

GOING FORWARD

Continuing to Succeed as
a Drug Discovery-Based
Pharmaceutical Company



SHIONOGI
140th
Anniversary



CONTENTS

- 02 To Our Stakeholders
- 03 The Company Policy of Shionogi
- 04 Message from the President
- 08 Shionogi's Business Model

FOUNDATION AND STRENGTHS

- 11 Shionogi's R&D
- 22 Shionogi, Growing in Harmony with Society
- 30 Human Resources, Supporting Shionogi's Growth
- 32 Financial and Value Creation Highlights
- 34 Initiatives Undertaken in Fiscal 2017
- 40 Corporate Governance
- 44 Risk Management
- 45 Rigorous Compliance
- 46 Members of Boards
- 48 Our History

DATA SECTION

- 50 Management's Discussion and Analysis
- 52 11-Year Performance Highlights
- 54 Consolidated Financial Statements
- 76 Business and Other Risks
- 77 Major Business Locations / Major Consolidated Subsidiaries
- 78 Corporate Information

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 2017 (April 1, 2017–March 31, 2018)

Certain activities continuing after fiscal 2017 are also included.

Scope and Organization

This Integrated Report encompasses the activities of Shionogi & Co., Ltd., 44 consolidated subsidiaries and five affiliates.

The information about our environmental activities covers all business facilities of Shionogi & Co., Ltd., and main 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

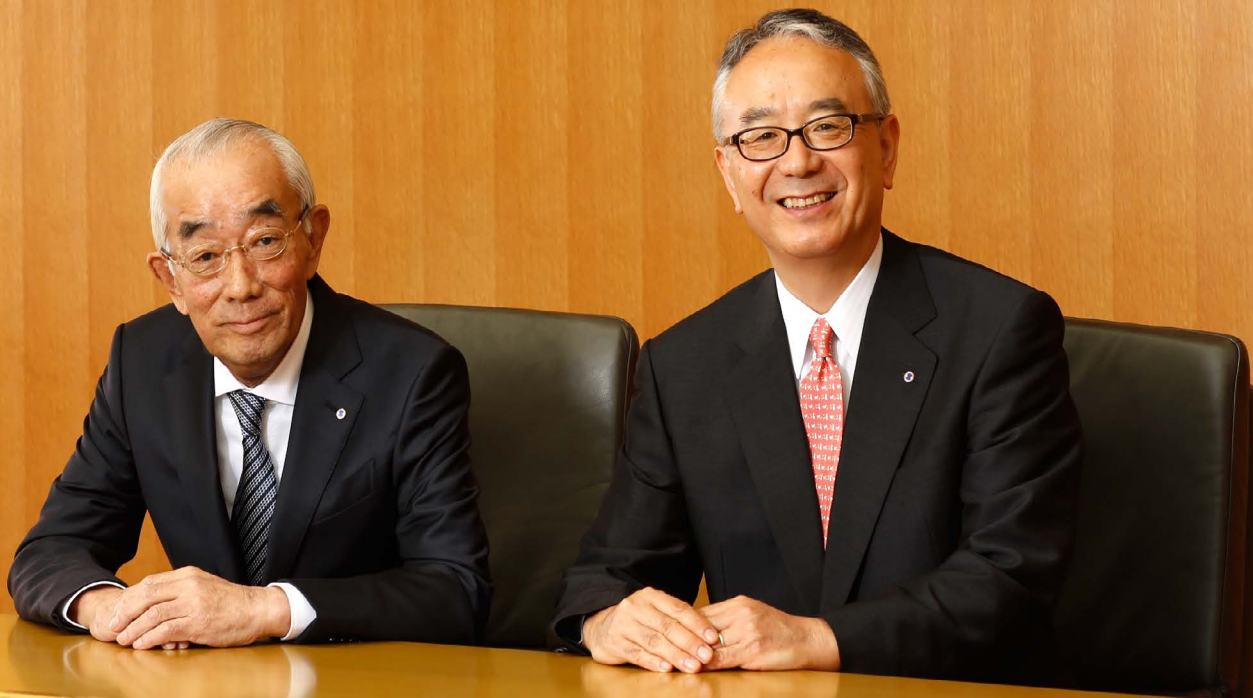
Shionogi is a constituent of the following indices composed of companies with high ratings from an environmental, social, and governance (ESG) perspective.



Investor Relations

Financial Information	Financial Data and 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/2018/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 and Integrated Report	http://www.shionogi.co.jp/en/ir/library/annualreport.html

To Our Stakeholders



Motozo Shiono
Chairman of the Board and
Representative Director

Isao Teshirogi, Ph.D.
President and CEO

Creating Value to Fulfill the Company Policy of Shionogi

For the 140 years 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.

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.

Motozo Shiono
Chairman of the Board and
Representative Director

Isao Teshirogi, Ph.D.
President and CEO

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.

Shionogi's Action Guidelines

Mission

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

Vision

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

Value

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



Message from the President



Grow Sustainably as a Drug Discovery-Based Pharmaceutical Company Contributing to a More Vigorous Society Through Improved Healthcare

Shionogi commemorated 140 years since its founding on March 17, 2018. We are excited to have celebrated this 140th anniversary with our stakeholders, and over the next 100 years and beyond we will continue striving to achieve sustained growth in corporate value through engagement with all of our stakeholders—including patients and medical professionals, shareholders and investors, local communities, and employees—in order to continue growing sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare.

Progress and Fiscal 2017 Results of the Medium-Term Business Plan

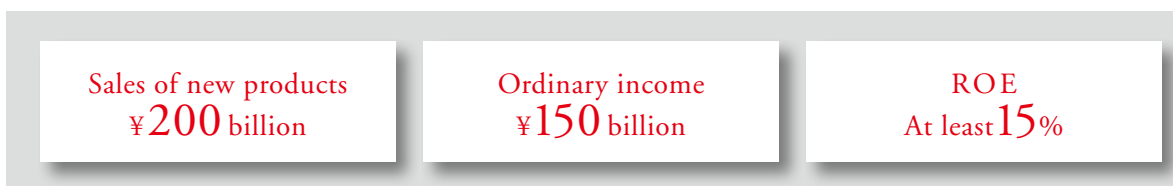
In April 2014, we launched our growth strategy for 2020, the Medium-Term Business Plan Shionogi Growth Strategy 2020 (SGS2020), and in October 2016 we updated this plan, setting our targets higher still. In the updated SGS2020 we outline a new vision of “growing sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare,” under which we set out to address social issues through a focus on the two core therapeutic areas of infectious diseases and pain / CNS disorders.

In fiscal 2017 (April 1, 2017 to March 31, 2018), net sales increased year on year for the third consecutive year, rising 1.7% to ¥344.7 billion. Operating income increased 6.5% to ¥115.2 billion, a record for the third consecutive year, ordinary income rose 12.7% to ¥138.7 billion, a record for the sixth consecutive year, and profit

attributable to owners of parent increased 29.8% to ¥108.9 billion, exceeding ¥100.0 billion for the first time and setting a record for the second consecutive year. Return on equity (ROE) reached 19.4% (up 3.1pt), return on invested capital (ROIC) came to 14.9% (up 1.6pt), and the cash conversion cycle (CCC) was 0.5 months shorter at 6.2 months. In short, actions based on these capital cost-conscious indicators delivered results in terms of business performance.

Amid further growth in sales of the anti-HIV agent *Tivicay* (dolutegravir) and its combination drug *Triumeq*, which draw on Shionogi’s strength in small-molecule drugs and have been licensed out to UK-based ViiV Healthcare Ltd., royalty and dividend income from ViiV Healthcare increased to ¥103.5 billion and ¥25.1 billion, respectively. In fiscal 2017, we also commenced sales in Japan of *Xofluza*, an anti-influenza agent developed using a drug discovery concept also applied to dolutegravir. In addition,


FY2020 Targets



Addressing Social Issues

<p style="text-align: center;">Protecting People from the Threat of Infectious Diseases</p> <ul style="list-style-type: none"> • Develop new drugs against infectious diseases that lack effective medical treatments • Reduce outbreaks of bacterial and viral resistance by promoting proper use of anti-infective drugs 	<p style="text-align: center;">Creating a More Vigorous Society</p> <ul style="list-style-type: none"> • Help people who are isolated due to pain/suffering to re-enter society • Provide relief from psychological uncertainty allowing fulfillment of one's innate ability • Maintain the dignity of the individual through all the stages of life
---	--

we received payments in connection with *Xofluza's* development progress from Switzerland-based Roche, which holds the commercialization rights outside Japan and Taiwan.

 For details on royalty and dividend income, see page 32.

Addressing Society's Needs and Fulfilling Responsibility to Society

In terms of sales domestically and overseas, in fiscal 2017 we launched several new products on the Japanese market.


- *Methapain*, for treatment of cancer pain
- *Intuniv*, for treatment of ADHD (attention-deficit hyperactivity disorder)
- *Symproic*, for treatment of opioid-induced constipation (OIC)
- *OxyContin TR*, for treatment of chronic cancer pain
- *Xofluza*, for treatment of influenza virus

SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD



We also released *Symproic*, for the treatment of OIC, in the U.S. In addition to addressing society's needs through the research, development, manufacture and sale of pharmaceuticals, we also joined forces with all manner of stakeholders in activities aimed at fulfilling our corporate social responsibility. We believe that these activities—which are aligned with global frameworks such as the United Nations' Sustainable Development Goals (SDGs, outlined in the UN's 2030 Agenda for Sustainable Development)—are important not just for Shionogi, but also for building a sustainable society.

 For details on our activities in research, development, manufacturing and sales, see pages 34 to 39.

Fostering Next-Generation Growth Drivers and Further Enhancing R&D Capabilities


R&D is an integral part of being a drug discovery-based pharmaceutical company, and in fiscal 2017 Shionogi had several achievements in this field. At Shionogi, we have positioned fiscal 2018 as a year in which to develop growth drivers for 2020 and beyond, and to that end we have identified seven high-priority projects* in which to invest. We are aware of varying opinions concerning the pharmaceutical industry's poor R&D productivity, which has drawn much criticism. Against this backdrop, we plan to harness our competitive edge in small-molecule drugs and develop an order of priority for investment of our limited resources, in order to achieve ongoing improvement in development efficiency, both in-house and at partner companies. By deepening collaboration with the IT sector and other industries, we aim to broaden the scope of our efforts to fulfill society's unmet medical needs, which have become increasingly diversified and segmented.

* Seven high-priority projects: (1) novel HIV drug candidate; (2) S-004992 (tuberculosis); (3) S-600918 (neuropathic pain, refractory chronic cough); (4) S-637880 (neuropathic pain); (5) S-770108 (*Pirespa* inhalant for idiopathic pulmonary fibrosis); (6) novel adjuvant as a development candidate for vaccines; (7) peptide drug discovery via joint R&D with PeptiDream Inc.

 For details on Shionogi's R&D activities, see pages 34 to 37.


Strengthening Business Foundations

In addition to keeping up the aforementioned corporate activities, we also consider it important to improve governance and practice rigorous compliance. The Shionogi Group defines corporate governance—one of the three ESG dimensions—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. In order to realize the best possible corporate governance, in 2009 we became one of the first Japanese companies to introduce an outside director system, and in 2015 we appointed our first female director from inside the company, to promote diversity among board members. As for compliance, in the Shionogi Group this does not mean only compliance with laws, rules and regulations but also with social standards as well as ethical behavior as a corporation and member of society. We strongly abide by this code.

 For details on corporate governance and compliance, see pages 40 to 43, and page 45, respectively.

Promoting Diversity to Encourage Innovation, and Cultivating Human Resources

Continuous innovation is the vital ingredient to ensure companies remain viable and continue fulfilling their responsibility to society. At Shionogi, we are focusing on diversity as the driving force of innovation. Bringing together diverse values and perspectives can give birth to a wide range of innovation through friendly competition. This innovation can be used to benefit patients and society, which also translates into a sustainable future for Shionogi. That's why we are focusing on developing diverse personnel. Specific initiatives include the President's Management Seminar and the Management Seminar. The President's Management Seminar, led by me, 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. We also provide a wide range of opportunities for younger employees to compete with their peers so that the best rise to the top, giving them training to become future managers as part of a comprehensive program of succession planning. In this way, we provide training to nurture the next generation of leaders, aiming to cultivate diverse human resources and sustain our business.

 For details on diversity and cultivating human resources, see pages 30 to 31.

Sharing the Benefits of Growth with Shareholders

In fiscal 2017, Shionogi increased its annual dividend by ¥10 from the previous fiscal year to ¥82 per share, for the sixth rise in dividend in as many years. Following on from fiscal 2016, we also acquired 4,800,000 shares of common stock in fiscal 2017, and retired 5,000,000 shares of common stock, accounting for 1.52% of total issued shares before retirement. As we make smooth progress toward the goals laid out in SGS2020, we will continue implementing shareholder return policies that provide all our shareholders with a stake in Shionogi's growth.

Finally

As President, I will continue doing my utmost to ensure that Shionogi keeps sharing with stakeholders the fruits of its "Foundation and Strengths" (see pages 10 to 31). We will remain focused on achieving the objectives of SGS2020 to actualize our corporate mission globally: "To strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve."



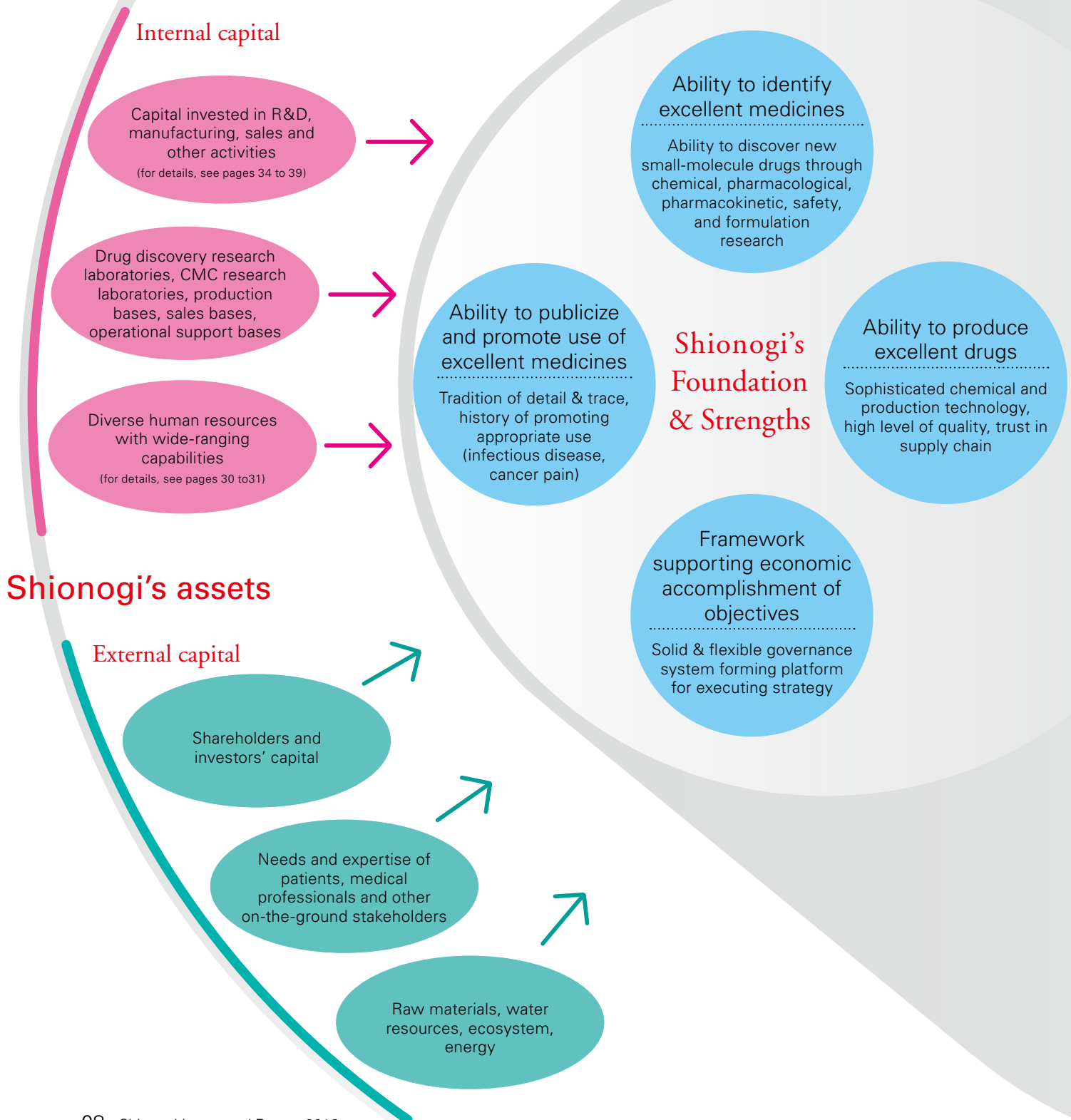
Isao Teshirogi, Ph.D.

President and CEO



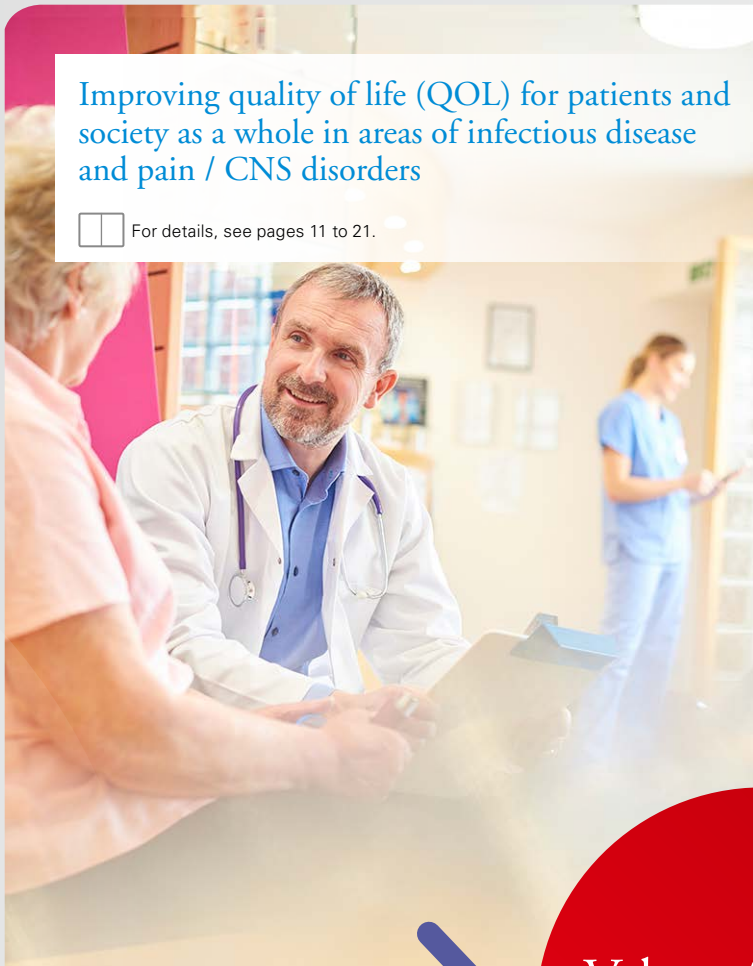
Shionogi's Business Model

Grow Sustainably as a Drug Discovery-Based Pharmaceutical Company Contributing to a More Vigorous Society Through Improved Healthcare



Improving quality of life (QOL) for patients and society as a whole in areas of infectious disease and pain / CNS disorders

For details, see pages 11 to 21.



Returning profit to shareholders and reinvesting

For further detail on shareholder returns, see page 33.



OUTCOME

Value offered by Shionogi

Addressing social issues through a variety of activities, participating in and contributing to local communities, inclusion

For details, see pages 22 to 29.



Improving employees' sense of achievement, capabilities, and quality of life

For details, see pages 30 to 31.



Seeking Sustained Increase in
Corporate Value



FOUNDATION AND STRENGTHS

- | | | |
|-----------|--|------|
| 01 | Shionogi's R&D | P.11 |
| <hr/> | | |
| 02 | Shionogi, Growing in Harmony
with Society | P.22 |
| <hr/> | | |
| 03 | Human Resources, Supporting
Shionogi's Growth | P.30 |
| <hr/> | | |

Core Therapeutic Areas

Infectious Diseases and Pain / CNS Disorders

We have positioned infectious diseases and pain / CNS as our core therapeutic areas.

In the infectious diseases area, we will focus on protecting people from the threat of infectious diseases, and in the pain / CNS area, we seek to contribute to creating a more vigorous society.

Infectious Diseases

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

Protecting people from the threat of infectious diseases

To protect people from the threat of infectious diseases, we will have to develop new drugs against infectious diseases that lack effective medical treatments and reduce outbreaks of bacterial and viral resistance by promoting the proper use of anti-infective drugs.

To address these needs, the Shionogi Group will advance the development of cefiderocol for the treatment of multidrug-resistant, gram-negative bacterial infections, expand its HIV franchise, which includes *Tivicay* and *Triumeq*, and launched the anti-influenza drug *Xofluza* in fiscal 2017. We intend to further increase our contribution to the area of infectious diseases.

Pain / CNS Disorders

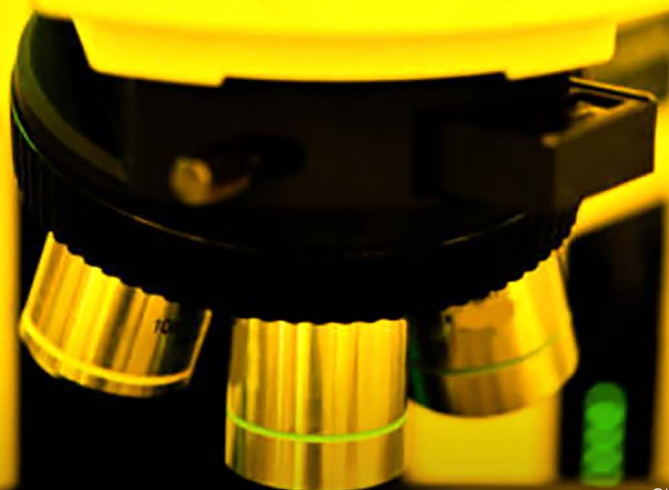
- Drugs for attention-deficit hyperactivity disorder (ADHD)
- Opioid pain relievers
- Drugs for chronic pain

Creating a more vigorous society

To contribute to creating a more vigorous society, we will help people who are isolated due to pain and suffering to re-enter society, provide relief from uncertainty, allowing the fulfillment of people's innate ability, and help to maintain the dignity of the individual through all the stages of life.

We will help to alleviate patients' pain by expanding the indication of *Cymbalta* to pain and depression, and help patients and society to manage the negative aspects of opioids with *Symproic* and abuse-deterrent *OxyContin*.

In addition, we will contribute to a more vigorous society with treatments for ADHD, including *Intuniv*, various activities through the Office for Children's Bright Future, work on treatments for Alzheimer's disease with Janssen Pharmaceuticals, Inc. in the United States, and other initiatives.



Types of Severe Infectious Diseases We Are Researching

> Bacterial infections > Fungal infections

RESEARCH STRATEGY

- Develop drugs for antibiotic-resistant bacteria by β -lactam chemistry
- Develop drugs for fatal systemic fungal infection

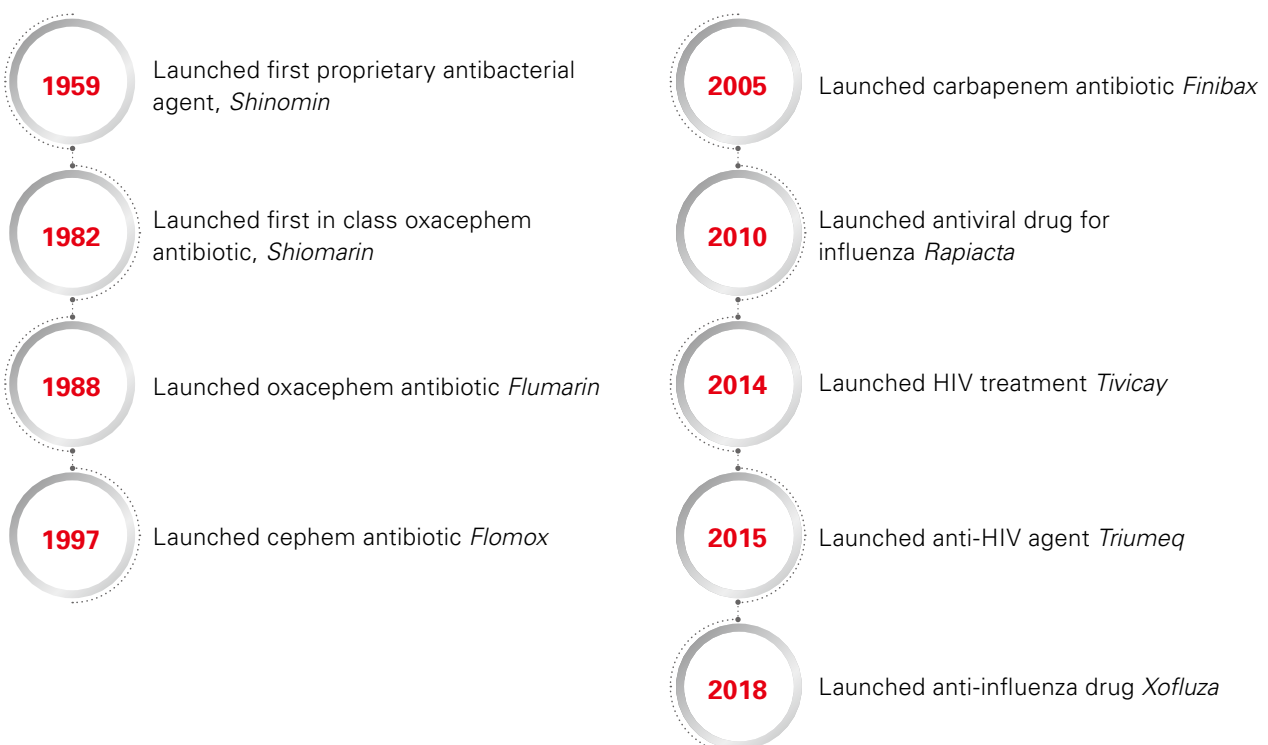
Shionogi launched its first proprietary antibacterial agent *Shinomine* in 1959, precisely 31 years after Alexander Fleming's revolutionary discovery of penicillin in 1928 enabled the control of bacterial infections. Out-licensed to Roche, *Shinomine* (sulfamethoxazole, an active ingredient of TMP/SMX) has helped treat patients with infectious diseases worldwide. Shionogi has continued to develop antibiotics, launching the first in class (FIC)*¹ antibacterial

agent *Shiomarin* (latamoxef sodium) in 1982, *Flumarin* (flomoxef sodium) in 1988, *Flomox* (cefcapeone 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 the anti-HIV agent dolutegravir, related pipeline drugs and the anti-influenza drug *Xofluza*.

*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.

Infectious disease treatments developed by Shionogi

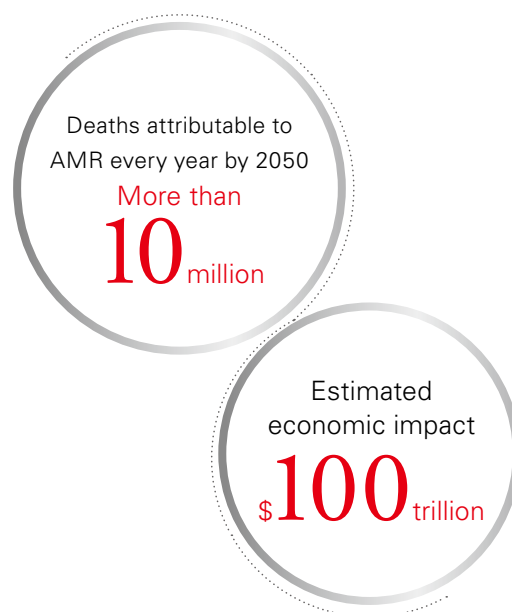


Combating Worldwide Public Health Challenge of Antimicrobial Resistance (AMR)

As a form of drug therapy, antibiotics now have been making a great contribution to medicine and mankind for nearly 100 years. In the absence of antibiotics, many infectious diseases would be considered fatal, and many routine surgeries and chemotherapy would be impossible to perform without risking death.

However, since antibiotics first came into widespread use in the 1940s, numerous drug-resistant bacteria have been discovered, thereafter spreading rapidly. This has made it virtually impossible to maintain the efficacy of existing antibacterials. And yet, there has been inadequate development to date of new antibiotics effective against drug-resistant bacteria.

Now, antimicrobial resistance (AMR) is recognized as a significant threat to the world economy, one in urgent need of a global action plan.



WHO and United Nations Initiatives to Tackle AMR

WHO Global Action Plan

- Global cooperation spearheaded by World Health Assembly
- Global Action Plan setting out five strategic objectives

1. Improving awareness and understanding of antimicrobial resistance
2. Strengthening the knowledge and evidence base through surveillance and research
3. Reducing the incidence of infection through effective sanitation, hygiene and infection prevention measures
4. Optimizing the use of antimicrobial agents in human and animal health
5. Developing an economic case for sustainable investment

United Nations High-Level Meeting (September 2016)

- World leaders signaled an unprecedented level of attention to curb the spread of multidrug-resistant infections.
- Countries reaffirmed their commitment to develop national action plans on AMR.
- Leaders recognized the need for stronger systems to monitor drug-resistant infections and the volume of antimicrobials used in humans, animals and crops, as well as increased international cooperation and funding.
- Leaders also called for new incentives for investment in research and development of new, effective and affordable medicines, rapid diagnostic tests, and other important therapies to replace those that are losing their power.

Shionogi and Industry Efforts to Combat AMR

Davos Declaration (January 2016)

- Declaration by the pharmaceutical, biotechnology and diagnostics industries on combating antimicrobial resistance
- Signed by more than 100 companies, including Shionogi, who committed to: work to reduce the development of antimicrobial resistance; invest in R&D that meets global public health needs with new innovative diagnostics and treatments; improve access to high-quality antibiotics and ensuring that new ones are available to all; and remove financial incentives that reward the prescribing of antibiotics in greater volumes.

Industry Roadmap for Progress on Combating Antimicrobial Resistance (September 2016)

Signed by 13 major global pharmaceutical companies, including Shionogi, and laying out a roadmap for four key commitments:

- acting on environmental pollution associated with antibiotic manufacturing;
- supporting improved stewardship of antibiotics;
- facilitating improved global access to antibiotics; and
- supporting open collaboration between industry and public researchers.

International Federation of Pharmaceutical Manufacturers & Associations (IFPMA)

Seven pharmaceutical companies—Shionogi, Pfizer, Merck, Johnson & Johnson, GlaxoSmithKline, Sanofi, and Roche—form the Board of the AMR Industry Alliance, a coalition of over 100 research-based pharmaceutical, generics, biotechnology and diagnostics companies committed to slowing the spread of AMR and promoting industrywide advances in life sciences.

Stimulating Research and Development of New Antibiotics

Various initiatives to stimulate sustained investment by the public and private sectors in R&D into antibiotics

Push & Pull Incentives

Push-type: Provision of financial support for R&D

- ⇒ Includes CARB-X, IMI, NIH/NIAID and BARDA

Pull-type: Reward for innovation through funding that will enhance return on investment (ROI) and improve the accuracy of demand forecasting

- ⇒ This year the G20 has acknowledged the importance of such incentives, debating whether or not to introduce a market entry reward.

WHO List of Antibiotic-Resistant “Priority Pathogens”

On February 27, 2017, the World Health Organization (WHO) published its first-ever list of antibiotic-resistant “priority pathogens,” a catalog of 12 families of bacteria that pose the greatest threat to human health. Stating that “Antibiotic resistance is growing, and we are fast running out of treatment options,” the WHO stressed the need to develop new antibacterial agents.

The 12 pathogens on the list are divided into three categories according to the urgency of need for new antibiotics, with carbapenem-resistant bacteria slotting into the critical category where the need for new antibiotics is considered particularly urgent.

WHO Priority Pathogens List for R&D of New Antibiotics

Critical Priority	
Acinetobacter baumannii	carbapenem-resistant
Pseudomonas aeruginosa	carbapenem-resistant
Enterobacteriaceae	carbapenem-resistant
High Priority	
Enterococcus faecium	vancomycin-resistant
Staphylococcus aureus	methicillin-resistant vancomycin-resistant
Helicobacter pylori	clarithromycin-resistant
Campylobacter	fluoroquinolone-resistant
Salmonella species	fluoroquinolone-resistant
Neisseria gonorrhoeae	cephalosporin-resistant fluoroquinolone-resistant
Medium Priority	
Streptococcus pneumoniae	penicillin-non-susceptible
Haemophilus influenzae	ampicillin-resistant
Shigella species	fluoroquinolone-resistant

Prepared by Shionogi, based on WHO press release

Carbapenem-resistant pathogens in “critical” category in terms of urgency of need

All three of the pathogens in the critical category (deemed in the most urgent need of new R&D) are resistant to carbapenem-type antibacterial agents, and drugs effective against these pathogens are in high demand worldwide. Shionogi is developing **cefiderocol** as a candidate for the treatment of multidrug-resistant gram-negative bacterial infections, with plans to submit a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) in the second half of fiscal 2018. We believe cefiderocol could evolve into a valuable weapon in the fight against these three carbapenem-resistant pathogens. At Shionogi, we remain fully dedicated to tackling the global public health threat represented by AMR.

Types of Viral Infections We Are Researching

> HIV > Respiratory viruses

RESEARCH STRATEGY

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

Anti-HIV Agent *Tivicay* Leverages Shionogi's Strengths in Small-Molecule Drug Development

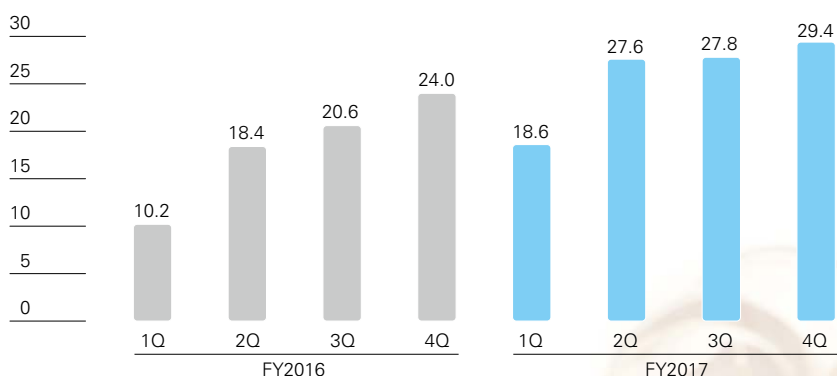
The development of *Tivicay* was led by a Shionogi researcher's findings concerning the active site binding of HIV integrase, an enzyme pivotal in viral replication. This discovery triggered the start of internal competition to synthesize a new superior family of compounds. Subsequently, Shionogi and GlaxoSmithKline (GSK) discovered an HIV integrase inhibitor (developed jointly with ViiV Healthcare) that has high levels of efficacy and safety and

limited risk of drug resistance.

Currently, U.S., European and domestic HIV treatment guidelines recommend *Tivicay* as one of the first-choice drugs for treatment-naïve patients, making it an important new treatment option for all HIV-1 positive patients. Our global HIV franchise is now an important pillar of earnings, generating royalty income of over ¥100 billion in fiscal 2017.

Royalty income from HIV franchise

(Billions of yen)



Novel Anti-Influenza Agent *Xofluza* Has Revolutionary Mechanism of Action

Shionogi launched the new anti-influenza agent *Xofluza* in Japan on March 14, 2018.

A cap-dependent endonuclease inhibitor originated by Shionogi, *Xofluza* suppresses the replication of influenza viruses by a mechanism different from existing anti-flu drugs.

In October 2015, the Ministry of Health, Labour, and Welfare granted priority review to *Xofluza* under the Sakigake designation system*.

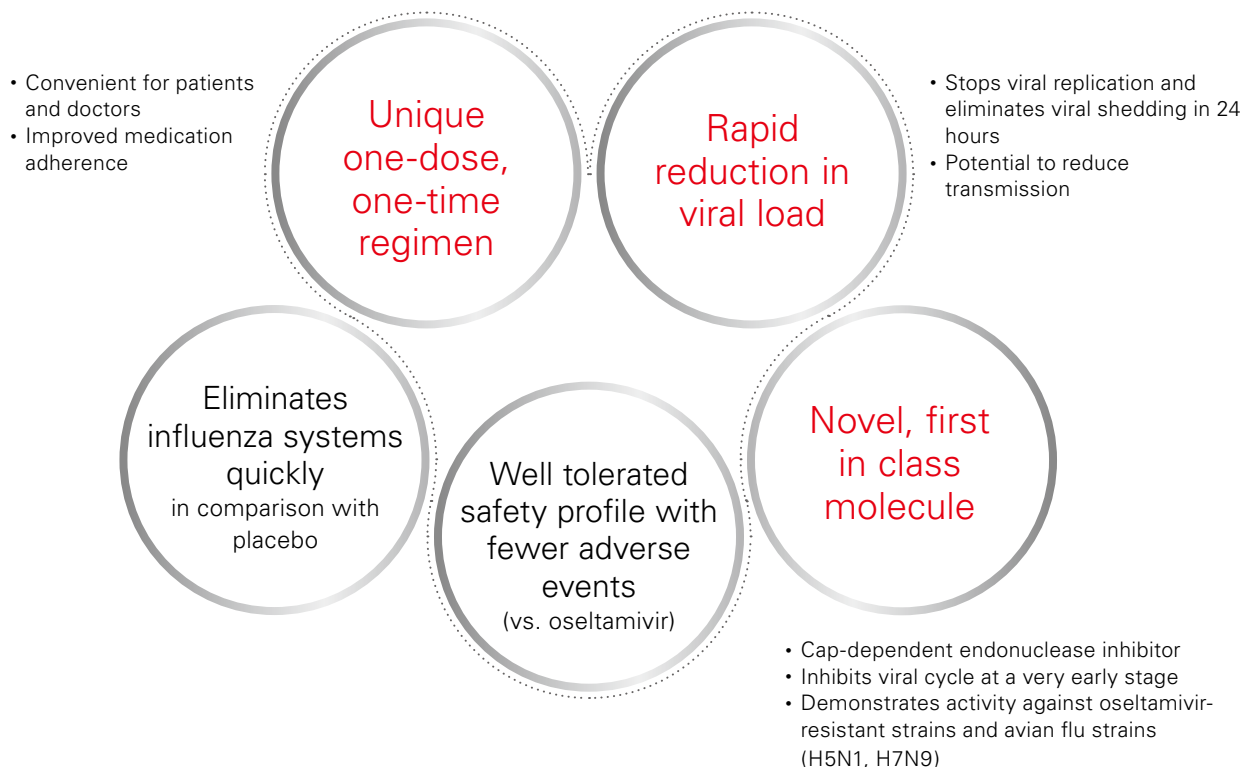
Shionogi filed for approval in Japan on October 25, 2017, gaining authorization four months later on February

23, 2018. *Xofluza* was added to the NHI drug price list on March 14, 2018, achieving launch within six months of filing for approval.

Roche plans to take a leading role in developing and marketing the drug globally, except for Japan and Taiwan. We believe that partnering with Roche will enable us to hasten delivery of *Xofluza* to patients around the world.

* Sakigake designation system: A part of Japan's Revitalization Strategy, this system designates pharmaceutical products that are being developed ahead of other countries and have shown exceptional clinical efficacy in the early clinical trial stage. It is aimed at facilitating their early commercialization through various kinds of support.

Characteristics of *Xofluza*



Xofluza has potential to revolutionize the influenza market and become the new treatment of choice

01 Shionogi's R&D

Pain / CNS Disorders Area

Strengths Developed over Long History of Addressing Healthcare Needs

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.

Helping to alleviate cancer pain in Japanese patients over nearly 30 years from 1989



1989

Launched cancer pain treatment *MS Contin*

2003

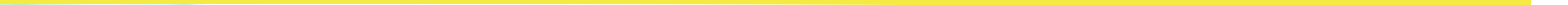
Launched cancer pain treatment *OxyContin*

2007

Launched cancer pain treatment *OxiNorm* powder

2012

Launched cancer pain treatment *OxiFast* injection



2017
Launched chronic cancer
pain treatment
OxyContin TR

2017
Launched cancer
pain treatment
Methapain

2017
Launched opioid-
induced constipation
(OIC) treatment
Symproic



01 Shionogi's R&D

Pain / CNS Disorders Area

Combating CNS Disorders

Manufacturing and Marketing of the Attention-Deficit Hyperactivity Disorder (ADHD) Therapeutic Agent *Intuniv*

ADHD is a neurodevelopment disorder characterized by three main symptoms—inattentiveness, hyperactivity, and impulsivity—and is a brain function impairment treatable by psychosocial therapy/support and medication.

On March 30, 2017, Shionogi won manufacturing and marketing approval for *Intuniv*, which is being developed as an ADHD treatment under a licensing agreement with Shire plc. concerning joint development and commercialization in Japan. *Intuniv* is a selective α 2A adrenergic receptor agonist, the first with this action mechanism to be developed as therapy for ADHD, and is a non-central

nervous system stimulant that is to be administered once daily. Together with Shire Japan, Shionogi will further contribute to treatment of ADHD patients through providing *Intuniv* as a new treatment option.



Strategic Collaboration with Sage Therapeutics to Develop and Commercialize Novel Antidepressant S-812217

In June 2018, Shionogi entered a strategic collaboration with Sage Therapeutics, Inc., to develop and commercialize the novel antidepressant S-812217 in Japan, Taiwan and South Korea.

Depression is a disease that impairs quality of life (QOL), through some form of dysfunction in the brain. Many antidepressants have been developed thus far, contributing to improved QOL, but there remains a need for safer and more fast-acting treatments.

S-812217 is a once-daily oral agent with a mechanism that differs from existing antidepressants. S-812217 acts directly on the inhibitory signaling pathway of the brain, and as such is expected to deliver relief swiftly. S-812217 has won Breakthrough Therapy Designation from the FDA, and

a Phase III study is expected to commence during 2018, following consultation with the FDA.

Under the terms of its collaboration with Sage, Shionogi has obtained the exclusive development and marketing rights for S-812217 for the treatment of major depressive disorder (MDD) and other types of depression, in Japan, Taiwan, and South Korea.

One of the social challenges that Shionogi strives to address is “creating a more vigorous society,” and through this collaboration with Sage we will continue doing our utmost to ensure that patients around the world are able to access as quickly as possible drugs for the treatment of psychiatric and nervous system disorders, thereby protecting their health and wellbeing.

⇒ [Click here for details](http://www.shionogi.co.jp/en/company/news/2018/pmrltj0000003ufp-att/e_180614.pdf)
http://www.shionogi.co.jp/en/company/news/2018/pmrltj0000003ufp-att/e_180614.pdf

Research Collaboration with Kyoto University

In March 2018, Shionogi inked a research collaborative agreement with Kyoto University, concerning Phase 2 of the “SK Project” focused on drug discovery and medical research for the treatment of psychiatric disorders.

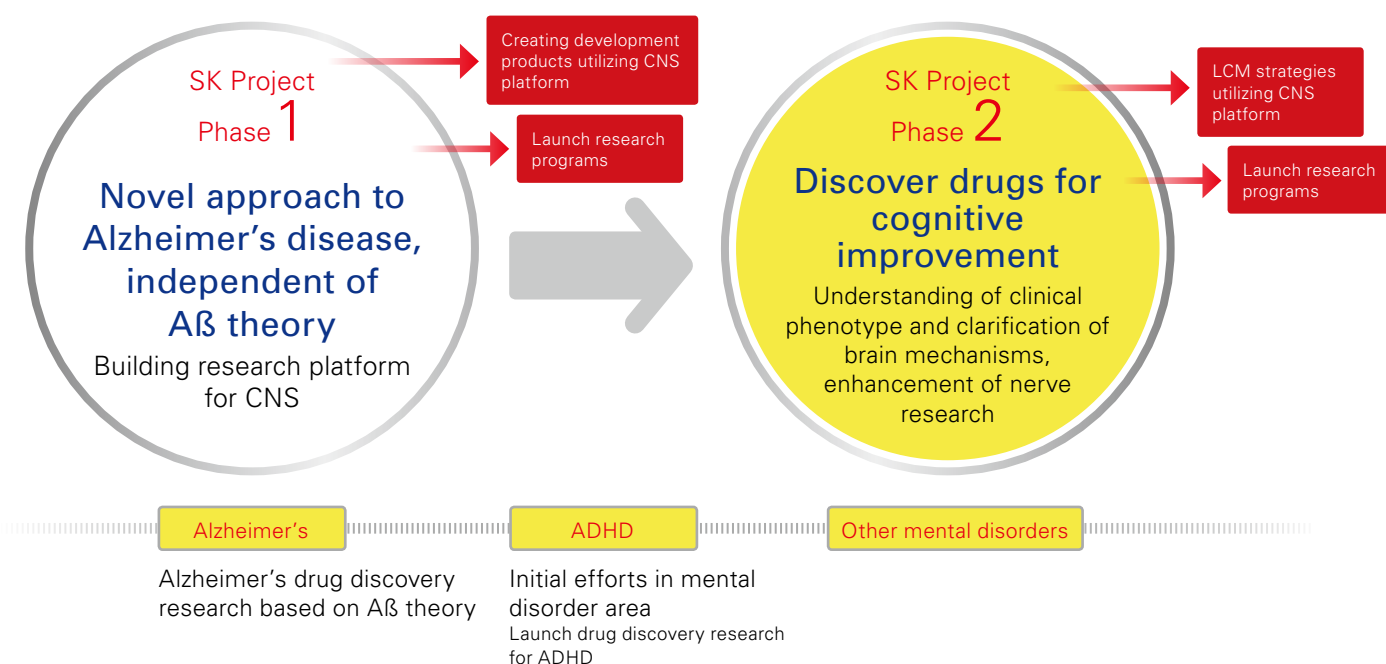
Under this agreement, Kyoto University and Shionogi will conduct collaborative research activities for a period of five years, to gain a better understanding of the relationship between brain neural network irregularities and the symptoms associated with psychiatric disorders, which can cause difficulties in patients’ lives. By deepening their understanding in this manner, Shionogi and Kyoto University will seek to gain more extensive knowledge regarding psychiatric disorders and use this knowledge to identify novel drug targets and generate innovative new drugs.

Over a five-year period from April 2013, Shionogi and Kyoto University ran Phase 1 of the project, entitled “Drug discovery and medical research for the regeneration of synapses and neuronal function.” In Phase 2 of the SK Project, Shionogi and Kyoto University aim to elucidate the association between psychiatric disorders and brain neural networks and to identify innovative new drugs, by working closely together in both basic and clinical research, through enhanced intellectual exchange and greater interaction between researchers.

At Shionogi, we will continue to make active use of external resources, promoting open innovation with academia and innovative companies alongside our own R&D activities.

⇒ Click here for details of the SK Project
<http://www.shionogi.co.jp/en/company/news/2018/pmrltj0000003ped-att/e180326.pdf>

Evolution of the SK Project



Utilizing CNS research platform built during SK Project to facilitate drug discovery based on deep mechanistic understanding of mental disorders

02 Shionogi, Growing in Harmony with Society

Recently, more and more has been expected of companies in terms of corporate social responsibility (CSR). To meet these demands, in April 2018 Shionogi established a new CSR Department to enable the Shionogi Group to maintain a focus on innovative drug discovery while also fulfilling its responsibilities as a corporate citizen, to the economy, society and the environment. At the same time, Shionogi continues to implement initiatives geared toward remaining recognized as a company needed by all its stakeholders.

Changes in the Business Environment

Growing global interest in ESG

- Promotion of sustained increase in corporate value and medium- to long-term investment
- Added impetus from United Nations Principles for Responsible Investment (UN PRI)

Realization of SDGs (Sustainable Development Goals)

- International development goals from 2016 to 2030, adopted by member nations of United Nations Sustainable Development Summit
- Comprise 17 goals and 169 targets
- Universal goals not only for developing countries, but also for developed countries



Companies need to be committed to sustainable development as members of society

Our Stance on the Changing Business Environment

Recent years have seen compliance and corporate governance gain in importance, in addition to which companies are now expected to play an active role in addressing the needs of global society, as responsible corporate citizens. Following the United Nation's 2015 adoption of Sustainable Development Goals, in 2016 Japan established the Sustainable Development Goals (SDGs) Promotion Headquarters, which is headed by the Prime Minister and is charged with prioritizing the SDGs as a matter of national strategy. The UN SDGs also have provided a useful framework for evaluating environmental, social and governance (ESG) investing as a factor contributing to corporate value.

Amid this change in the external environment, Shionogi updated the SGS2020 to outline a new vision of "growing sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare," under which we seek to address social issues by "creating a more vigorous society" while also "protecting people from the threat of infectious diseases." These objectives are in alignment with the 2030 Agenda for Sustainable Development, which sets out the SDGs, and they will underpin our future corporate social responsibility (CSR) efforts.



Growing sustainably contributing to a more vigorous society, and becoming a company whose contribution is recognized by society



* EHS: Environment, Health and Safety

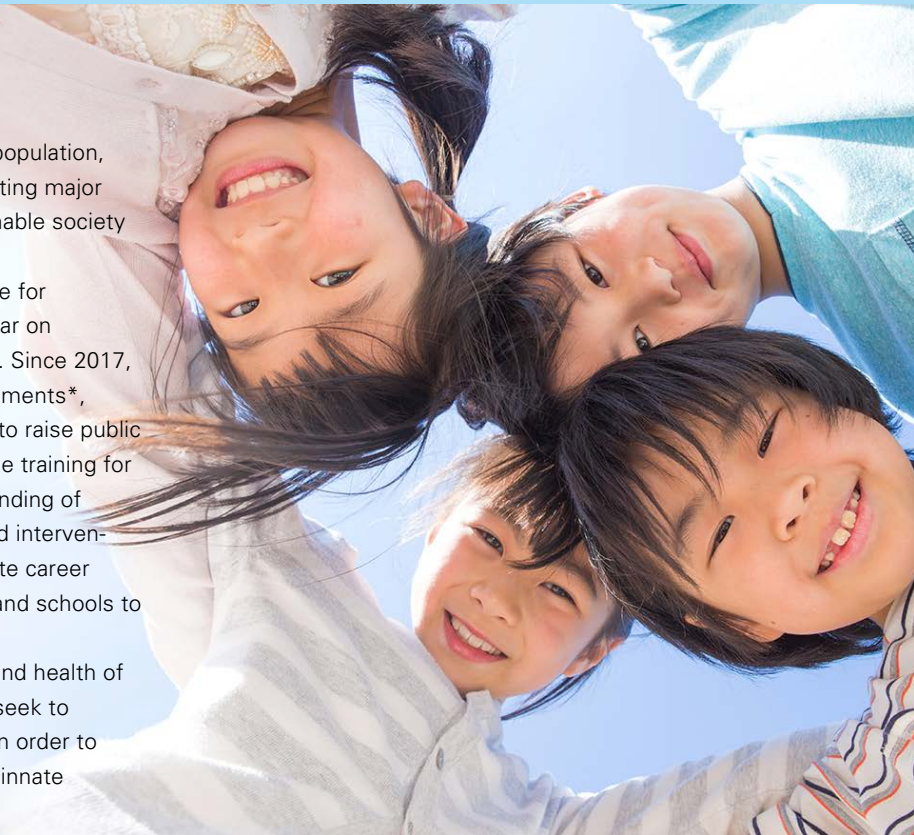
02 Shionogi, Growing in Harmony with Society

Support for Children's Bright Futures

Japan now leads the world in terms of its graying population, 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, we established the Office for Children's Bright Futures, which focuses in particular on supporting children with developmental disabilities. Since 2017, this Office has worked in tandem with local governments*, universities, NPOs and other related organizations to raise public awareness of developmental disabilities and provide training for support staff, in order to promote greater understanding of developmental delays, achieve earlier detection and intervention, and realize lifelong support. In order to promote career aspirations, we also work with local governments and schools to hold science classes for children.

In this manner, we aim to promote the growth and health of children who will become future leaders. We also seek to lighten the psychological burden on such children in order to help build a society where individuals can tap their innate potential and thrive.



* Osaka Prefecture, Shiga Prefecture, Hiroshima Prefecture, Kagawa Prefecture's Higashikagawa City and Sanuki City, and Iwate Prefecture (as of August 2018)



Partnership with Hiroshima Prefectural Government to Support Our Children's Bright Future



After-school science classes for children, led by researchers



Blue Lighting of Osaka Castle on World Autism Awareness Day

Changing Society to be More Convenient for Sight- and Hearing-Impaired People

Project for Barrier-Free Communication

Shionogi also is striving to make communication barrier-free when patients take medicine, so that when people with hearing or visual impairments are prescribed medicine, information about the medicine can be properly communicated to them.

People with a disability can be separated from medical professionals by a "communication barrier," akin to a linguistic wall. Because of this communication barrier, there is a risk that people with a disability—in particular those with hearing or visual impairments—can receive insufficient

information about the medicines they need, or about the manner in which to take those medicines. Drawing on the experiences of interested parties within the Company (employees who have impairments), Shionogi is working to eliminate this communication barrier between patients and those caring for them.



For medical professionals

- Awareness-raising seminars targeting medical professionals and led by employees who have impairments
- Production and distribution of easy-to-understand pamphlets regarding visual and hearing impairments
- Screening of dramatized videos recreating the barriers patients face on a day-to-day basis

For patients

- Illustrated posters conveying drug information in a manner anybody can understand

Initiatives Undertaken in Fiscal 2017

April 2017: Started running subtitled TV commercials* for Shionogi Healthcare products

June 2017: Held lecture on the characteristics of hearing impairment at Yodogawa Christian Hospital in Osaka Prefecture

Four times from September 2017: "Courses on working styles" conducted by hearing-impaired Shionogi employees at schools for the deaf in Osaka Prefecture (plans for further such courses in fiscal 2018)

March 2018: Offered hearing loss simulation experiences at Hyogo College of Medicine's Postgraduate Clinical Training Center

* Broadcast only during commercial breaks for Shionogi-sponsored Music Fair program

Scan QR code for more details
(Japanese only)



Explanation from hearing-impaired Shionogi employee and hearing-loss simulation experience



Hearing-impaired Shionogi employees use sign language to conduct "courses on working styles" at schools for the deaf in Osaka Prefecture

02 Shionogi, Growing in Harmony with Society

Protecting Health and Wellbeing of Small Children, Pregnant Women, and Nursing Mothers

Mother to Mother SHIONOGI Project

As part of our efforts to protect the health and wellbeing of people worldwide, since 2015 Shionogi has been engaged in an effort to reduce infant, child, and maternal mortality rates in the Ilaramatak region of Narok County in the Republic of Kenya. In the Mother to Mother SHIONOGI Project, we have partnered with the international NGO World Vision to improve the health of mothers and children by building hospitals, providing basic medical care through traveling clinics, and conducting educational programs both for clinic staff and local residents. Over the course of nearly three years, there has been a gradual increase in the

number of births at health facilities and the immunization rate in children under five, and simply by offering basic medical services and regular educational activities for residents, the Project has brought about change in residents' health awareness and behavior.

World Vision has commenced an epidemiological study in conjunction with Nagasaki University, taking a scientific approach to improving the sanitation environment and hygiene education in local communities. These activities continue, with the ultimate aim of building a self-sustainable community for maternal and child health care.



Picture provided by World Vision Japan

From Japan to Africa, connecting mothers through health



Participation in Access Accelerated

In 2017, Shionogi became one of 23 pharmaceutical companies from Japan, the US, and Europe to join with the World Bank and the Union for International Cancer Control (UICC) in participating in Access Accelerated, an initiative aimed at advancing access to non-communicable disease (NCD) prevention, treatment and care in low and lower-middle income countries. The Access Accelerated Year One Report details how Shionogi's participation in this project has improved access to antenatal care and contributed to better health rates in the region. Through its

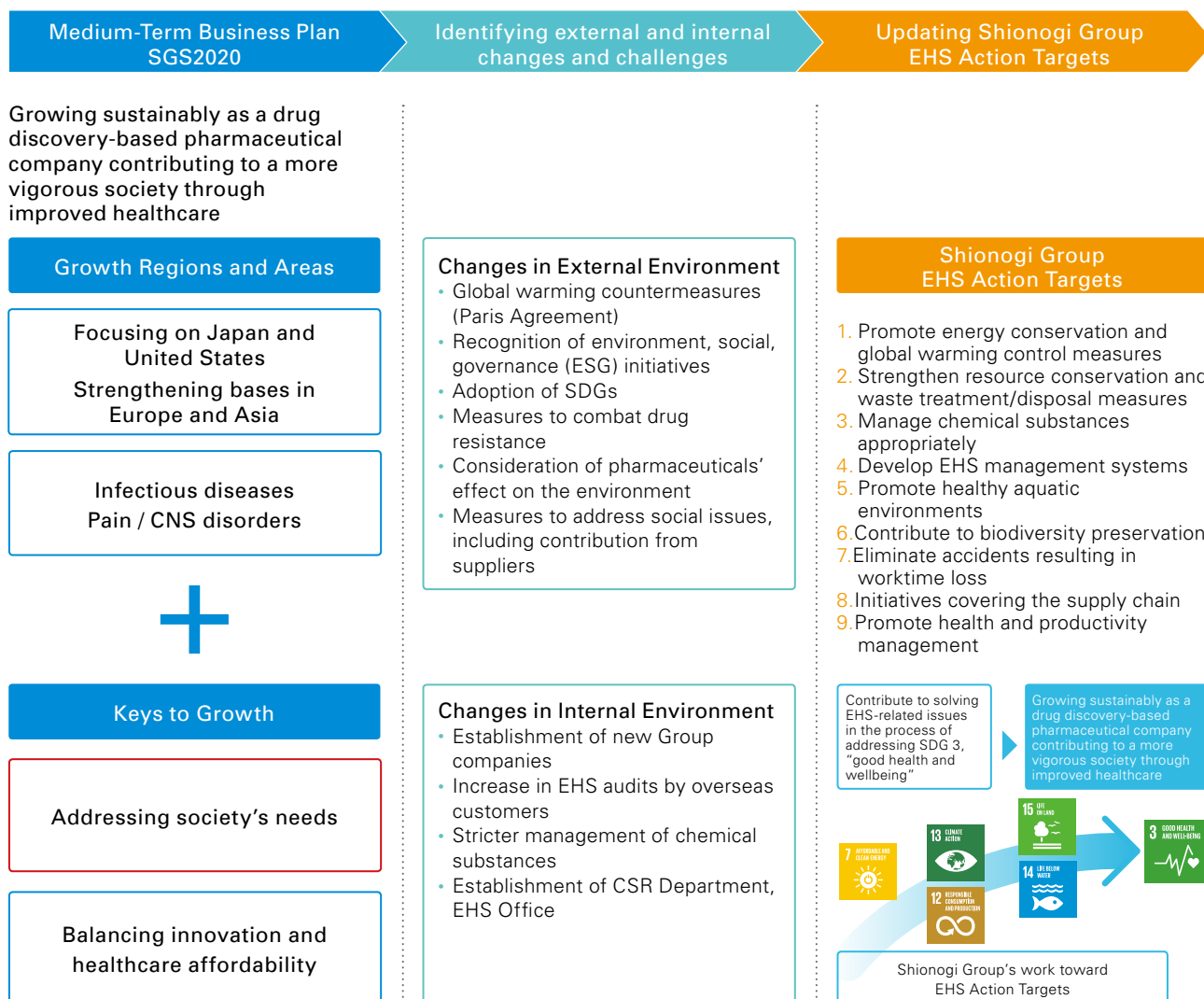
participation in Access Accelerated, Shionogi remains committed to achieving SDG 3.4, which is to reduce premature deaths from NCDs by one-third by 2030, through prevention and treatment while promoting mental health and well-being.



EHS Initiatives

Shionogi has established the Shionogi Group EHS Policy and built a companywide EHS 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.

In our goal of “Growing sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare” as outlined in the updated Medium-Term Business Plan SGS2020, we take this opportunity to update the Shionogi Group EHS Action Targets to identify external and internal changes and challenges and incorporate the targets and results from Phase 5 of the Shionogi Group Environmental Protection Plan.



02 Shionogi, Growing in Harmony with Society

EHS Activities

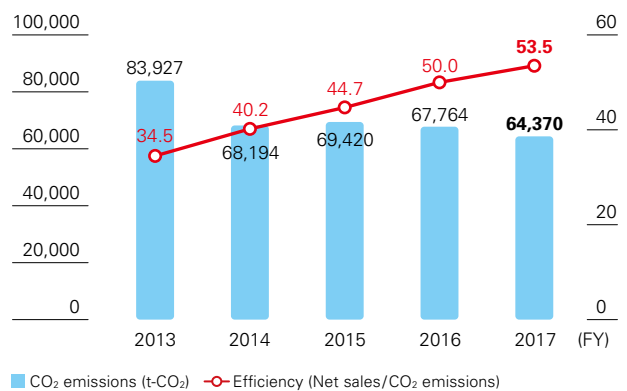
Climate Change Risks and Energy Conservation and Global Warming Control Measures

Rising average atmospheric temperatures are expected to increase the number of infectious disease outbreaks, modify the distribution of organisms transmitting infectious diseases, and adversely affect the aquatic environment, undermining social infrastructure and expanding the need for medicines for infectious diseases. This situation poses risks to pharmaceutical companies if they fail to fulfill their social responsibility to offer the drugs needed to treat such diseases*. On the other hand, it can also generate important business opportunities for pharmaceutical companies.

The Shionogi Group is actively working on CO₂ emission reduction to contribute to global warming alleviation, and to that end has adopted the goal of reducing CO₂ emissions in fiscal 2020 by 33% from the fiscal 2005 benchmark. In fiscal 2014, we switched to natural gas energy supply equipment at the Kanegasaki Plant and installed a cogeneration power system, greatly reducing our CO₂ 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.

CO₂ emissions



* For details of Shionogi's endeavors in fulfilling its social responsibilities in the infectious diseases area, please refer to pages 12–15.

Water Risk Assessment and Initiatives to Protect Aquatic Environments

There are concerns over the risk of water resource shortages and water pollution caused by climate change and associated problems including abnormal weather conditions and natural disasters. At key facilities involved in manufacturing and R&D, the Shionogi Group is using the WRI Aqueduct* to ascertain the water supply needed to ensure business viability now and in the future, and assess risk from emissions. Looking ahead, the Group will strive to further reduce water risk by practicing appropriate waste water management while also offering a stable supply of pharmaceuticals.

The Shionogi Group 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 facilities that manufacture antibiotics, the antibiotics contained in waste water are deactivated prior to commencing central processing at our water treatment facilities. We have confirmed that, upon discharge, the levels remaining in the treated wastewater pose no threat to the natural environment. In addition, upon the introduction of each new product, we confirm that the level of pharmaceutical ingredients in treated wastewater is not sufficient to affect the natural environment.

* Water risk mapping tool, developed and released by World Resources Institute (WRI)

⇒ Click on this link for further detail on EHS activities and results
<http://www.shionogi.co.jp/en/company/csr/activities/environment.html>

Adoption of Biomass Bottles

We have adopted biomass bottles (plant-derived polyethylene bottles) as packaging containers for *Cymbalta* capsules as well as for *Irbetan* and *Pirespa* tablets. Biomass bottles are pharmaceutical packaging containers made of polyethylene derived from materials left over from sugarcane processing. By switching to biomass bottles from conventional bottles made from petroleum-derived polyethylene, we can reduce CO₂ emissions while also conserving fossil fuel resources. Since sugarcane-derived polyethylene accounts for over 90% of the raw materials of our biomass bottles, they are compliant with biomass

plastic identification labeling standards set by the Japan BioPlastics Association (the product container bears the label, as shown in the photo).



Strengthening CSR Management

Shionogi has joined the Pharmaceutical Supply Chain Initiative (PSCI), an NPO established to promote CSR procurement* in the pharmaceutical industry, with more than 20 corporate members among global pharmaceutical companies. The PSCI Principles, which articulate what the industry expects from the supply chain, are wide-ranging. They list not only environment, safety and health, but also workers' rights, ethics and related management systems. Shionogi agrees with these principles and abides by them. As well as Shionogi, we understand that action across the

entire value chain—including third parties working with us as important business partners—is needed to ensure fulfillment of our corporate social responsibility. We require agreement from all third parties working with us, and to ward against product risk and also improve supply chain risk management, we distribute self-assessment questionnaires to suppliers to check on adherence to the Principles, conducting on-site audits based particularly on replies concerning the environment and health and safety.

* Requiring third parties working with us to engage in corporate social responsibility (CSR) activities also

PSCI Principles (Extracted items only)

[Ethics]

1. Business integrity and fair competition
2. Identification of concerns
3. Animal welfare
4. Privacy

[Labor]

1. Freely chosen employment
2. Child labor and young workers
3. Non-discrimination
4. Fair treatment
5. Wages, benefits and working hours
6. Freedom of association

[Environment]

1. Environmental authorizations
2. Waste and emissions
3. Spills and releases

[Management systems]

1. Commitment and accountability
2. Legal and customer requirements
3. Risk management
4. Documentation
5. Training and competency
6. Continual improvement

[Health and Safety]

1. Worker protection
2. Process safety
3. Emergency preparedness and response
4. Communication of hazard information

PSCI

PHARMACEUTICAL SUPPLY CHAIN INITIATIVE

03 Human Resources, Supporting Shionogi's Growth

Personnel Training Forms the Foundation for Sustained Growth

Shionogi is working 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 the President leads, was set up to train senior managers, and we also have division heads 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. Six years have passed since the seminars began, and there are now over 40 graduates of the program, including many of our 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.



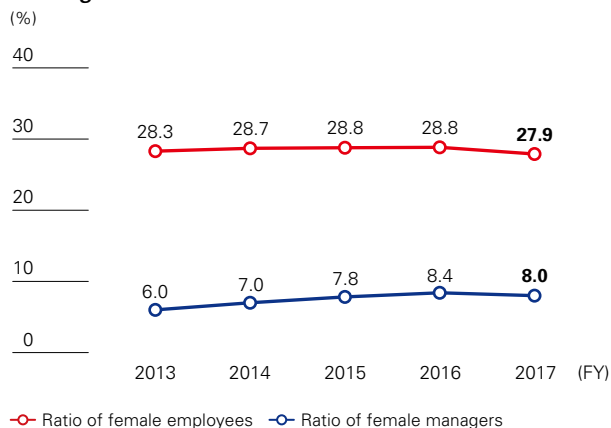
Promoting Active Engagement of Women in Society

In April 2016, Japan enacted a new law to promote the active engagement of women in society, which requires companies to set and disclose targets for women in the workplace.

At Shionogi, we are committed to providing employees with an environment in which they feel comfortable working regardless of gender, by harnessing the strengths of all our employees, and emphasizing their individuality. As a consequence, the ratio of female managers has been rising steadily and the male-female gap for average years of service has narrowed; in this manner, Shionogi is evolving into a company where it is considered only natural that women are active in the workplace.

We will continue striving to create an atmosphere in which women can demonstrate their capabilities and contribute to the company.

Ratio of Female Employees / Ratio of Female Managers



Ensuring Rigorous Compliance by Having Employees Always Hold Themselves to Highest Ethical Standards

We are working to make this policy a reality worldwide. Also, in order to continue growing as a global company in the life sciences field, Shionogi has to be an honest company underpinned by strong moral values.

The Group has published the Shionogi Group Compliance Policy, which we require all employees to put into practice to increase awareness about the importance of compliance. Led by the Compliance Committee, which is chaired by the President and CEO, we are promoting compliance and

working to ensure employees comply with all laws and regulations, while also maintaining and improving their standards of ethical behavior as members of society.

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

Compliance policy is constituted of 2 fundamentals & 5 essentials



Financial and Value Creation Highlights

Performance

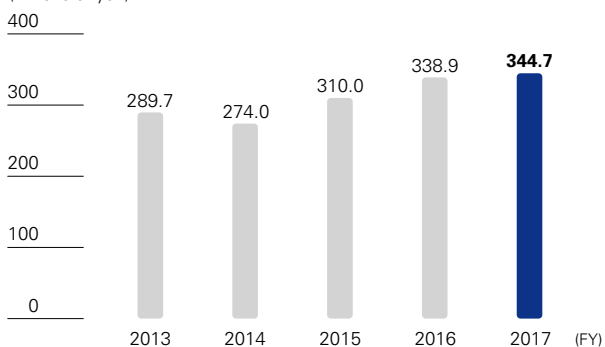
Net sales: 344.7 billion yen, increased for three consecutive years

- Growth in royalty income on the back of rising global sales of HIV franchise products
- Receive payments from Roche in connection with progress in development of anti-flu drug *Xofluza*
- Net sales growth in Japan, centered on strategic products (*Cymbalta, Intuniv, Symproic* and *Xofluza*)

Record-high ordinary income, operating income and profit attributable to owners of parent

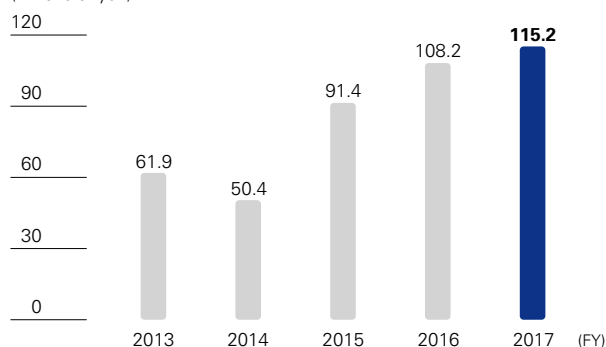
Net sales

(Billions of yen)



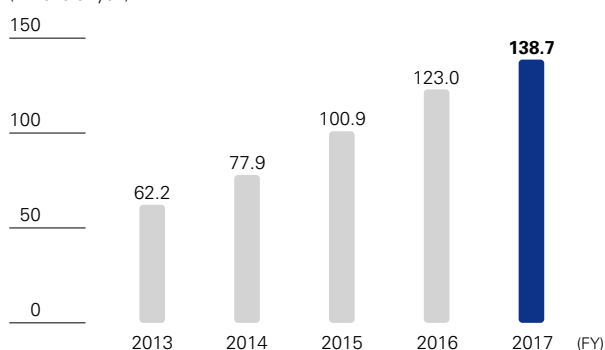
Operating income

(Billions of yen)



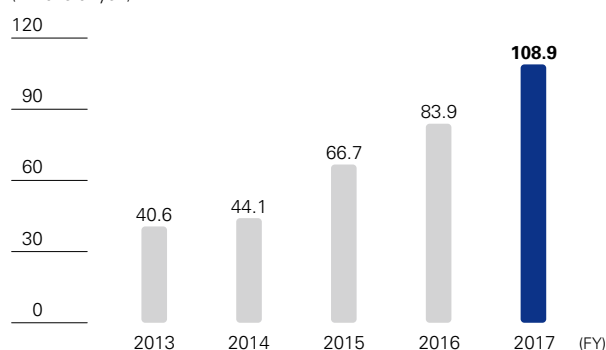
Ordinary income

(Billions of yen)



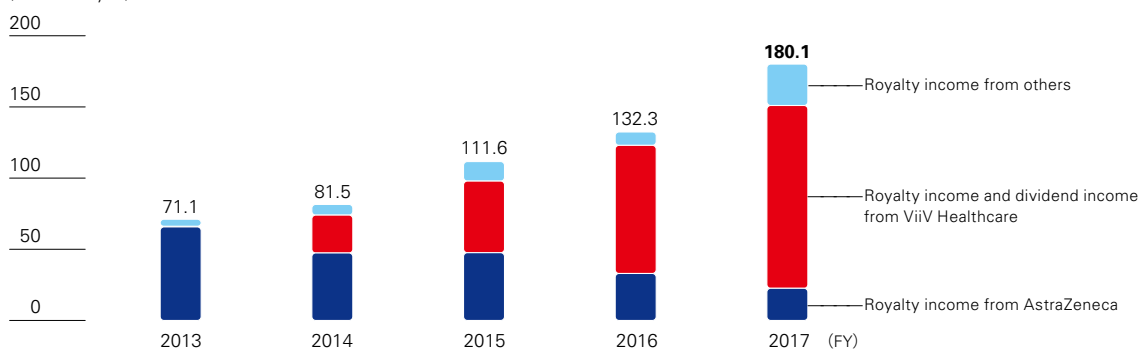
Profit attributable to owners of parent

(Billions of yen)



Royalty income and dividend income from ViiV Healthcare

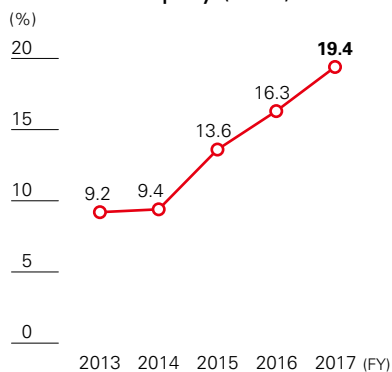
(Billions of yen)



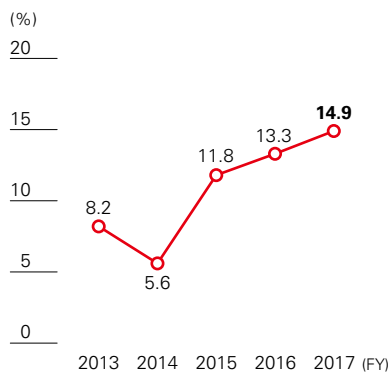
Capital Efficiency KPI

Steadily improved ROE, ROIC and CCC

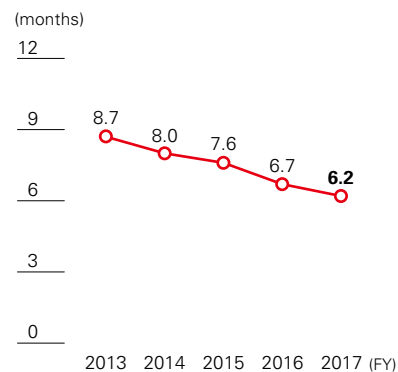
Return on Equity (ROE)



ROIC



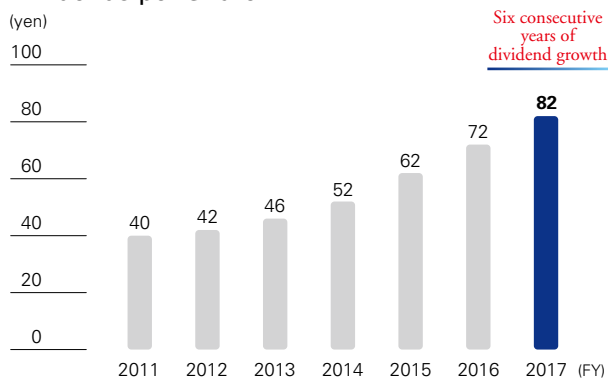
CCC



Shareholder Return Policy

Continuous dividend increases, flexible share buybacks and cancellation of treasury stocks

Dividends per Share



FY2014

- Acquired ¥30 billion of common stock

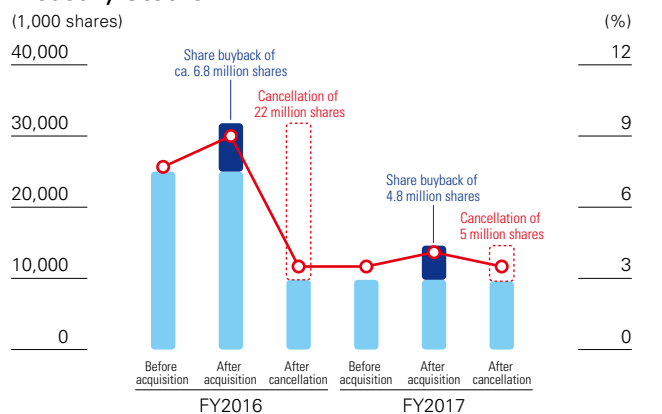
FY2016

- Acquired ¥35 billion of common stock
- Retired 22 million shares (6.27% of total issued shares before retirement)

FY2017

- Acquired ¥29.4 billion of common stock
- Retired five million shares (1.52% of total issued shares before retirement)

Treasury Stocks



■ Treasury stocks ■ Share buyback □ Cancellation ○ Percentage of treasury stocks

Initiatives Undertaken in Fiscal 2017

Research

Producing novel medicines meeting medical & societal needs faster than other companies

Discovery Research

In fiscal 2017, Shionogi worked to continuously create development candidates and products under development mainly in its two core therapeutic areas of infectious diseases and pain / CNS. As a result, in the area of infectious diseases, Shionogi created an anti-HIV drug candidate with a novel mechanism of action and S-004992, a drug candidate for tuberculosis. In the pain / CNS area, Shionogi discovered S-637880, a drug candidate for neuropathic pain.

Shionogi has also initiated numerous peptide discovery programs in the area of medium-sized molecules in addition to small molecules, and created an adjuvant for vaccines from its nucleic acid drug discovery platform.

CMC Research*

Shionogi moved S-770108 (pirfenidone inhalant), a drug candidate for idiopathic pulmonary fibrosis, into the clinical trial stage by utilizing its proprietary formulation technology for inhalation drug delivery systems.

In small-molecule API manufacturing technologies, Shionogi succeeded in reducing raw material costs by approximately half by incorporating an oxidation and reduction reaction using visible light into synthetic pathways. For manufacturing technology for medium-sized molecule APIs, Shionogi successfully shortened the reaction time in the manufacturing process of cancer peptide vaccine S-288301 to approximately 1/40 using microwave irradiation.

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

Main performance FY2017

Creation of Development Candidates

- Novel HIV Drug
- Nucleic acid adjuvant for Vaccine

Creation of Development Projects

- S-004992 (Tuberculosis)
- S-637880 (Neuropathic pain)
- S-770108 (Idiopathic pulmonary fibrosis)
- S-005151 (Peptide for acute ischemic stroke)

Began multiple programs to discover future growth drivers using technology licensed from PeptiDream Inc.

Established business partnership with UMN Pharma (infectious disease prevention vaccine expertise)

Initiated collaborative research with PharmaIN to apply their peptide modification and drug delivery technology

Expanded collaboration with Nissan Chemical Industries, for creation of anti-fungus drugs

Pulmonary Drug Delivery Technology of *Pirespa* Inhaled Product

Purpose & challenge of inhaled product development

1. Pulmonary drug delivery

Pirespa Tablet
Side effects due to whole body exposure

➔

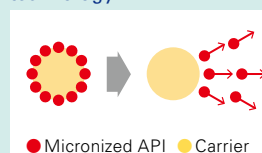
Inhaled product
Minimize side effects by pulmonary targeting

- Micronize API with lipid
- ➔ Micronized down to a size permitting pulmonary drug delivery
- A new inhaler device is under development with a device maker

Challenges for inhaled product development

1. Difficulty in micronization
2. High drug load will be needed

Dry powder inhalation technology



2. Dose maximization

- Select appropriate carrier
- Optimize complex formation process

➔ Achieve high drug load

Developed *Pirespa* inhaled product to minimize side effects (LCM) using dry powder inhalation technology

Actions to Create Further Growth Drivers Generate a Large Variety of Compounds in Phase I

●●● As of March 2018 ★★☆☆ Target Milestones in March 2021



Drug Development

Managing the Costs of Clinical Trials and Strengthening Global Operations

In the fiscal year ended March 31, 2018, by prioritizing investment of management resources in *Xofluza*, a new anti-flu drug, Shionogi filed for approval under the Sakigake designation system*¹ on October 25, 2017, and obtained approval on February 23, 2018. Shionogi launched *Xofluza* on March 14, 2018, contributing to quickly bringing this innovative drug to patients.

For cefiderocol, a drug candidate for multidrug-resistant gram-negative bacterial infection, Shionogi has been conducting a study on gram-negative carbapenem-resistant bacterial infections to maximize the value of cefiderocol amid the increasingly serious worldwide problem of antimicrobial resistance (AMR).

Shionogi obtained approval for abuse-deterrent

OxyContin TR tablets*² in August 2017, and began sales in December 2017. Shionogi filed applications in the United States and Europe for approval of *Mulpleta*, a treatment for thrombocytopenia, which has already been launched in Japan.

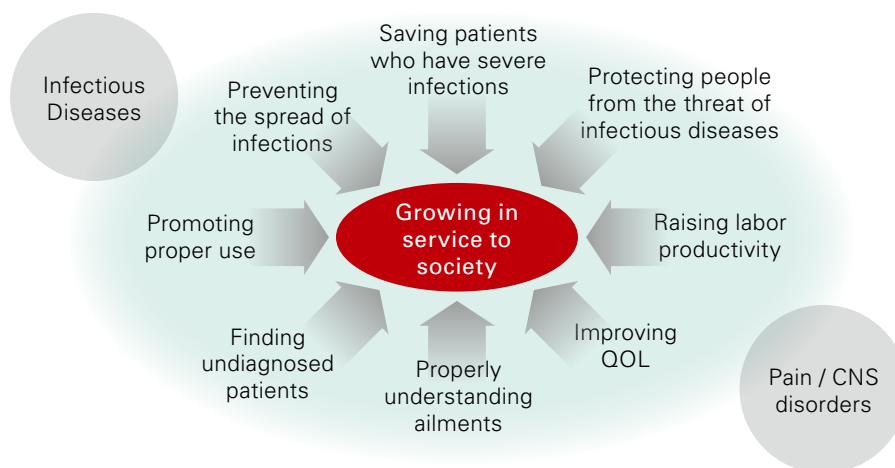
Shionogi began Phase III clinical trials of *Xofluza* TM in a granular formulation to maximize its value. For *Cymbalta*, Shionogi began Phase III clinical trials for the indication of pediatric depression.

*1 Sakigake designation system: A part of Japan's Revitalization Strategy, this system designates pharmaceutical products that are being developed ahead of other countries and have shown exceptional efficacy in the early clinical trial stage. It is aimed at facilitating their early commercialization through various kinds of support.

*2 Abuse-deterrent *OxyContin* TR tablets: A time-release formulation designed to prevent drug abuse

Striving toward SGS2020

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



Progress of products

<i>Xofluza</i> Influenza virus infection	Tablet: Adult/Pediatric NDA Submission – Approval (February 2018) – Launch (March 2018) Granule: Phase III clinical trial under way
Cefiderocol (Multidrug-resistant gram-negative bacterial infections)	Global Phase III Gram-negative carbapenem-resistant study under way
<i>OxyContin</i> TR tablets (Cancer pain analgesic)	Approval (August 2017) – Launch (December 2017)
<i>Mulpleta</i> (Thrombocytopenia)	NDA Submission: US (December 2017), EU (January 2018)
<i>Cymbalta</i> (Depression)	Phase III clinical trial (pediatric) under way

Pipeline (As of July 2018)

	Phase I	Phase II	Phase III	Filed
Global	S-004992* Tuberculosis	Cefiderocol Multidrug-resistant Gram-negative bacterial infections	Cefiderocol Multidrug-resistant Gram-negative bacterial infections	<i>Xofluza</i> (US, Taiwan) Influenza virus infection
	S-117957 Insomnia	S-120083 Inflammatory pain		<i>Rizmoic</i> (EU) Opioid-induced constipation
	S-237648 Obesity	S-707106 Type 2 diabetes		<i>Mulpleta</i> (US) Thrombocytopenia
		S-488210 Head and neck squamous cell carcinoma		<i>Mulpleta</i> (EU) Thrombocytopenia
		epertinib Malignant tumor		
		S-588410 Bladder cancer		
In Japan	S-812217* Depression	Cefiderocol Multidrug-resistant Gram-negative bacterial infections	Cefiderocol Multidrug-resistant Gram-negative bacterial infections	<i>Xofluza</i> Influenza virus infection (oral, granule)
	S-600918 Neuropathic pain	S-600918 Refractory/unexpected chronic cough	<i>Intuniv</i> ADHD (adult)	<i>Oxycodone</i> Moderate to severe chronic pain
	S-637880 Neuropathic pain	S-237648 Obesity	<i>Cymbalta</i> Depression (pediatric)	<i>Lisdexamfetamine</i> ADHD (pediatric)
	S-010887 Neuropathic pain	S-525606 Allergic rhinitis caused by Japanese cedar allergen	S-588410 Esophageal cancer	
	S-005151 Acute ischemic stroke	S-588410 Bladder cancer	<i>Oxycodone</i> Moderate to severe chronic pain	
	S-770108 Idiopathic pulmonary fibrosis	SR-0379 Cutaneous ulcer		
Out-licensed	GSK3342830 Multidrug-resistant Gram-negative bacterial infections		DTG+3TC Treatment for HIV infection GEMINI study (untreated) TANGO study (maintenance)	<i>Osphena</i> Vaginal dryness associated with postmenopausal VVA
			CAB Prevention for HIV infection	
			CAB+RPV Treatment for HIV infection	

Infectious diseases
 Pain / CNS
 Other

* In preparation for Phase I

Domestic Business / Overseas Business

Concentrating business resources on new products with a view to furthering growth

Domestic Business

Domestic sales of prescription drugs decreased 11.9 percent to ¥139.2 billion as a result of the launch of generic versions of *Crestor* and *Irbetan* (launched in September 2017 and December 2017, respectively). Shionogi defined *Cymbalta*, *Intuniv*, *Symproic* and *Xofluza* as new strategic products beginning in the fiscal year under review, and focused its management resources on strategic products and new products*. As a result, sales of strategic products totaled ¥28.4 billion (49.5 percent increase) and sales of new products amounted to ¥48.6 billion (24.2 percent increase).

In addition, Shionogi began marketing the anti-flu drug *Xofluza* in fiscal 2017 as the result of Company-wide efforts, quickly bringing this innovative drug to patients.

Overseas Business

In overseas business, *Symproic*, the first drug that Shionogi developed simultaneously in Japan, the United States and Europe, was launched in the United States. In the United States, Shionogi has established an efficient marketing system using fewer of its own management resources.

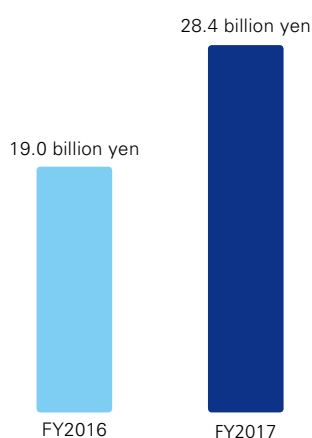
Furthermore, the Shionogi Group completed the filing of applications in the United States and Europe for *Mulpleta*, a treatment for thrombocytopenia in patients with chronic liver disease, which has already been launched in Japan. In the United States, *Mulpleta* received priority review designation.

In addition, the new anti-tuberculosis drug candidate S-004992 was discovered in C&O, our subsidiary in China.

* New Products: *OxyContin* franchise, *Actair*, *Pirespa*, *Rapiacta*, *Mulpleta*, *Brightpoc Flu*

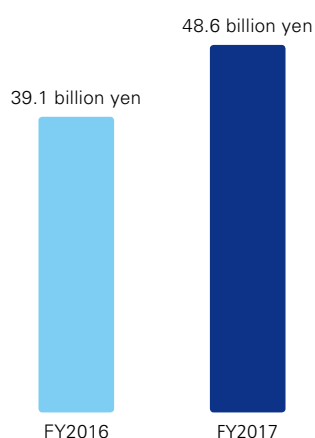
Domestic sales of strategic products

Increased **49.5%** year on year



Domestic sales of new products

Increased **24.2%** year on year



Domestic sales of *Xofluza*

(from March 14, 2018 to March 31, 2018)

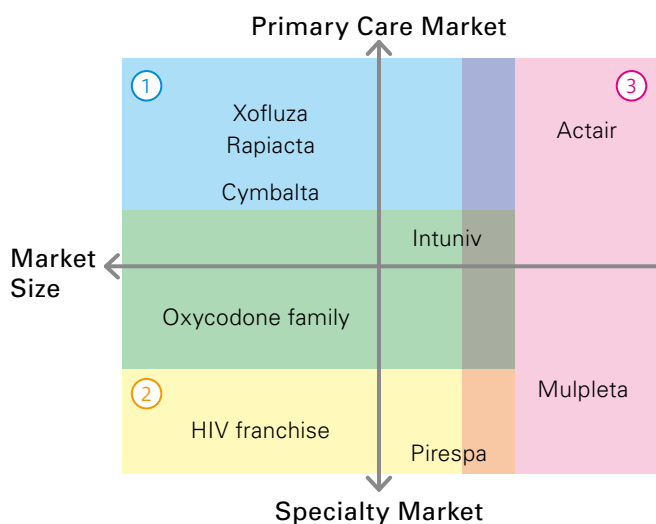
2.4 billion yen



Domestic Marketing Framework and Strategy for Maximizing the Value of New Products

Shionogi's way to win in the market

- ① **Get larger market share**
 - Enhance marketing activities for each region mainly by MRs
 - Make blockbuster drugs by focusing resources on new products with more efficacious e-detailing*¹
- ② **Increase presence in each market**
 - Improve expertise of MRs by strengthening MSL*²/ASL*³ network
 - Communicate new treatment concepts by strengthening marketing strategy
- ③ **Enhance efficiency of marketing**
 - Clarify priorities and focus resources



*1 System for providing information of drugs through internet

*2 MSL (Medical Science Liaison): Experts who have advanced knowledge about disease, diagnosis, treatment and drugs, and provide and collect medical and academic information through communication with leading medical professionals

*3 ASL (Area Support Liaison): Experts who determine and carry out marketing strategy, and conduct promotional activity with advanced knowledge about disease and medical treatment

Main Products



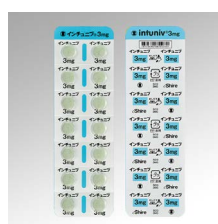
Cymbalta

Treatment of depression, anxiety, diabetic neuropathic pain, fibromyalgia pain, chronic lower back pain, and osteoarthritis pain

Launched April 2010

Cymbalta is a serotonin and noradrenaline 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 pain associated with chronic lower back pain in March 2016. It was strongly recommended in 2018 guidelines for the treatment of chronic lower back pain.

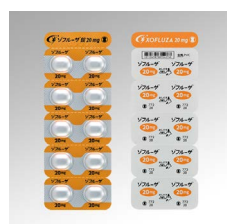


Intuniv

Attention-deficit hyperactivity disorder (ADHD) treatment

Launched May 2017

Intuniv is a selective α_2 adrenergic receptor agonist, the first with this action mechanism to be developed as therapy for ADHD, and is a non-central nervous system stimulant that is to be administered once daily. As the mechanism of action of this drug is different from that of other ADHD therapeutic drugs marketed in Japan thus far, Intuniv is expected to be a new treatment option for ADHD patients.



Xofluza

Anti-influenza agent

Launched March 2018

A cap-dependent endonuclease inhibitor originated by Shionogi, Xofluza suppresses the replication of influenza viruses by a mechanism different from existing anti-flu drugs. Xofluza is an oral tablet requiring only a single dose, which is likely to improve compliance as well as convenience for the patient.



OxyContin family Symproic

Cancer pain analgesic

OxyContin tablets launched July 2003, OxiNorm powder launched February 2007, OxiFast injection launched May 2012, Symproic tablets launched June 2017, OxyContin TR tablets launched December 2017

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.

In June 2017, Shionogi launched Symproic tablets for the alleviation of constipation in patients treated with opioid analgesics. In December 2017, we added abuse-deterrent OxyContin TR tablets to our lineup, to promote safe and appropriate use of opioid-analgesics.

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, Teppei Mogi, Takuko Sawada, Akio Nomura
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 its 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.

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 commit-

Board of Auditors



From left: Kenji Fukuda, Akira Okamoto, Shinichi Yokoyama, Ikuo Kato, Takaoki Fujiwara

tees 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.

⇒ Reasons for nominating candidates for directors are detailed in the Notice of Convocation of the 153rd Annual General Meeting of Shareholders. http://www.shionogi.co.jp/en/ir/pdf/e_sho180620.pdf

Audit Framework

To ensure that the 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 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.

Analysis and Self-Evaluation of the Effectiveness of the Board of Directors — Summary of Results

The Board of Directors analyzed and evaluated its effectiveness in fiscal 2017 by conducting questionnaires and interviews of individual directors and corporate auditors, with a focus on “Directors and the Board, Framework, Roles and Responsibilities, and Operation” in the Basic Views and Guidelines on Corporate Governance set by the Company.

The following is a summary of the results:

1. Framework

We assess that the Board of Directors has currently secured the necessary framework from the standpoint of various attributes, including expertise and experience, and diversity. However, issues for the future include the election of directors of foreign nationality and the election of female outside directors from the standpoint of further diversity.

The Board of Directors will consider ways to further strengthen the governance framework while taking the Company’s business development into account.

2. Roles and Responsibilities

The status of management development, an issue in the previous fiscal year, was reported at meetings between outside directors and the president to exchange opinions. Issues for the future that were mentioned are the enhancement of discussions on the medium-term business plan and the enhancement of explanations and discussions of the selection process and development progression with respect to management development.

Reports regarding the further enhancement of reports on compliance and the operation of internal controls are to be

made regularly every year, and a report on the status of compliance activities was presented at the Board of Directors meeting in September 2017.

The Board of Directors will take further improvement measures, including increasing the number of reports on compliance to two per year.

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

3. Operation

To further stimulate discussion at Board of Directors meetings, the Board of Directors enhanced advance briefings and secured time for deliberation on important and highly specialized matters, which was an issue in the previous fiscal year.

Opinions submitted as issues for the future included the flexible scheduling of Board of Directors meetings, efficient and effective advance briefing methods, and holding of observation tours of research laboratories and factories to further deepen directors’ understanding of the pharmaceutical industry.

The Board of Directors will continue to consider ways to improve its operation.

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

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Remuneration standards shall involve a system of remuneration that supports execution of duties by directors that continuously expand corporate value over the medium- to long- term. It shall involve appropriate performance-based remuneration, enable the Group to secure outstanding personnel, and enable fulfillment of the obligation for explanation to shareholders and other stakeholders.

Calculation Methods

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It encompasses base monthly remuneration, performance-linked bonuses determined by results for the fiscal year and other factors, and restricted stock compensation (medium-term performance-linked and long-term) introduced in fiscal 2018. Outside directors only receive base remuneration.

Base monthly remuneration is determined according to the position and responsibilities of directors with due consideration of the operating environment and global trends. Bonuses are short-term incentives determined according to performance, including the achievement of profit targets, and other factors in each fiscal year based on

a calculation matrix. In addition, restricted stock is awarded based on a grant table according to the director’s position and role. Conditions for removal of transfer restrictions are as follows.

(1) Long-term stock-based compensation

Restrictions will be removed for all of the allotted shares upon the expiration of the restriction period, on the condition that the eligible director has served continuously as either a director of the Company or as an executive officer not concurrently serving as a director during the restriction period.

(2) Medium-term performance-linked compensation

Restrictions will be removed upon the expiration of the restriction period for a number of shares determined by multiplying the number of shares the eligible director held when the restriction period ended at a removal rate between 0 and 100%, which is determined according to the degree of achievement of performance targets for the period covered by the medium-term performance-linked compensation, on the condition that the eligible director has served continuously as either a director of the Company or as an executive officer not concurrently serving as a director during the transfer restriction period. Performance targets consist of net sales and operating income driven by new products and core businesses, return on equity, the growth rate of total shareholder return (TSR) at comparable companies, and other indicators. These indicators are determined after a comprehensive evaluation of factors such as quantitative targets in

the medium-term business plan and issues related to the Company's business, and are based on the assumption that the Company achieves its vision, which is to "grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare." The restriction removal rate is decided by the Board of Directors based on deliberations of the Compensation Advisory Committee, after comprehensively assessing the degree of achievement of each indicator at the end of the evaluation period.

Total auditors' remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It encompasses base monthly remuneration.

Procedures

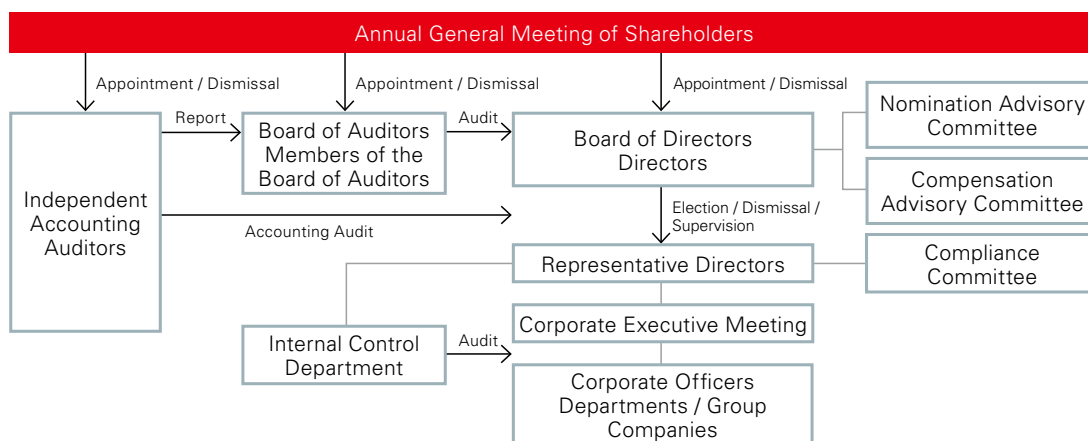
The Compensation Advisory Committee, chaired by an outside director, shall deliberate fairly, transparently and rigorously, and its conclusions shall inform decisions about remuneration by the Board of Directors.

Future Policy

Recently, based on revisions to the tax system, stock-based compensation programs using different mechanisms such as trust-based stock compensation and restricted stock have been introduced at some other companies. Shionogi has also considered its approach to stock-based compensation, including the current stock option plan.

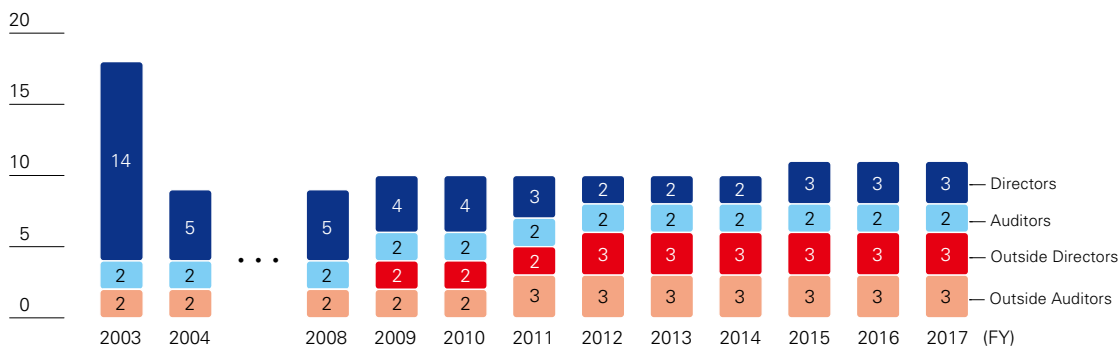
We have decided to shift to a stock-based compensation plan suited to Shionogi in order to provide incentives to continuously enhance corporate value by further increasing the linkage between director compensation and the Company's medium- and long-term business performance, and to further promote shared value with shareholders. The share of basic compensation in total compensation, which was approximately 75 percent in fiscal 2013, was reduced to about 55 percent in the last fiscal year. By changing to a stock-based compensation plan, we aim to further reduce the proportion of basic compensation to 50 percent or lower.

Corporate Governance Structure



Corporate Governance Transition

(Persons)



FY2004

- Number of internal directors reduced to five from fourteen
- Introduction of corporate officer system

FY2009

- Introduction of an outside director system
- Establishment of Nomination Advisory Committee
- Establishment of Compensation Advisory Committee
- Start of opinion exchanges with auditors

FY2015

- Information sharing meetings with outside directors
- Advent of female (internal) directors

FY2017

- Establishment of Nomination Advisory Committee
- Establishment of Compensation Advisory Committee

Risk Management

Shionogi continues work on building an internal crisis management system in accordance with the Shionogi Group Risk Management Policy established in 2015.

The Shionogi Group has reinforced efforts to publicize this policy—which calls for maintaining and promoting a comprehensive crisis management system, including a business continuity plan—to Group companies through the establishment of a new Group company in fiscal 2017. The Shionogi Group Risk Management Policy places the highest priority on employee safety confirmation in the event of a huge natural disaster, and mandates regular training using the safety confirmation system, as well as stockpiling in case of emergency and reviews of disaster task forces at

each business site. In addition, Shionogi formulates business continuity plans (BCPs) for each link in the value chain, regularly conducting training at the management or front-line level to ensure the ongoing viability of operations.

We are also working toward an organizational climate and culture that brings to light misconduct with potential to threaten business continuity, and ensures the timely reporting to management of all manner of information by Group companies and organizations.

In this manner, every Shionogi employee is endeavoring to protect the Group's valuable business assets, through a constant and high level of risk awareness.

Shionogi Group Risk Management Policy

The Shionogi Group has established this policy to carry out risk communication among the members of the Group and to build, improve and advance a comprehensive crisis management system—including establishing a business continuity plan—in preparation for natural disaster, fire, explosion and other accidents, outbreaks of infectious disease, acts of terrorism, and other risks.

I. Basic Principle

The Shionogi Group responds to crisis events according to the following basic principle to achieve its company policy.

- Place the highest priority on the life and safety of employees of the Shionogi Group and other concerned parties when responding to risk.
- Prevent and contain damage to corporate assets or the corporate value.
- Ensure the trust of society and stakeholders as a company and fulfill social responsibility by continuing to research, produce, and promote products and services.

II. Principles of Conduct

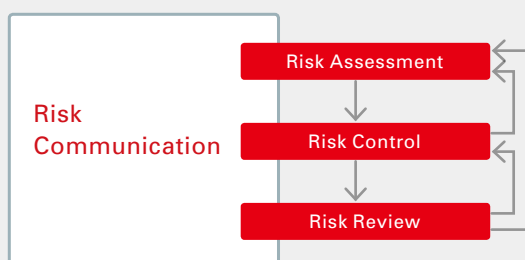
The Shionogi Group responds to crisis events in cooperation with each company of the Shionogi Group and according to the following principles of conduct.

Ex-ante measures

Assess risk by taking into account the likelihood and impact of crisis events occurring. Continue to prevent crisis events and formulate business continuity plans by developing and implementing plans for controlling risks of each company based on assessment results and reviewing the plans.

Ex-post measures

- When a crisis event occurs, quickly deal with the crisis and overcome the crisis event by formulating the response policy after collecting information.
- Conduct a risk review by taking into account the situation of damage and business continuity, take measures to prevent recurrence, and continue to conduct business.



Rigorous Compliance

We have published the Shionogi Group Compliance Policy, and all Group employees in Japan and overseas are required to put the policy into practice to increase awareness about the importance of compliance. Shionogi promotes compliance in all departments and units through a structure centered on the Compliance Committee, which is chaired by the President and Representative Director. Under this structure, the manager of each department or unit is designated as Compliance Manager, who cooperates with an assistant designated the Compliance Promoter in undertaking activities, including the preparation of compliance risk management action plans specific to that department or unit, and adherence to a Plan-Do-Check-Act model.

The Bureau of the Compliance Committee sits within the Corporate Social Responsibility Department. Besides drafting compliance measure proposals for the Group as a whole, it provides support for the compliance promotion activities of departments and units, by such means as implementing and facilitating compliance education programs for executives and all Shionogi Group employees, and conducting Groupwide employee attitude surveys annually to keep track of compliance consciousness and performance and gain improved awareness of compliance violations. In June 2018, we updated the Shionogi Compliance Handbook to draw attention to the

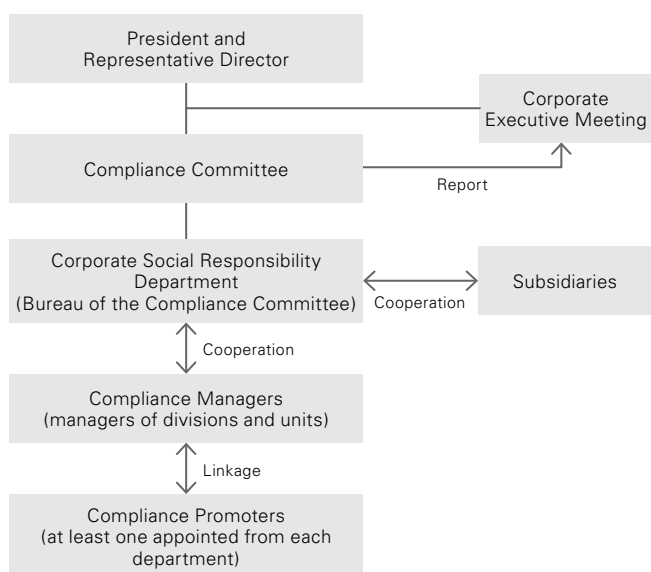
latest compliance information in order to further improve compliance performance.

We have also revised the Shionogi Code of Practice to reflect calls on global pharmaceutical companies to provide more reliable data and maintain appropriate relationships with medical professionals. By enforcing this code, Shionogi seeks to maintain even higher ethical standards and transparency to earn the public's trust as a global company. In addition, we have published a Shionogi Group Anti-Corruption/Anti-bribery Policy stating our commitment to honest business transactions and fair competition.

Shionogi has established an internal reporting system comprising an internal reporting desk and an external reporting desk. We are making every effort to ensure this system is well-known and used not just by employees but also by third parties, and working to promote the early discovery as well as the prevention and amelioration of compliance violations by utilizing the system.

At Shionogi, compliance has been and will remain our No. 1 priority, in short, the basis for company survival. Compliance in the Shionogi Group does not mean only compliance with laws, rules and regulations but also with social standards as well as ethical behavior and our intention is for all employees to consistently hold themselves to the highest ethical standards in order to support the Group's growth at a global level.

Compliance Promotion Structure (As of April 2018)



Concept Chart



Members of Boards

(As of June 30, 2018)

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 10 of 12 Board of Directors' meetings



Isao Teshirogi, Ph.D.

President and CEO

1982 Joined the Company
1999 General Manager, Corporate Planning
1999 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, Executive Vice President

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
2017 Director of the Company, Senior Executive Officer and Senior Vice President, Corporate Strategy Division
2018 Director, Executive Vice President (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, Kwansai Gakuin University Law School
2005 Part-time instructor, Kobe University Graduate School of Law
2009 Outside Director of the Company (incumbent)
2010 Part-time instructor, Kwansai Gakuin University Law School (incumbent)
2014 Outside Corporate Auditor, Nittaka 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 12 Board of Directors' meetings
Significant Concurrent Positions:
Representative Director and President, Ginsen Co., Ltd.
Outside Director of Tsubakimoto Chain Co.

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

Corporate Officers

Senior Executive Officers

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

Corporate Officers

Masaaki Takeyasu
Miyuki Hiura
Toshinobu Iwasaki, Ph.D.
Takeshi Shiota, Ph.D.
Noriyuki Kishida
Ryuichi Kiyama, Ph.D.
Akira Kato, 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.
 2014 Director, Corporate Advisor, Sumitomo Life Insurance Company
 2014 Outside Corporate Auditor, Rengo Co., Ltd.
 2014 Retired as Director and Corporate Advisor, Sumitomo Life Insurance Company
 Attended 11 of 12 Board of Directors' meetings
 Attended all 8 Board of Auditors' meetings



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 Positions:
 Partner, Dojima Law Office
 Outside Corporate Auditor, Senshu Ikeda Bank, Ltd.



Takaoki Fujiwara

Outside Member of the Board of Auditors (newly elected)

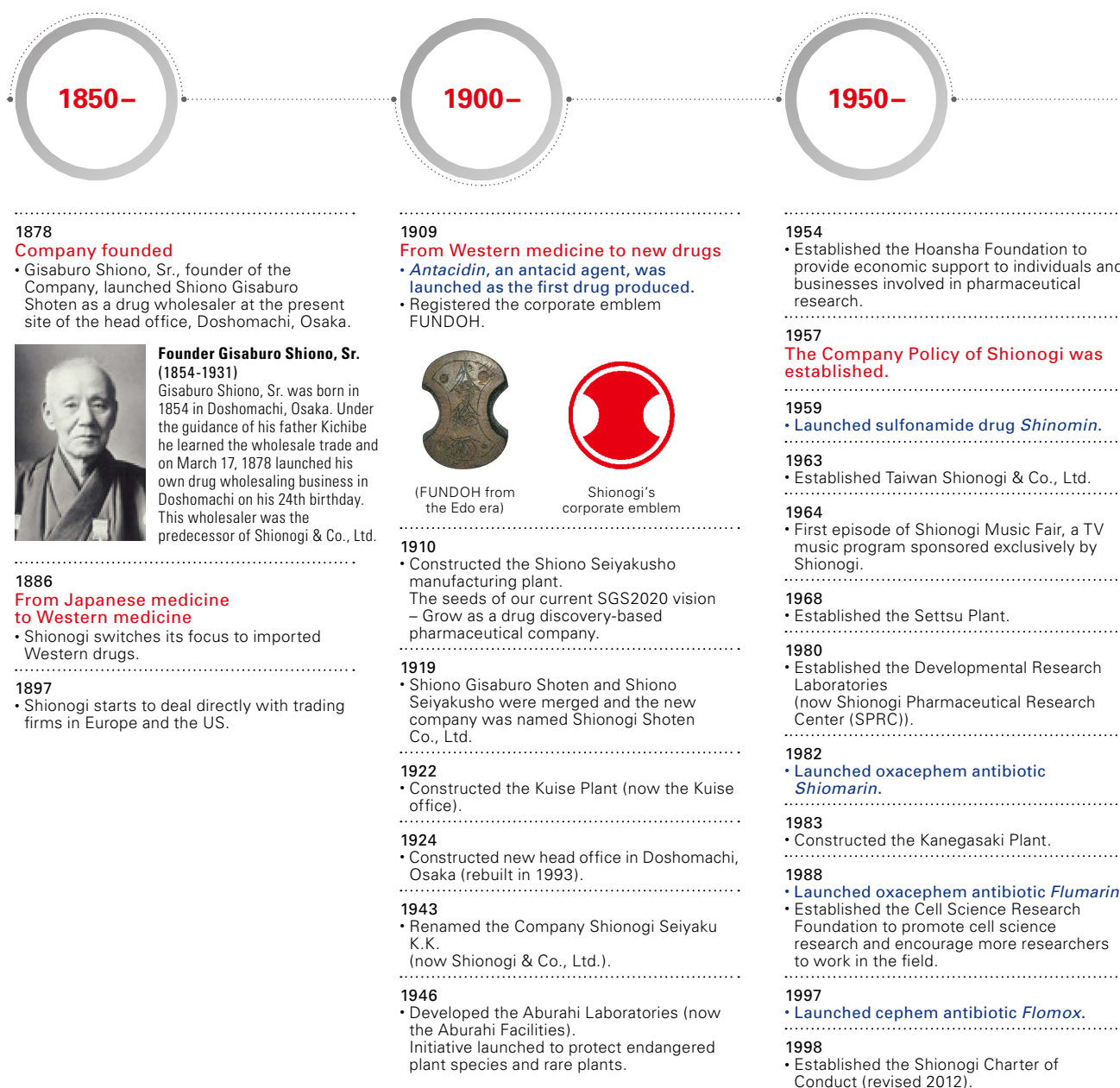
1975 Joined Hanshin Electric Railway Co., Ltd.
 2005 Director, Hanshin Electric Railway Co., Ltd.
 2007 Managing Director, Hanshin Electric Railway Co., Ltd.
 2011 Representative Director and President, Hanshin Electric Railway Co., Ltd.
 2011 Director, Hankyu Hanshin Holdings, Inc.
 2015 Chairman of the Board of Directors and Representative Director, Hanshin Hotel Systems
 2017 Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd. (incumbent)
 2017 Representative Director, Hankyu Hanshin Holdings, Inc. (incumbent)
 2017 Outside Director, Sanyo Electric Railway Co., Ltd. (incumbent)
 2017 Director, Hanshin Hotel Systems (incumbent)
 2018 Outside Member of the Board of Auditors of the Company (incumbent)
Significant Concurrent Positions:
 Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd.
 Representative Director, Hankyu Hanshin Holdings, Inc.
 Outside Director, Sanyo Electric Railway Co., Ltd.
 Director, Hanshin Hotel Systems

Our History

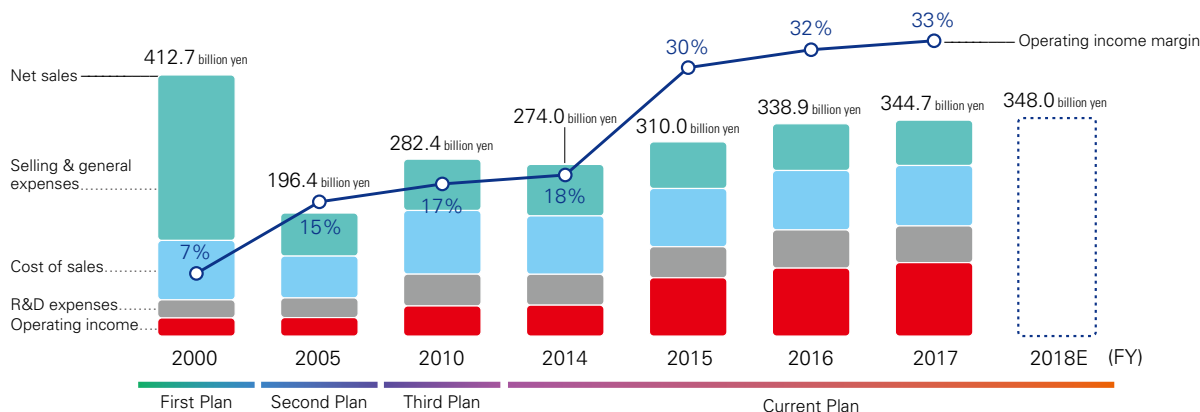
140 Years of Consistently Addressing Healthcare Needs

One hundred and forty years now have passed since Shiono Gisaburo Shoten, the drug wholesaler that would become Shionogi & Co., Ltd., began operations in Doshomachi, Osaka, in 1878. Since then, Shionogi has evolved into a leading pharmaceutical manufacturer via the development of our first proprietary antibacterial agent, *Shinomin*; the launch of *Shiomarin*, the world's first oxacephem antibiotic, also developed in-house; and the success of our hyperlipidemia treatment *Crestor*, which has grown into a blockbuster.

From fiscal 2005, the Company identified priority therapeutic areas, concentrating business resources on infectious diseases, pain treatment, and metabolic diseases. From fiscal 2010, we launched the anti-HIV agent *Tivicay* and other new growth drivers as we succeeded in our transition to a more robust profit-generating business structure. We aim to achieve further transformation by continuing to address healthcare needs.



Transition since 2000 to a more robust profit-generating business structure



2000-

2000- The First Medium-Term Business Plan

Completion of corporate restructuring to concentrate on pharmaceutical business.

Transferred or sold six businesses: drug wholesaling, agrochemical, clinical laboratory, animal health products, industrial chemicals and capsules.

2001

- Established Shionogi USA, Inc. (now Shionogi Inc.).
- Established joint venture Shionogi-GlaxoSmithKline Pharmaceuticals LLC. (now Shionogi-ViiV Healthcare LLC). Started joint R&D into HIV drugs.

2003

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

2005- The Second Medium-Term Business Plan

Established a constant flow of pipeline products through energizing and globalizing R&D.

2005

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

2008

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

2010- The Third Medium-Term Business Plan

Launch of multiple products developed globally and real growth.

2010

- Launched antiviral drug for influenza *Rapiacta*.
- Launched SNRI *Cymbalta*.
- Established the PET Molecular Imaging Center at the Osaka University Graduate School of Medicine.
- Established Shionogi Inc. (Florham Park, New Jersey) as the US group headquarters.



2011

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



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

2012

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

2013

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

2014- New Medium-Term Business Plan Shionogi Growth Strategy 2020

Grow as a drug discovery-based pharmaceutical company.

2014

- Launched HIV treatment *Tivicay*.

2015

- Launched anti-HIV agent *Triumeq*.
- Launched allergen immunotherapy *Actair*.
- Launched thrombocytopenia treatment *Mulpleta*.

2016- New Medium-Term Business Plan Update to Shionogi Growth Strategy 2020 (SGS2020)

- Established Shionogi Healthcare Co., Ltd.
- Launched hyperlipidemia treatment *Crestor OD* tablets

2017

- Launched cancer pain treatment *Methapain*
- Launched ADHD therapeutic agent *Intuniv*
- Launched opioid-induced constipation (OIC) treatment *Symproic*
- Launched chronic cancer pain treatment *OxyContin TR* tablets

2018

- Launched anti-influenza agent *Xofluza*

Management's Discussion and Analysis

Financial position

As of March 31, 2018, total assets stood at ¥722,500 million, an increase of ¥52,229 million from a year prior.

Current assets increased ¥47,881 million from the end of the previous fiscal year, mainly reflecting an increase in cash and cash equivalents as well as in short-term investments for surplus fund management. Property, plant and equipment increased ¥4,348 million from the end of the previous fiscal year, as marketing rights decreased due to amortization but investments in securities increased mainly due to higher stock prices.

Total liabilities were ¥117,659 million, a decrease of ¥26,400 million from a year earlier.

Current liabilities decreased ¥18,029 million, mainly due to decreases in accrued income taxes as well as notes and accounts payable for construction. Long-term liabilities decreased ¥8,371 million.

Net assets came to ¥604,841 million, an increase of ¥78,629 million from a year earlier.

Shareholders' equity increased ¥56,811 million, mainly reflecting an increase in profit attributable to owners of parent, a decrease due to cash dividends paid, and changes due to purchase and cancellation of treasury stock. Total accumulated other comprehensive income increased ¥21,715 million, mainly due to higher stock prices. Share subscription rights increased ¥112 million to ¥528 million and non-controlling interests decreased ¥9 million to ¥3,466 million.

Management performance

Net sales rose 1.7% year on year to ¥344,667 million. Domestic prescription drug sales, the main component of net sales, decreased 11.9% year on year to ¥139.2 billion, but royalty income of ¥155.0 billion (34.0% increase) contributed to sales growth.

Operating income increased 6.5% year on year to ¥115,219 million, a record for the third consecutive

year. Despite higher selling expenses for new products, growth in sales led to an increase in operating income.

Profit attributable to owners of parent increased 29.8% to ¥108,867 million, exceeding ¥100,000 million for the first time and setting a record for the second consecutive year, reflecting the increase in operating income and an increase in dividend income from UK-based ViiV Healthcare.

1. Domestic Sales of Prescription Drugs

Domestic sales of prescription drugs decreased 11.9% to ¥139.2 billion owing to the launch of generic versions of *Crestor* and *Irbetan*. Shionogi defined *Cymbalta*, *Intuniv*, *Symproic* and *Xofluza* as new strategic products beginning in the fiscal year under review, and focused its management resources on strategic products and new products. Sales of strategic products totaled ¥28.4 billion (49.5% increase) and sales of new products amounted to ¥48.6 billion (24.2% increase).

In addition, Shionogi commenced sales of *Xofluza*, an anti-flu drug, during the fiscal year ended March 31, 2018.

2. Exports and Overseas Subsidiaries

Sales from overseas business declined 19.1% to ¥23.6 billion.

In overseas business, *Symproic*, the first drug that Shionogi developed simultaneously in Japan, the United States and Europe, was launched in the United States. By taking full advantage of cooperation with Purdue Pharma in the United States, Shionogi has established an efficient marketing system using fewer management resources of its own.

3. Royalty Income and Dividend Income from ViiV Healthcare

Global sales of the anti-HIV drug *Tivicay* and the combination drug *Triumeq*, which Shionogi licensed to ViiV Healthcare, expanded steadily, and royalties from ViiV Healthcare increased 41.2% to ¥103.5

billion. As was the case in the previous fiscal year, dividend income from ViiV Healthcare increased during the fiscal year ended March 31, 2018, due to strong global sales of anti-HIV drugs.

During the fiscal year ended March 31, 2018, Shionogi also received payments from Switzerland-based Roche in connection with progress in development of anti-flu drug *Xofluza*.

Royalties on Crestor sales from the U.K.-based AstraZeneca decreased 31.6% to ¥22.6 billion, but because of the above factors, total royalties and dividend income increased 36.2% to ¥180.1 billion.

Cash Flows

Net cash provided by operating activities during the fiscal year ended March 31, 2018 was ¥129,790 million, an increase of ¥17,887 million from the previous fiscal year. Contributing factors included an increase in profit before income taxes, an increase in interest and dividend income, and an increase in income taxes paid.

Net cash used in investing activities was ¥51,238 million, a decrease of ¥19,594 million due to increased proceeds from time deposits (with original maturities exceeding three months).

Net cash used in financing activities was ¥53,894 million, mainly for purchases of treasury stock and cash dividends paid. As a result, cash and cash equivalents at the end of the period increased ¥23,077 million to ¥172,401 million.

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 2017, capital investment by the Shionogi Group totaled ¥5,678 million, a decrease of ¥3,981 million, or 41.2%, year on year.

Capital investment by Shionogi & Co., Ltd. totaled

¥5,226 million, mainly focused on manufacturing facilities at the Settsu Plant and Kanegasaki Plant.

Investment projects were mostly 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.

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%.

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 2017. Given these factors, the Company paid a year-end dividend of ¥44 per share for fiscal 2017, up ¥6 from the previous year. Including the interim dividend, the Company paid a full-year dividend of ¥82 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.

	2008	2009	2010	2011
For the years ended March 31:				
Net sales	¥214,268	¥227,512	¥278,503	¥282,350
Cost of sales	68,594	70,929	76,264	81,737
Selling, general and administrative expenses	105,275	124,568	149,801	153,721
Operating income	40,399	32,015	52,438	46,892
Profit before income taxes	39,963	30,786	58,541	33,135
Profit attributable to owners of parent	25,064	15,661	38,626	20,027
Net cash provided by operating activities	15,619	29,120	52,902	56,528
Net cash used in investing activities	(5,336)	(149,056)	(826)	(13,947)
Net cash used in financing activities	(17,124)	105,294	(4,979)	(27,011)
Research and development expenses	40,290	52,822	51,808	50,921
Capital investments	13,069	10,875	12,547	17,967
Depreciation and amortization	10,666	13,468	18,048	17,966
As of March 31:				
Property, plant and equipment, net	¥ 70,378	¥ 71,812	¥ 62,448	¥ 70,221
Total assets	413,704	501,853	540,762	523,242
Total long-term liabilities	29,024	114,955	131,956	115,326
Total net assets	342,236	310,094	341,976	328,096
Per share amounts:				
Profit attributable to owners of parent	¥ 74.21	¥ 46.75	¥ 115.33	¥ 59.80
Net assets	1,020.31	924.43	1,019.71	979.69
Dividend	22	28	36	40
Other:				
Equity ratio	82.7	61.7	63.2	62.7
Return on equity [ROE]	7.3	4.8	11.9	6.0
Payout ratio	29.6	59.9	31.2	66.9
Non-Financial Data:				
Employees (Number)	4,982	6,010	5,887	5,277
CO ₂ emissions (Thousand tons – CO ₂)* ¹	—	—	104	87
Amount of waste generated (t)	—	—	6,218	4,961
Ratio of hybrid vehicles (%)* ²	—	—	—	40
Water use (Thousand m ³)	1,959	1,971	2,032	1,794

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

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

*2 Excludes cold regions of Japan

Third Medium-Term Business Plan

New Medium-Term Business Plan

"SONG for the Real Growth"

Progress toward global growth

- Launched *Osphe* 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

2012	2013	2014	2015	2016	2017	2018	2018
						Millions of yen	Thousands of U.S. dollars
¥267,275	¥282,904	¥289,717	¥273,991	¥309,973	¥338,890	¥344,667	\$3,243,925
77,753	78,575	77,993	82,190	74,758	77,777	73,911	695,633
142,519	144,764	149,849	141,437	143,809	152,935	155,537	1,463,878
47,003	59,565	61,875	50,364	91,406	108,178	115,219	1,084,414
41,495	58,307	63,188	82,052	97,453	122,695	137,378	1,292,969
27,102	66,728	40,618	44,060	66,687	83,880	108,867	1,024,631
54,724	59,276	79,496	45,604	102,290	111,903	129,790	1,221,553
(38,290)	(19,960)	(20,040)	(31,697)	(32,895)	(31,644)	(51,238)	(482,240)
(27,749)	(37,687)	(53,799)	(46,211)	(18,525)	(57,411)	(53,894)	(507,238)
53,599	53,021	53,606	48,870	49,788	59,908	59,946	564,198
13,233	11,447	8,962	8,163	9,943	9,659	5,678	53,440
16,282	11,912	12,913	12,673	12,579	13,363	15,973	150,334
						Millions of yen	Thousands of U.S. dollars
¥ 74,282	¥ 78,474	¥ 78,977	¥ 77,023	¥ 78,674	¥ 78,788	¥ 75,956	\$ 714,880
522,162	574,882	580,566	602,900	639,639	670,271	722,500	6,800,000
92,900	53,042	33,721	56,222	53,779	53,464	45,093	424,405
347,198	423,633	467,836	478,883	513,877	526,212	604,841	5,692,621
						Yen	U.S. dollars
¥ 80.93	¥ 199.25	¥ 121.29	¥ 132.67	¥ 204.83	¥ 259.88	¥ 342.71	\$ 3.23
1,027.83	1,254.44	1,385.11	1,456.70	1,564.73	1,638.46	1,911.36	17.99
40	42	46	52	62	72	82	0.77
						%	
65.9	73.1	79.9	78.7	79.6	77.9	83.2	
8.1	17.5	9.2	9.4	13.6	16.3	19.4	
49.4	21.1	37.9	39.2	30.3	27.7	23.9	
6,132	6,082	6,165	6,059	5,896	5,511	5,120	
93	89	84	68	69	68	64	
4,744	4,564	4,275	3,509	3,944	3,820	3,486	
49	80	91	91	93	100	100	
1,962	1,874	1,735	1,583	1,567	1,528	1,389	

Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥106.25= US\$1.00, the approximate rate of exchange on March 31, 2018.

2. 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, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Assets			
Current assets:			
Cash and cash equivalents (Note 12)	¥ 172,401	¥ 149,324	\$ 1,622,598
Short-term investments (Notes 5 and 12)	92,006	57,324	865,939
Notes and accounts receivable (Note 12):			
Affiliates	289	235	2,720
Trade	53,240	59,320	501,082
Other	16,186	19,264	152,339
Allowance for doubtful accounts	(37)	(35)	(348)
	69,678	78,784	655,793
Inventories (Note 6)	34,637	41,388	325,995
Deferred income taxes (Note 11)	11,762	11,347	110,701
Other current assets	10,782	5,218	101,478
Total current assets	391,266	343,385	3,682,504
Property, plant and equipment:			
Land (Note 7)	8,352	8,411	78,607
Buildings and structures (Note 7)	118,547	119,587	1,115,736
Machinery, equipment and vehicles (Note 8)	85,229	83,446	802,155
Furniture and fixtures	38,943	38,240	366,522
Construction in progress (Note 7)	1,058	2,874	9,958
Accumulated depreciation	(176,172)	(173,770)	(1,658,089)
Property, plant and equipment, net	75,957	78,788	714,889
Investments and other assets:			
Investments in securities (Notes 5 and 12)	154,333	134,728	1,452,546
Investments in affiliates	1,916	1,816	18,033
Asset for retirement benefits (Note 10)	21,735	18,408	204,565
Goodwill	32,853	37,631	309,205
Marketing rights (Note 7)	38,073	49,969	358,334
Long-term prepaid expenses	573	600	5,393
Other assets (Notes 11 and 17)	5,794	4,946	54,531
Total investments and other assets	255,277	248,098	2,402,607
Total assets	¥ 722,500	¥ 670,271	\$ 6,800,000

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 12):			
Affiliates	¥ 738	¥ 1,088	\$ 6,946
Trade	7,279	10,857	68,508
Construction	2,680	11,829	25,224
Current portion of long-term loans (Notes 9 and 12)	10,000	—	94,118
Provision for employees' bonuses	8,741	9,183	82,268
Provision for sales returns	1,360	1,566	12,800
Accrued expenses	11,094	17,707	104,414
Accrued income taxes (Notes 11 and 12)	18,337	26,441	172,583
Other current liabilities (Note 9)	12,337	11,924	116,113
Total current liabilities	72,566	90,595	682,974
Long-term liabilities:			
Long-term debts (Notes 9 and 12)	18,492	30,054	174,042
Liability for retirement benefits (Note 10)	8,097	9,582	76,207
Deferred income taxes (Note 11)	14,160	9,372	133,271
Long-term accounts payable—other	3,527	3,537	33,195
Other long-term liabilities (Notes 9 and 17)	817	919	7,690
Total long-term liabilities	45,093	53,464	424,405
Contingent liabilities			
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 324,136,165 shares in 2018 and 329,136,165 shares in 2017	21,280	21,280	200,282
Capital surplus	20,227	20,227	190,372
Retained earnings	574,392	508,050	5,406,043
Less treasury stock, at cost	(36,642)	(27,111)	(344,866)
Total shareholders' equity	579,257	522,446	5,451,831
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	35,857	25,042	337,478
Deferred gain on hedges	1,175	122	11,059
Translation adjustments	(15,331)	(20,027)	(144,292)
Retirement benefit liability adjustments	(111)	(5,262)	(1,045)
Total accumulated other comprehensive income, net	21,590	(125)	203,200
Share subscription rights	528	416	4,969
Non-controlling interests	3,466	3,475	32,621
Total net assets (Note 18)	604,841	526,212	5,692,621
Total liabilities and net assets	¥722,500	¥670,271	\$6,800,000

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Net sales (Notes 15 and 19)	¥344,667	¥338,890	\$3,243,925
Cost of sales (Notes 6 and 15)	73,911	77,777	695,633
Gross profit	270,756	261,113	2,548,292
Selling, general and administrative expenses (Note 15)	155,537	152,935	1,463,878
Operating income	115,219	108,178	1,084,414
Other income (expenses):			
Interest and dividend income	27,703	18,840	260,734
Interest expense	(558)	(220)	(5,252)
Litigation expenses	(535)	(758)	(5,035)
Loss on disposal of property, plant and equipment	(577)	(542)	(5,431)
Exchange loss, net	(1,416)	(1,305)	(13,327)
Gain on sales of investments in securities (Note 5)	—	2,182	—
Business structure improvement expenses (Note 15)	—	(2,159)	—
Loss on impairment of fixed assets (Note 7)	(520)	(359)	(4,894)
Loss on devaluation of investments in securities (Note 5)	(794)	(14)	(7,473)
Other, net	(1,144)	(1,148)	(10,767)
	22,159	14,517	208,555
Profit before income taxes	137,378	122,695	1,292,969
Income taxes (Note 11):			
Current	30,152	35,745	283,784
Deferred	(1,563)	3,339	(14,711)
	28,589	39,084	269,073
Profit	108,789	83,611	1,023,896
Profit (loss) attributable to:			
Non-controlling interests	78	(269)	735
Owners of parent (Note 18)	¥108,867	¥ 83,880	\$1,024,631

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Profit	¥108,789	¥ 83,611	\$1,023,896
Other comprehensive income (loss):			
Net unrealized holding gain (loss) on securities	10,815	(1,706)	101,789
Deferred gain on hedges	1,052	122	9,901
Translation adjustments	4,766	(13,036)	44,856
Retirement benefit liability adjustments	5,151	407	48,480
Other comprehensive income (loss) (Note 16)	21,784	(14,213)	205,026
Comprehensive income	¥130,573	¥ 69,398	\$1,228,922
Comprehensive income (loss) attributable to:			
Owners of parent	¥130,582	¥ 70,009	\$1,229,007
Non-controlling interests	(9)	(611)	(85)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

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, 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 April 1, 2017	21,280	20,227	508,050	(27,111)	522,446	25,042
Profit attributable to owners of parent	—	—	108,867	—	108,867	—
Dividends	—	—	(24,230)	—	(24,230)	—
Purchases of treasury stock	—	—	—	(29,369)	(29,369)	—
Disposal of treasury stock	—	438	—	1,105	1,543	—
Retirement of treasury stock	—	(18,733)	—	18,733	—	—
Other changes	—	18,295	(18,295)	—	—	10,815
Balance at March 31, 2018	¥21,280	¥ 20,227	¥574,392	¥(36,642)	¥579,257	¥35,857

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, 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 April 1, 2017	122	(20,027)	(5,262)	(125)	416	3,475	526,212
Profit attributable to owners of parent	—	—	—	—	—	—	108,867
Dividends	—	—	—	—	—	—	(24,230)
Purchases of treasury stock	—	—	—	—	—	—	(29,369)
Disposal of treasury stock	—	—	—	—	—	—	1,543
Retirement of treasury stock	—	—	—	—	—	—	—
Other changes	1,053	4,696	5,151	21,715	112	(9)	21,818
Balance at March 31, 2018	¥1,175	¥(15,331)	¥ (111)	¥ 21,590	¥528	¥3,466	¥604,841

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, 2017	\$200,282	\$ 190,372	\$4,781,647	\$(255,162)	\$4,917,139	\$235,689
Profit attributable to owners of parent	—	—	1,024,631	—	1,024,631	—
Dividends	—	—	(228,047)	—	(228,047)	—
Purchases of treasury stock	—	—	—	(276,414)	(276,414)	—
Disposal of treasury stock	—	4,123	—	10,399	14,522	—
Retirement of treasury stock	—	(176,311)	—	176,311	—	—
Other changes	—	172,188	(172,188)	—	—	101,789
Balance at March 31, 2018	\$200,282	\$ 190,372	\$5,406,043	\$(344,866)	\$5,451,831	\$337,478

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, 2017	\$ 1,148	\$(188,488)	\$(49,525)	\$ (1,176)	\$3,915	\$32,706	\$4,952,584
Profit attributable to owners of parent	—	—	—	—	—	—	1,024,631
Dividends	—	—	—	—	—	—	(228,047)
Purchases of treasury stock	—	—	—	—	—	—	(276,414)
Disposal of treasury stock	—	—	—	—	—	—	14,522
Retirement of treasury stock	—	—	—	—	—	—	—
Other changes	9,911	44,196	48,480	204,376	1,054	(85)	205,345
Balance at March 31, 2018	\$11,059	\$(144,292)	\$ (1,045)	\$203,200	\$4,969	\$32,621	\$5,692,621

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Operating activities			
Profit before income taxes	¥ 137,378	¥122,695	\$ 1,292,969
Adjustments for:			
Depreciation and amortization	15,973	13,363	150,334
Amortization of goodwill	3,036	2,978	28,574
Loss on impairment of fixed assets	520	359	4,894
Loss on sales or disposal of property, plant and equipment, net	573	537	5,393
Gain on sales of investments in securities	—	(2,182)	—
Loss on devaluation of investments in securities	794	14	7,473
Increase in liability for retirement benefits	2,610	1,977	24,565
Interest and dividend income	(27,703)	(18,840)	(260,734)
Interest expense	558	220	5,252
Exchange loss, net	3,071	813	28,903
Other	(2,138)	749	(20,122)
Changes in operating assets and liabilities:			
Notes and accounts receivable—trade and affiliates	5,974	5,804	56,226
Inventories	6,552	626	61,666
Other current assets	(1,591)	(1,564)	(14,974)
Notes and accounts payable—trade and affiliates	(3,811)	893	(35,868)
Accrued expenses	(5,143)	1,749	(48,405)
Other current liabilities	529	2,686	4,979
Subtotal	137,182	132,877	1,291,125
Interest and dividends received	31,773	13,274	299,040
Interest paid	(545)	(208)	(5,129)
Income taxes paid	(38,620)	(34,040)	(363,483)
Net cash provided by operating activities	129,790	111,903	1,221,553
Investing activities			
Purchases of short-term investments	¥(115,740)	¥ (54,614)	\$(1,089,318)
Proceeds from sales and redemption of short-term investments	82,272	45,842	774,325
Purchases of investments in securities	(2,917)	(32)	(27,454)
Proceeds from sales of investments in securities	2,291	2	21,563
Purchases of property, plant and equipment	(5,879)	(10,434)	(55,332)
Proceeds from sales of property, plant and equipment	112	22	1,054
Purchases of intangible assets	(11,132)	(12,826)	(104,772)
Other	(245)	396	(2,306)
Net cash used in investing activities	(51,238)	(31,644)	(482,240)
Financing activities			
Purchases of treasury stock	(29,369)	(35,015)	(276,414)
Cash dividends paid	(24,235)	(22,112)	(228,094)
Other	(290)	(284)	(2,730)
Net cash used in financing activities	(53,894)	(57,411)	(507,238)
Effect of exchange rate changes on cash and cash equivalents	(1,581)	(1,268)	(14,880)
Net increase in cash and cash equivalents	23,077	21,580	217,195
Cash and cash equivalents at beginning of year	149,324	127,744	1,405,403
Cash and cash equivalents at end of year	¥ 172,401	¥149,324	\$ 1,622,598

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2018

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.

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 five affiliates, including TAKATA Pharmaceutical Co., Ltd., for the purpose of the consolidated financial statements for the year ended March 31, 2018 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 comprehensive 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. Accounting Standards Issued but Not Yet Effective

Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets

On February 16, 2018, the Accounting Standards Board of Japan (the "ASBJ") issued "Revised Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28) and "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

(1) Overview

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2019.

(3) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of the revised implementation guidance on its consolidated financial statements.

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contracts with a customer
2. Identify the performance obligations in the contracts
3. Determine the transaction prices
4. Allocate the transaction prices to the performance obligations in the contracts
5. Recognize revenue when or as the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and the implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidated financial statements.

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 ¥106.25 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2018. 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, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	¥ 24,756	¥45,972	¥806	¥ 69,922
Government bonds, municipal bonds, etc.	49,125	1,145	—	50,270
Other	97,500	315	—	97,815
	¥171,381	¥47,432	¥806	¥218,007

	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

	Thousands of U.S. dollars			
	2018			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	\$ 232,998	\$432,678	\$7,586	\$ 658,090
Government bonds, municipal bonds, etc.	462,353	10,776	—	473,129
Other	917,647	2,965	—	920,612
	\$1,612,998	\$446,419	\$7,586	\$2,051,831

Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted stocks of ¥60,627 million (\$570,607 thousand) and ¥54,706 million at March 31, 2018 and 2017, respectively, are not included in the above table.

(2) Proceeds from sales of, and gross realized gain on, other securities for the year ended March 31, 2017 are as follows:

	Millions of yen	
	2017	
Proceeds from sales	¥2,293	
Gross realized gain	2,182	

There were no sales of other securities for the year ended March 31, 2018.

(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 ¥794 million (\$7,473 thousand) and ¥14 million for the years ended March 31, 2018 and 2017, respectively.

6. Inventories

Inventories at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Merchandise	¥ 4,929	¥ 6,282	\$ 46,390
Finished goods	7,193	9,093	67,699
Semi-finished goods and work in process	9,588	12,072	90,240
Raw materials and supplies	12,927	13,941	121,666
	¥34,637	¥41,388	\$325,995

Cost of sales included loss on devaluation of inventories of ¥1,418 million (\$13,346 thousand) and ¥1,208 million for the years ended March 31, 2018 and 2017, 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, 2018 as follows:

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
			2018	2018
Japan	Marketing rights for a prescription drug	Sales rights, etc.	¥204	\$1,920

Due to the termination of a sales collaboration agreement with Allergan Japan K.K., the Company recognized a loss on impairment equal to the carrying value of the corresponding marketing rights, etc. for a product, which the Company and Allergan Japan K.K. used to jointly sell.

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
			2018	2018
Kanegasaki Dormitory (Isawa, Iwate Prefecture)	Idle assets	Land, Buildings, etc.	¥129	\$1,214
Kuise Office Building No. 500 (Amagasaki, Hyogo Prefecture)	Idle assets	Buildings, etc.	¥115	\$1,082
Settsu Plant (Settsu, Osaka Prefecture)	Idle assets	Construction in progress	¥ 72	\$ 678

The Company made a decision to abolish a dormitory for unmarried employees as a part of the employee welfare system. 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 significant components of these idle assets were buildings in the amount of ¥67 million (\$631 thousand) and land in the amount of ¥60 million (\$565 thousand).

The Company made a decision to demolish and remove the building No. 500 at Kuise office as a part of a reorganization of business offices. 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 significant component of these idle assets was buildings in the amount of ¥104 million (\$979 thousand).

The Company classified facilities for formulation research and production as idle assets because these facilities were not in use due to a change in the business plan and were not expected to be used in the future. 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, 2017 as follows:

Location	Use	Classification	Millions of yen
			2017
Settsu Plant Building No. 602, etc. (Settsu, Osaka Prefecture)	Idle assets	Buildings, etc.	¥359

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.

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, 2018 under non-cancellable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
	2018	2018
2019	¥136	\$1,280
2020 and thereafter	76	715
	¥212	\$1,995

9. Long-Term Debts and Lease Obligations

Long-term debts and lease obligations at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unsecured loans from banks and financial institutions due through 2019 with an average interest rate of 2.0%	¥ 10,000	¥10,000	\$ 94,118
Zero coupon convertible bonds due in 2019	18,492	20,054	174,042
Finance lease obligations (included in "other current liabilities" and "other long-term liabilities")	177	491	1,666
	28,669	30,545	269,826
Less current portion	(10,083)	(309)	(94,899)
	¥ 18,586	¥30,236	\$174,927

The aggregate annual maturities of long-term debts and lease obligations subsequent to March 31, 2018 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
	2018	2018
2019	¥10,083	\$ 94,899
2020	18,550	174,588
2021	36	339
2022	—	—
	¥28,669	\$269,826

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, 2018 and 2017

The changes in retirement benefit obligations are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations at beginning of the year	¥75,211	¥78,292	\$707,868
Service cost	1,906	1,994	17,939
Interest cost	634	660	5,967
Actuarial (gain) loss	(739)	639	(6,955)
Retirement benefits paid	(5,957)	(6,373)	(56,066)
Retirement benefit obligations at end of the year	¥71,055	¥75,212	\$668,753

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at fair value at beginning of the year	¥84,037	¥88,508	\$790,936
Expected return on plan assets	2,101	2,390	19,774
Actuarial gain (loss)	2,309	(2,611)	21,732
Contributions paid by the Group	996	1,151	9,374
Retirement benefits paid	(4,749)	(5,401)	(44,696)
Plan assets at fair value at end of the year	¥84,694	¥84,037	\$797,120

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
	2018	2017	2018
Funded retirement benefit obligations	¥ 69,101	¥ 73,122	\$ 650,362
Plan assets at fair value	(84,693)	(84,037)	(797,111)
	(15,592)	(10,915)	(146,749)
Unfunded retirement benefit obligation	1,954	2,089	18,391
Net asset for retirement benefits in consolidated balance sheet	¥(13,638)	¥ (8,826)	\$(128,358)
Liability for retirement benefits	¥ 8,097	¥ 9,582	\$ 76,207
Asset for retirement benefits	(21,735)	(18,408)	(204,565)
Net asset for retirement benefits in consolidated balance sheet	¥(13,638)	¥ (8,826)	\$(128,358)

The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 1,906	¥ 1,994	\$ 17,939
Interest cost	634	660	5,967
Expected return on plan assets	(2,101)	(2,390)	(19,774)
Amortization:			
Actuarial loss	4,579	4,041	43,096
Prior service cost	(204)	(204)	(1,920)
Retirement benefit expenses	¥ 4,814	¥ 4,101	\$ 45,308

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
	2018	2017	2018
Prior service cost	¥ (204)	¥(204)	\$ (1,920)
Actuarial loss	7,627	790	71,784
Total	¥7,423	¥ 586	\$69,864

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
	2018	2017	2018
Unrecognized prior service cost	¥(1,226)	¥(1,431)	\$ (11,539)
Unrecognized actuarial loss	1,386	9,013	13,045
Total	¥ 160	¥ 7,582	\$ 1,506

The percentage composition of each major category of plan assets at fair value at March 31, 2018 and 2017 was as follows:

Asset class	2018	2017
Equity securities	25%	26%
General accounts controlled by life insurance companies	23	25
Debt securities	26	26
Other	26	23
Total	100%	100%

As of March 31, 2018 and 2017, 26% and 29%, respectively, of total plan assets were included in retirement benefit trusts established for corporate pension plans.

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

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

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	0.8%	0.8%
Expected long-term rate of return on plan assets (Weighted average)	2.5%	2.7%
Expected rate of salary increase (Weighted average)	3.5%	3.4%

(3) Defined contribution plans for the years ended March 31, 2018 and 2017

The total contributions paid by the Group to the defined contribution plans were ¥1,584 million (\$14,908 thousand) and ¥1,655 million for the years ended March 31, 2018 and 2017, 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 a statutory tax rate of approximately 30.8% for the years ended March 31, 2018 and 2017, 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, 2018 and 2017 differ from the above statutory tax rate for the following reasons:

	2018	2017
Statutory tax rate	30.8%	30.8%
Expenses not deductible for income tax purposes	0.1	0.2
Dividends not taxable for income tax purposes	(4.1)	(2.9)
Amortization of goodwill	0.5	1.0
Tax credits	(6.1)	(4.3)
Inhabitants' per capita taxes	0.1	0.1
Difference in statutory tax rates of overseas subsidiaries	(2.0)	(1.5)
Increase in valuation allowance	2.4	8.7
Other	(0.9)	(0.2)
Effective tax rates	20.8%	31.9%

The tax effects of temporary differences at March 31, 2018 and 2017 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Tax loss carry forwards	¥ 23,064	¥ 33,352	\$ 217,073
Adjustments to the carrying value of investments in a subsidiary	12,462	12,462	117,289
Research and development expenses	9,172	8,711	86,324
Intangible assets	3,249	4,341	30,579
Provision for employees' bonuses	2,485	2,835	23,388
Accrued expenses and other current liabilities	935	2,606	8,801
Loss on revaluation of investments in securities	2,642	2,503	24,866
Accrued enterprise taxes	925	1,057	8,706
Liability for retirement benefits	—	910	—
Provision for sales returns	344	597	3,237
Other	9,486	6,958	89,280
Valuation allowance	(47,827)	(58,305)	(450,136)
Total deferred tax assets	16,937	18,027	159,407
Deferred tax liabilities:			
Unrealized gain on other securities	(11,575)	(8,121)	(108,941)
Reserve for advanced depreciation of property, plant and equipment	(1,741)	(1,798)	(16,386)
Investments in securities	(1,283)	(1,283)	(12,075)
Asset for retirement benefits	(1,321)	—	(12,433)
Other	(3,403)	(4,838)	(32,028)
Total deferred tax liabilities	(19,323)	(16,040)	(181,863)
Net deferred tax assets (liabilities)	¥ (2,386)	¥ 1,987	\$ (22,456)

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 two years, at the longest, subsequent to March 31, 2018.

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, 2018 and 2017, 48% and 52%, 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, 2018 and 2017, 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		
	2018		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥172,401	¥172,401	¥ —
Notes and accounts receivable— trade and affiliates	53,529	53,529	—
Short-term investments and investments in securities	185,712	185,712	—
Total assets	¥411,642	¥411,642	¥ —
Notes and accounts payable— trade and affiliates	¥ 8,017	¥ 8,017	¥ —
Current portion of long-term loans	10,000	10,123	123
Accrued income taxes	18,337	18,337	—
Long-term debts:			
Bonds	18,492	24,709	6,217
Total liabilities	¥ 54,846	¥ 61,186	¥6,340
Derivative transactions (*)	1,660	1,660	—

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

	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 debts:			
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.

	Thousands of U.S. dollars		
	2018		
	Carrying value	Fair value	Difference
Cash and cash equivalents	\$1,622,598	\$1,622,598	\$ —
Notes and accounts receivable— trade and affiliates	503,802	503,802	—
Short-term investments and investments in securities	1,747,878	1,747,878	—
Total assets	\$3,874,278	\$3,874,278	\$ —
Notes and accounts payable— trade and affiliates	\$ 75,454	\$ 75,454	\$ —
Current portion of long-term loans	94,118	95,276	1,158
Accrued income taxes	172,583	172,583	—
Long-term debts:			
Bonds	174,042	232,555	58,513
Total liabilities	\$ 516,197	\$ 575,868	\$59,671
Derivative transactions (*)	15,624	15,624	—

*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.

- Current portion of long-term loans

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

- Bonds

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

- 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
	2018	2017	2018
Unlisted equity securities	¥60,627	¥54,706	\$570,607

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, 2018 and 2017

	Millions of yen			
	2018			
	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	¥172,396	¥ —	¥ —	¥ —
Notes and accounts receivable—trade and affiliates	53,529	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	12,000	2,000	2,000
Other securities with maturities	92,006	1,456	—	—
Total	¥317,931	¥13,456	¥2,000	¥2,000

	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

	Thousands of U.S. dollars			
	2018			
	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	\$1,622,551	\$ —	\$ —	\$ —
Notes and accounts receivable—trade and affiliates	503,802	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	112,941	18,824	18,824
Other securities with maturities	865,939	13,704	—	—
Total	\$2,992,292	\$126,645	\$18,824	\$18,824

13. Derivative Transactions

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

Currency-related transactions

Classification	Transaction	Millions of yen			
		2018			
		Notional amount	Portion of notional amount over one year	Estimated fair value	Unrealized loss
Over-the-counter transaction	Forward exchange contracts				
	Selling: USD	¥42,500	¥—	¥(32)	¥(32)

Classification	Transaction	Millions of yen			
		2017			
		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)

		Thousands of U.S. dollars			
		2018			
		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	\$—	\$(301)	\$(301)

Note: 1. 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		
		2018		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	Fair value
Forward exchange contracts accounted for by allocation method				
Selling: GBP	Forecasted transactions	¥101,969	¥—	¥1,693

		Millions of yen		
		2017		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	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		
		2018		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	Fair value
Forward exchange contracts accounted for by allocation method				
Selling: GBP	Forecasted transactions	\$959,708	\$—	\$15,934

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.

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, 2018 and 2017 amounted to ¥5,388 million (\$50,711 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 twelve corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 22, 2017 ("the 2017 plan"). Under the terms of this plan, 19,300 shares of common stock were granted and vested immediately. The options became exercisable on July 8, 2017 and are scheduled to expire on July 7, 2047. Stock option expenses of ¥110 million (\$1,035 thousand) were included in selling, general and administrative expenses for the year ended March 31, 2018.

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 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.

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, 2016 and 2017 plans of the Company during the year ended March 31, 2018 is summarized as follows:

	2017 plan	2016 plan	2015 plan	2014 plan	2013 plan	2012 plan	2011 plan
	(Number of options)						
Outstanding as of April 1, 2017	—	17,300	20,200	36,300	33,800	63,300	36,800
Vested	19,300	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—
Outstanding as of March 31, 2018	19,300	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, 2016 and 2017 plans of the Company as of March 31, 2018 is summarized as follows:

	2017 plan		2016 plan		2015 plan		2014 plan	
	(Yen)	(U.S. dollars)	(Yen)	(U.S. dollars)	(Yen)	(U.S. dollars)	(Yen)	(U.S. dollars)
Unit price of stock options:								
Exercise price as of March 31, 2018	¥ 1	\$ 0.01	¥ 1	\$ 0.01	¥ 1	\$ 0.01	¥ 1	\$ 0.01
Average market price per share upon exercise	—	—	—	—	—	—	—	—
Estimated fair value of unit price at grant date	5,741	54.03	5,256	49.47	4,553	42.85	1,899	17.87

	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, 2018	¥ 1	\$ 0.01	¥ 1	\$ 0.01	¥ 1	\$ 0.01
Average market price per share upon exercise	—	—	—	—	—	—
Estimated fair value of unit price at grant date	1,930	18.16	916	8.62	1,129	10.63

Valuation method for estimating fair value was the Black-Scholes model. The major assumptions used for the 2017 plan were as follows:

Major assumptions	Note	2017 plan
Estimated volatility	(a)	30.92%
Estimated remaining period	(b)	4.1 years
Estimated dividend	(c)	¥72 per share
Risk-free rate	(d)	(0.054)%

- (a) Estimated volatility was computed by the actual stock price of the Company during the period from June 2013 to July 2017.
(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, 2017.
(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, 2018 and 2017 are summarized as follows:

	Number of shares			
	2018			
	April 1, 2017	Increase	Decrease	March 31, 2018
Issued shares of common stock	329,136,165	—	5,000,000	324,136,165
Treasury stock	10,347,876	4,803,153	5,371,002	9,780,027

	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

The decrease in the number of shares of common stock during the year ended March 31, 2018 is due to the retirement of treasury stock.

The increase in the number of shares of treasury stock during the year ended March 31, 2018 consists of 4,800,000 shares due to the purchase of treasury stock based on resolution of the Board of Directors and 3,153 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, 2018 consists of 5,000,000 shares due to the retirement of treasury stock and 371,002 shares due to the exercise of share subscription rights.

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.

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, 2018 and 2017 amounted to ¥206 million (\$1,939 thousand) and ¥848 million, respectively.

Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2018 and 2017 amounted to ¥59,946 million (\$564,198 thousand) and ¥59,908 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.

16. Other Comprehensive Income

The following table presents the analysis of other comprehensive income for the years ended March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥13,473	¥ 76	\$126,805
Reclassification adjustments included in profit or loss	796	(2,166)	7,492
Before tax effect	14,269	(2,090)	134,297
Tax effect	(3,454)	384	(32,508)
Total	10,815	(1,706)	101,789
Deferred gain on hedges:			
Amount arising during the year	1,677	288	15,783
Reclassification adjustments included in profit or loss	(161)	(111)	(1,515)
Before tax effect	1,516	177	14,268
Tax effect	(464)	(55)	(4,367)
Total	1,052	122	9,901
Translation adjustments:			
Amount arising during the year	4,766	(13,036)	44,856
Reclassification adjustments included in profit or loss	—	—	—
Before tax effect	4,766	(13,036)	44,856
Tax effect	—	—	—
Total	4,766	(13,036)	44,856
Retirement benefit liability adjustments:			
Amount arising during the year	3,048	(3,250)	28,687
Reclassification adjustments included in profit or loss	4,375	3,836	41,177
Before tax effect	7,423	586	69,864
Tax effect	(2,272)	(179)	(21,384)
Total	5,151	407	48,480
Other comprehensive income (loss)	¥21,784	¥(14,213)	\$205,026

17. Related Party Transactions

Related party transactions for the years ended March 31, 2018 and 2017 and the related balances at March 31, 2018 and 2017 are summarized as follows:

Principal transactions between a consolidated subsidiary and a related party

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Shunjusha Co., Ltd.:			
Rent received—land and office building	¥ 52	¥ 51	\$ 489
Rent expense—building	148	148	1,393
Management fee for leased property	4	4	38
Lease deposits, a component of other assets	42	42	395
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 percentage of voting rights owned by these two people was 100% as of March 31, 2018 and 2017. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥100 million (\$941 thousand) at March 31, 2018 and 2017.

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, 2018 and 2017 were as follows:

	Yen		U.S. dollars
	2018	2017	2018
Profit	¥ 342.71	¥ 259.88	\$ 3.23
Diluted profit	337.43	255.87	3.18
Net assets	1,911.36	1,638.46	17.99
Cash dividends applicable to the year	82.00	72.00	0.77

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, 2018 and 2017 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit attributable to owners of parent	¥108,867	¥83,880	\$1,024,631
Adjustments to profit attributable to owners of parent:			
Interest income, net of tax	(14)	(14)	(132)

	Thousands of shares	
	2018	2017
Weighted-average number of shares of common stock outstanding	317,660	322,767
Increase in common stock:		
Bonds	4,713	4,799
Share subscription rights	222	203
Total	4,935	5,002

The financial data used in the computation of net assets per share at March 31, 2018 and 2017 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total net assets	¥604,841	¥526,212	\$5,692,621
Amounts deducted from total net assets:			
Amounts attributable to share subscription rights in total net assets	(528)	(416)	(4,969)
Amounts attributable to non-controlling interests in total net assets	(3,466)	(3,475)	(32,621)
Net assets used in the computation of net assets per share	¥600,847	¥522,321	\$5,655,031

	Thousands of shares	
	2018	2017
Number of shares used in the computation of net assets per share	314,356	318,788

19. Segment Information

1. Segment information for the years ended March 31, 2018 and 2017

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, 2018 and 2017 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, 2018 and 2017, information on sales by product and service was omitted.

(2) Geographical information

(a) Net sales

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Japan	¥ 159,490	¥ 190,431	\$ 1,501,082
Europe	160,705	116,182	1,512,518
(United Kingdom)	(141,200)	(113,811)	(1,328,941)
North America	12,360	22,442	116,330
(United States of America)	(12,356)	(22,438)	(116,292)
Other	12,112	9,835	113,995
Total	¥ 344,667	¥ 338,890	\$ 3,243,925

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, 2018 and 2017, information on property, plant and equipment by geographical segment was omitted.

(3) Information by major customer

Customer name	Net sales			Related segment name
	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	
Viiv Healthcare UK Limited.	¥103,877	¥73,294	\$977,666	Pharmaceuticals
SUZUKEN CO., LTD.	¥ 47,120	¥53,382	\$443,482	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, 2018 and 2017, 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, 2018 and 2017 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, 2018 and 2017 and for the years then ended.

20. Subsequent Events

(1) Establishment of a significant subsidiary

At the Board of Directors meeting held on April 23, 2018, the Company adopted the resolution to establish a new subsidiary as follows:

(a) Purpose of the establishment

The new subsidiary will play the role in manufacturing functions in the Group and promote the innovative development of manufacturing technology in order to provide a stable supply of both high-quality and cost-competitive product to global and domestic markets.

(b) Outline of establishing the company

- (i) Company name: To be determined
- (ii) Location of head office: Settsu, Osaka (Planned)
- (iii) Business description: Manufacturing of pharmaceutical products, contract manufacturing of investigational drug products, etc.
- (iv) Date of establishment: October 1, 2018 (Planned)
- (v) Date of commencement of operations: April 1, 2019 (Planned)
- (vi) Investment ratio: 100%

Details other than those specified above are undecided at this time.

(2) Cash dividends

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, 2018, was approved at a shareholders' meeting held on June 20, 2018:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥44.00 = U.S.\$0.41 per share)	¥13,832	\$130,184

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, 2018, 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, 2018, 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 19, 2018
Osaka, Japan

Ernst & Young Shionogi LLC

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, 2018.

(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 and *Cymbalta* product sales and royalty income from *Tivicay* and *Triumeq* roughly account for a combined 45% of net sales (fiscal year ended March 31, 2018). 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, economic factors, IT security and information management. 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

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

9F, 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

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

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 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

Shionogi Smile Heart Co., Ltd

3-2-1, Futaba-cho, Toyonaka, Osaka 561-0825, Japan
Tel: +81-6-6331-7118

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, 2018)

Corporate Information

(As of March 31, 2018)

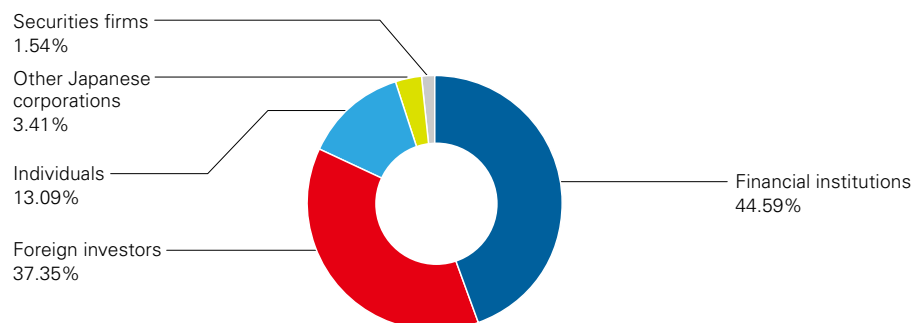
Corporate Data

Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,280 million
Number of Employees	5,120
Consolidated	
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:	324,136,165 shares
Number of shareholders:	42,245

Shareholder Composition



Note: Treasury stock included in Individuals

Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	32,435	10.31
Japan Trustee Services Bank, Ltd. (Trust account)	20,290	6.45
Sumitomo Life Insurance Company	18,604	5.91
JP MORGAN CHASE BANK 385147	13,215	4.20
SMBC Trust Bank Ltd. (as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485	3.01
Nippon Life Insurance Company	8,409	2.67
STATE STREET BANK WEST CLIENT - TREATY 505234	5,757	1.83
Japan Trustee Services Bank, Ltd. (as a trustee9)	5,549	1.76
Japan Trustee Services Bank, Ltd. (as a trustee5)	5,467	1.73
Japan Trustee Services Bank, Ltd. (as a trustee7)	5,016	1.59

Notes: 1. The Company owns 9,780,027 shares of treasury stock but the Company is not included in the major shareholders listed above (Top 10).

2. The percentage of total is calculated as the proportion of shares to 314,356,138 shares of total issued stock (excluding 9,780,027 shares of treasury stock).

