

Shionogi to Issue of Stock Options as Compensation (Stock Acquisition Rights) to Members of Board of Directors

Osaka, Japan, June 22, 2017 - Shionogi & Co., Ltd. (Head Office: Osaka; President & CEO: Isao Teshirogi, Ph.D.; hereafter “Shionogi” or “the Company”) today announced that the Board of Directors of the Company has adopted, according to Articles 236, 238 and 240 of the Corporation Law, a resolution to offer stock options (stock acquisition rights) as compensation to the Members of the Board other than its Outside Directors (hereafter the “Qualified Directors”) and the Corporate Officers at the meeting held on June 22th, 2017. This resolution is detailed below.

1. The reason for issuing stock acquisition rights

Purpose of granting stock options (stock acquisition rights) to the Qualified Directors and the Corporate Officers is to better align their incentives with mid and long term corporate performance, including corporate stock value, by sharing not only the merits but also the risks of changes in share price with our shareholders.

2. The details of issuing the stock acquisition rights as compensation

(1) The name of the stock acquisition rights

Stock Acquisition Rights Fiscal Year 2017 issued by Shionogi & Co., Ltd.

(2) Total number of persons offered the stock acquisition rights and number of stock acquisition rights

The Qualified Directors: 3 people, 85 units

The Corporate Officers (excluding the concurrently posted as directors): 12 people, 108 units

(3) The class and number of shares to be issued upon exercise of stock acquisition rights

The class of shares to be issued upon exercise of stock acquisition rights will be common stocks of Shionogi. The number of shares to be issued upon exercise of the stock acquisition rights (hereafter the “Number of Allotted Shares”) will be 100 shares per a stock acquisition right.

In case of the Company conducts a stock split (including free allotment of common stocks) or a consolidation of common stocks of the Company after the date of the allocation of stock acquisition rights (hereafter the “Allotment Date”), the Number of Allotted Shares will be adjusted according to the formula below, regarding non-exercised stock acquisition rights as of the date when the stock split or stock consolidation is conducted.

Number of Allotted Shares after adjustment = Number of Allotted Shares before adjustment
× Ratio of stock split or stock consolidation

In addition, in the case that the Company is subject to a merger, a company split or a share exchange after the Allotment Date, or if there is another instance in which the adjustment of the Number of Allotted Shares is appropriate, the Company shall reasonably adjust it to the extent possible, based on a resolution of the Board of Directors of the Company.

Any fractional share (less than one) resulting from the adjustment mentioned above shall be rounded down.

(4) Total number of the stock acquisition rights

193 units

The total number above is the number scheduled to be allotted. If the total number of stock acquisition rights is less than expected, such as in the case where no application was made, allotted total number of stock acquisition rights shall be deemed as the total number of stock acquisition rights issued.

(5) Calculation method of the amount to be paid for stock acquisition rights

The amount to be paid for each stock acquisition right shall be the option price per share that is calculated based on the following formula and the basic figures indicated in 2) to 7) below, multiplied by the Number of Allotted Shares. (Any fraction of less than one yen shall be round up to the nearest yen)

$$C = Se^{-qT}N(d_1) - Xe^{-rT}N(d_2)$$
$$d_1 = \frac{\ln\left(\frac{S}{X}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}, \quad d_2 = d_1 - \sigma\sqrt{T}$$

1) Option price per share (C)

2) Stock price (S):

The closing price per share of the Company on July 8, 2016 at the Tokyo Stock Exchange (if no price is available on such day, then the standard price on the trading day immediately preceding July 7, 2017)

3) Exercise price (X):

1 yen

4) Period between the Allotment Date and the maturity date (T):

4.1 years

5) Volatility (σ):

The rate of stock price variability is calculated based on the closing price at the Tokyo Stock Exchange on the last trading day of each week in the preceding 4.1 year (from June 1, 2013 to July 7, 2017)

6) Risk-free interest rate (r):

The interest rate on Japanese government bonds for which the remaining years are almost equal to the expected remaining period

7) Dividend yields (q):

(Actual dividend paid in the fiscal year ended March 31, 2015) ÷ (stock price as provided in 2))

8) Cumulative distribution function of the standard normal distribution (N(-))

The person to whom stock acquisition rights are allotted (hereafter the “Rights Holder”) may offset the remuneration amount with payment debt of the stock acquisition rights to be issued.

(6) Calculation of the amount to be paid upon the exercise of stock acquisition rights

The amount to be paid upon exercise of stock acquisition rights shall be determined by multiplying the per-share value by the Number of Allotted Shares, where the amount to be paid per share shall be one Japanese yen.

(7) Exercise period for stock acquisition rights

The exercise period shall be from July 8, 2017 to July 7, 2047.

(8) Conditions for the exercise of stock acquisition rights

1) A Director as the Rights Holder, but who ceases to be a Qualified Director before the expiration of the exercise period in (7) above, may exercise all such rights, in a single transaction, within ten days (in case that the 10th day is a holiday, by the next business day) of the day immediately following the day upon which he/she ceases to be a Qualified Director.

2) A Corporate Officer as the Rights Holder, but who ceases to be a Corporate Officer before the expiration of the exercise period in (7) above may exercise all such rights, in a single transaction, within ten days (in case that the 10th day is a holiday, by the next business day) of the day immediately following the later of the day upon which he/she ceases to be a Corporate Officer or retires (exclude a re-employment period after the retirement). In the case where a Corporate Officer as the Rights Holder is newly appointed as a Qualified Directors, such stock acquisition right shall not be exercised until he/she ceases to be a Qualified Director.

3) If any Rights Holder dies, his/her heir may exercise the rights for a period of six months from the day immediately after the grantee's death.

4) Other conditions for the exercise of stock acquisition rights shall be subject to the agreement (hereafter the “Stock Acquisition Right Agreement”) for the provision of stock acquisition rights to be entered into between the Company and the Rights Holder is allotted.

(9) Amount of capital and capital reserve increase resulting from the issuances of shares upon exercise of stock acquisition rights

- 1) The amount of capital increase resulting from the issuance of shares upon exercise of stock acquisition rights shall be one-half of the amount of the maximum limit on the increase in capital as calculated pursuant to Article 17, Paragraph 1, of the Company Accounting Ordinance. Any fraction of less than one yen shall be round up to the nearest yen.
- 2) The amount of capital reserve increased resulting from the issuance of shares upon exercise of stock acquisition rights shall be the amount of the maximum limit on the increase in capital provided in 1) above less the amount of increased capital stipulated in 1) above.

(10) Terms of acquisition of stock acquisition rights

- 1) If the Rights Holder no longer satisfies the conditions to exercise their rights as provided in Item (8) or the Stock Acquisition Right Agreement, the Company may acquire their stock acquisition rights at no cost on a date separately stipulated by the Board of Director.
- 2) When approval is granted for proposals i), ii) or iii) below by a resolution of the General Meeting of Shareholders (or if a resolution of the General Meeting of Shareholders is not required, when approval is granted by a resolution of the Board of Directors), the Company may acquire any stock acquisition rights at no cost on a date separately stipulated by the Board of Directors.
 - i) Proposal for the approval of a merger agreement in which the Company will become an expired corporation
 - ii) Proposal for the approval of a split agreement or a split plan in which the Company will become a split company
 - iii) Proposal for the approval of a share exchange agreement or a share transfer plan in which the Company will become a wholly owned subsidiary

(11) Limitation of the transfer of stock acquisition rights

Transfer of stock acquisition rights must be approved by the Board of Directors

(12) Treatment of stock acquisition rights in the event of a corporate reorganization

In the event that the Company effects a merger (limited to cases where the Company is an expired company), an absorption-type split, an incorporation-type split (limited to cases where the Company is a split company), a share exchange or a share transfer (in each case, where the Company becomes the wholly-owned subsidiary) (each of the above hereafter referred to as an “Organizational Restructuring”), in each case, the stock acquisition rights of the companies listed in Article 236, paragraph 1, item 8, No. 1 to 5, of the Corporation Law, (hereafter the “Reorganized Company”) shall be granted to the Rights Holder possessing remaining stock acquisition rights (hereafter the “Remaining Stock Acquisition Rights”) on the date

immediately preceding the effective date of the Corporate Reorganization (which shall be, for an absorption-type merger, the effective date of the absorption-type merger; for an incorporation-type merger, the incorporation date of the new company; for an absorption-type split, the effective date of the absorption-type company split; for an incorporation-type split, the incorporation date of the newly formed corporation; for a share exchange, the effective date of the share exchange; and for a share transfer, the incorporation date of the parent company).

However, the provision above shall apply only in cases where the issuance of stock acquisition rights provided for in an agreement of absorption-type merger, an agreement of incorporation-type merger, an agreement of absorption-type split, a share exchange agreement or a plan of share transfer occurs under the following terms and conditions:

1) Number of stock acquisition rights to be issued by the Reorganized Company

The same number of stock acquisition rights as the number possessed by the each Rights Holder shall be issued.

2) Class of shares of the Reorganized Company, such shares to be issued upon exercise of stock acquisition rights

Common stock of the Reorganized Company

3) Number of shares of the Reorganized Company, such shares to be issued upon exercise of stock acquisition rights

To be determined according to (3) above after taking into consideration the conditions for Organizational Restructuring.

4) Amount of assets to be contributed upon exercise of each stock acquisition rights

The amount of the assets to be contributed upon exercise of each stock acquisition rights shall be determined by multiplying the Exercise Price after the Organizational Restructuring stipulated below, by the number of shares of the Reorganized Company to be issued upon exercise of the relevant stock acquisition rights determined according to 3) above. The Exercise Price after the Organizational Restructuring shall be determined to be one Japanese yen per share of the Reorganized Company to be issued upon exercise of stock acquisition rights.

5) Exercise period for stock acquisition rights

The exercise period for stock acquisition rights shall be from the later of (a) the commencement date of the exercise period for stock acquisition rights stipulated in (7) above or (b) the effective date of the Organizational Restructuring, up to the expiration date of the exercise period for stock acquisition rights as stipulated in (7) above.

6) Matters concerning the amount of capital and capital reserve increased by the issue of shares upon exercise of stock acquisition rights

To be determined according to (9) above

7) Restrictions on the acquisition of stock acquisition rights through transfer

The acquisition of stock acquisition rights through transfer shall require the approval of the Board of Directors of the Reorganized Company.

8) Conditions for the exercise of stock acquisition rights

To be determined according to (8) above

9) Conditions for the acquisition of stock acquisition rights

To be determined according to (10) above

(13) Arrangement for any fractional shares (less than one) arising from exercise of stock acquisition rights

When there are any fractional shares (less than one) in the number of issued shares to the Rights Holder who exercise stock acquisition rights, such fractional shares shall be rounded down.

(14) Grant date of stock acquisition rights

July 7, 2017

(15) The stock acquisition rights certificates

The Company shall not issue any stock acquisition rights certificates.

Forward-Looking Statements

This announcement 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 rate and currency exchange rate. These risks and uncertainties particularly apply with respect to product-related forward-looking statements. 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. Also for existing products, there are manufacturing and marketing risks, which include, but are not limited to, inability to build production capacity to meet demand, unavailability of raw materials and entry of competitive 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.

For further information, contact:

Corporate Communications Department

Shionogi & Co., Ltd.

Telephone: +81-6-6209-7885

Fax: +81-6-6229-9596