

## **Notice regarding introduction of a Restricted Stock Compensation Plan and a change of compensation amount for Directors**

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**OSAKA, Japan, May 9, 2018** - Shionogi & Co., Ltd. (Head Office: Osaka, Japan; President and CEO: Isao Teshirogi, Ph.D.; hereafter "Shionogi") hereby announces that, at the meeting of its Board of Directors held on May 9, 2018, the Directors reviewed the executive compensation plan of Shionogi and decided to introduce a restricted stock compensation plan (hereafter "the Compensation Plan") and to submit a proposal regarding the introduction of the Compensation Plan to the 153<sup>rd</sup> Annual General Meeting of Shareholders scheduled for June 20<sup>th</sup>, 2018 (hereafter "the General Meeting of Shareholders").

### 1. The purpose and overview regarding the introduction of the Compensation Plan

#### (1) Purpose of the introduction of the Compensation Plan

The Compensation Plan is introduced in order to further promote shared value with shareholders and provide an incentive for Shionogi's Executive Directors (excluding outside directors; hereafter "the Eligible Directors") to sustainably increase Shionogi's corporate value, straightening linkage between their compensation and mid- to long-term business performance.

#### (2) Overview of the Compensation Plan

The Compensation Plan is composed of two stock-based compensation systems; one is the compensation based on the long-term share price which requires continuous service for a certain period as Director of Shionogi or as Executive Officer not concurrently serve as a director (hereafter "the Long-term Share Price Based Restricted Stock"), and the other is performance based one which requires the attainment of Shionogi's mid- to long-term business performance target on top of the aforementioned continuous service (hereafter "the Mid- to Long-term Performance Based Restricted Stock").

The Eligible Directors covered by the Compensation Plan shall pay in as property contributed in kind all the monetary compensation claims paid from Shionogi based on the Compensation Plan, and receive the issuance or disposal of common shares of Shionogi. When Shionogi's common shares are to be issued or disposed of under the Compensation Plan (hereafter "the Shares"), Shionogi and the Eligible Directors covered by the Compensation Plan shall conclude an agreement for allotment of restricted shares with the following contents; 1) the Eligible Directors may neither transfer, create a security interest on, nor otherwise dispose of the Shares during a certain restriction period, 2) Shionogi may make gratis acquisition of the Shares under certain circumstances, 3) the Eligible Director has held any of the positions of director or executive officer who does not concurrently serve as director throughout the restriction period, 4) As for the Mid- to Long-term Performance Based Restricted Stock, adding to the condition of 3) shown above, Shionogi shall lift the transfer restriction according to the achievement level of the

quantitative targets Shionogi has set in the mid-term business plan SGS2020 (for example, ROE), which the meeting of its Board of Directors set at the end of the restriction period.

To ensure the effectiveness of the restriction regarding the Shares, Shionogi enters into an agreement with Nomura Securities Co., Ltd. for the administration of the Shares regarding the administration of the accounts for the Shares.

## 2. Conditions regarding the introduction of the Compensation Plan

The total amount of Shionogi's directors compensation which has been approved in the 142<sup>nd</sup> Annual General Meeting of Shareholders (June 28<sup>th</sup>, 2007) is below 450 million yen. And within the range of the total amount of 450 million yen, for the directors excluding outside directors, the allotment of the stock acquisition rights has been approved as the share remuneration type stock option remuneration in the 146<sup>th</sup> Annual General Meeting of Shareholders (June 24<sup>th</sup>, 2011). With regard to the introduction of the Compensation Plan, under the condition that the shareholders approve the introduction of the Compensation Plan in the 153<sup>rd</sup> Annual General Meeting of Shareholders (planned on June 20<sup>th</sup>, 2018), we plan to revise the total amount of Shionogi's directors compensation from 450 million yen to 750 million yen. Since the Mid- to Long-term Performance Based Restricted Stock will be introduced instead of the current share remuneration type stock option remuneration, the amount of grant is planned to be as the similar level as the current stock option. Hence, the increase number of the total amount of Shionogi's directors compensation will be attributed to the Mid- to Long-term Performance Based Restricted Stock. Thereby we expect that the linkage between directors' compensation and mid- to long-term business performance is more definite and that the Eligible Directors can share more values with shareholders. Specific timing of granting of restricted shares and allotment to each Eligible Director shall be decided by the Board of Directors.

In accordance with that the introduction of the Compensation Plan will be approved in the 153<sup>rd</sup> Annual General Meeting of Shareholders (planned on June 20<sup>th</sup>, 2018), the current stock option shall be abolished, and thereafter we do not plan to grant the allotment of the stock acquisition rights to Shionogi's directors.

## 3. In the case where the introduction of the Compensation Plan will be approved in the 153<sup>rd</sup> Annual General Meeting of Shareholders (planned on June 20<sup>th</sup>, 2018), besides the Eligible Directors, we plan to introduce the restricted stock compensation plan same as the Long-term Share Price Based Restricted Stock to executive officers by the decision of the Board of Directors, in which Shionogi's common stocks will newly be issued or disposed. In accordance with this, the current stock option shall be abolished, and we do not plan to grant the allotment of the stock acquisition rights to Shionogi's executive officers.

# Press Release



## **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.*

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