboration were to either change or cease, it could impact the Group's performance.

(7) Risk of Natural Disasters or Pandemics

The sudden occurrence of a natural disaster, pandemic, or other unforeseen incident could lead to the closure of plants, laboratories or other business sites, which could affect the results of the Shionogi Group.

(8) 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.

(9) Litigation Risk

Through its business activities, the Shionogi Group is exposed to the risk of litigation related to medication side effects, product liability, workplace disputes, fair trading and other issues. Litigation in those and other areas could affect the results of the Shionogi Group.

(10) Other Risks

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

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
7F, Tekko Building, 1-8-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan
TEL +81-3-5219-7310

Offices

Umeda 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
8F, Nissay Yodoyabashi East, 3-13, Imabashi 3-chome, Chuo-ku, Osaka 541-0042, Japan
Tel: +81-6-6209-8011

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 Healthcare Co., Ltd.
7F, Yodoyabashi Square, 6-18, Kitahama 2-chome, Chuo-ku, Osaka 541-0041, Japan
Tel: +81-6-6202-2728

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

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

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

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

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

Shionogi Administration Service Co., Ltd.
7-6, Doshomachi 4-Chome, Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6209-4301

Shionogi Business Partner Co., Ltd.
7-6, Doshomachi 4-Chome, Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6209-6620

Shionogi Marketing Solutions Co., Ltd.
3-13, Imabashi 3-chome, Chuo-ku, Osaka 541-0042, Japan
Tel: +81-6-6209-6660

Shionogi Career Development Center Co., Ltd.
1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6209-6759

Shionogi Digital Science Co., Ltd.
10-8, Edobori 1-chome, Nishi-ku, Osaka 550-0002, Japan
Tel: +81-6-6225-2579

Shionogi Pharmacovigilance Center Co., Ltd.
1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6209-6823

Aburahi AgroResearch Co., Ltd.
1405, Gotanda, Koka-cho, Koka 520-3423, Japan
Tel: +81-748-88-3215

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

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

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

Shionogi Limited
33 Kingsway, London WC2B 6UF, United Kingdom
Tel: +44-20-3053-4200

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

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

(As of June 30, 2017)

Corporate Information

(As of March 31, 2017)

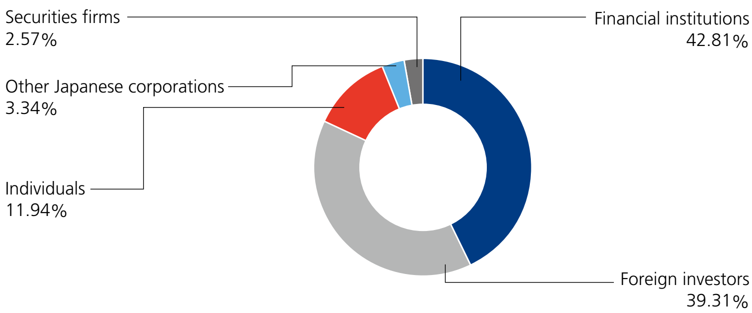
Corporate Data

Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,280 million
Number of Employees Consolidated:	5,511
Fiscal Year-End	March 31
Website	http://www.shionogi.co.jp/en/

Investor information

Stock (Securities) Listings	Tokyo (#4507) (Shares listed in 1949)
Common Stock	Authorized: 1,000,000,000 shares
Issued:	329,136,165 shares
Number of shareholders:	28,273

Shareholder Composition



Note: Calculated Individuals including treasury stock

Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	30,279	9.49
Japan Trustee Services Bank, Ltd. (Trust account)	20,646	6.47
Sumitomo Life Insurance Company	18,604	5.83
JP MORGAN CHASE BANK 385147	14,932	4.68
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	2.97
Nippon Life Insurance Company	8,409	2.63
Japan Trustee Services Bank, Ltd. (Trust account 5)	4,880	1.53
STATE STREET BANK WEST CLIENT - TREATY 505234	4,774	1.49
Sumitomo Mitsui Banking Corporation	4,595	1.44
Japan Trustee Services Bank, Ltd. (Trust account 9)	4,320	1.35

Notes:
1. The Company holds 10,347,876 shares of treasury stock. However, this shareholding is not included in the list of top-10 shareholders.
2. The percentage of total shares is calculated as a proportion of 318,788,289 shares, which is the total number of issued shares less treasury stock of 10,347,876 shares.

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S-O-N-G for you!