

## Notice of Disposal of Treasury Shares as Restricted Stock Compensation Plan

**OSAKA, Japan, June 20, 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 June 20, 2018, the Directors decided to dispose treasury shares (the "Disposal of Treasury Shares" or the "Disposal") as follows.

### 1. Outline of the Disposal

(1) Disposal date	July 20, 2018
(2) Class and number of shares to be disposed	35,100 shares of Common stock of Shionogi
(3) Disposal price	¥5,673 per share
(4) Total value of shares to be disposed	¥199,122,300
(5) Allottees and number thereof, number of shares to be disposed	Directors (excluding outside directors): 3 persons 23,500 shares Corporate officers: 13 persons 11,600 shares
(6) Others	The Disposal of Treasury Shares is conditioned on the Securities Registration Statement taking effect in accordance with the Financial Instruments and Exchange Act.

### 2. Purposes and Reasons of the Disposal

Shionogi resolved, at a meeting of its Board of Directors held on May 9, 2018, to introduce a restricted share-based remuneration plan (the "Remuneration Plan") in order to provide an incentive for its Members of the Board excluding outside directors (the "Eligible Board Members") to sustainably increase Shionogi's corporate value and in order to further promote shared values with shareholders, as a new remuneration plan for Shionogi's Eligible Board Members and its Corporate Officers (the "Eligible Board Members etc."). Moreover at the 153rd Ordinary General Meeting of Shareholders held on June 20, 2018, it was approved that the total amount of Shionogi's directors compensation shall be revised from within 450 million yen to within 750 million yen, and that the transfer restriction period for restricted shares shall be the period specified by the Board of Directors of Shionogi, which is a period between three to thirty years from the day on which such shares are allotted.

An overview of the Remuneration Plan and other relevant details are shown below.

#### [Outline of the 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

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aforementioned continuous service (hereafter “the Mid- to Long-term Performance Based Restricted Stock”).

Under the Remuneration Plan, the Eligible Board Members etc. shall pay in, every year in principle, all monetary compensation receivables or monetary receivables provided by Shionogi in the form of property contributed in kind, in accordance with the resolution by Shionogi’s Board of Directors, and shall, in return, receive Shionogi’s ordinary shares to be issued or those subject to the Disposal.

In addition, under the Remuneration Plan, the total number of ordinary shares that the Eligible Board Members receive by issuance or Disposal by Shionogi shall be no more than 75,000 shares per year and the paid-in amount per share shall be determined by the Board of Directors based on the closing price of Shionogi’s ordinary shares on the First Section of the Tokyo Stock Exchange on the business day immediately preceding the date of each resolution by the Board of Directors (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day) or any other amount within the extent that the amount will not be particularly advantageous to Eligible Board Members who will subscribe Shionogi’s ordinary shares under the Remuneration Plan.

Furthermore, the issuance or Disposal of Shionogi’s ordinary shares under the Remuneration Plan shall be subject to a restricted share allotment agreement (the “Allotment Agreement”) to be entered into by and between Shionogi and each Eligible Board Members etc. as outlined 1)~4) shown below.

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.

Considering the purpose of the Plan, our current business results, responsibility of the Eligible Directors etc., and levels of compensations for directors and executives officers in the Japanese pharmaceutical industry, Shionogi has decided to provide the Long-term Share Price Based Restricted Stock and the Mid- to Long-term Performance Based Restricted Stock as follows.

1) the Long-term Share Price Based Restricted Stock: monetary compensation claims of ¥53,893,500 (common stock 9,500 shares), monetary claims of ¥65,806,800 (common stock 11,600 shares)

2) the Mid- to Long-term Performance Based Restricted Stock: monetary claims of ¥79,422,000 (common stock 14,000 shares)

(hereafter, the total sum of 1) and 2) as the “Monetary Compensation Claims” and the “Common Stocks Alloted”)

In addition, considering that the purpose of introduction of the Remuneration Plan is to provide an incentive to sustainably increase Shionogi's corporate value and further promote shared values with shareholders, Shionogi has decided the transfer restriction period for the Long-term Share Price Based Restricted Stock to be thirty years, and for the Mid- to Long-term Performance Based Restricted Stock to be three years.

With the Disposal of Treasury Shares, 16 Eligible Board Members etc., the planned allottees of shares, shall pay in all of the Monetary Compensation Claims, which are claims against Shionogi, in the form of property contributed in kind for acquisition of the restricted shares, and shall receive the Common Stocks Alloted pursuant to the Remuneration Plan.

### **3. Overview of the Allotment Agreement**

(1) Transfer restriction period: April 20, 2018-April 30, 2021

- 1) the Long-term Share Price Based Restricted Stock: July 20, 2018~August 1, 2048
- 2) the Mid- to Long-term Performance Based Restricted Stock: July 20, 2018~August 1, 2021

(2) Conditions for releasing transfer restriction

- 1) the Long-term Share Price Based Restricted Stock

On the condition that the Eligible Directors etc., maintain the positions of the Eligible Directors etc., continuously during the transfer restriction period, the Company shall release transfer restriction for all of the allotted shares at the expiration of the transfer restriction period.

- 2) the Mid- to Long-term Performance Based Restricted Stock

On the condition that the Eligible Directors maintain their positions continuously during the transfer restriction period, Shionogi shall release transfer restriction for the number of allotted shares, which are calculated by multiplying the number of shares that the Eligible Directors obtain at the expiration of the transfer restriction period by the release rate that is determined by the achievement degree in the period of the Mid- to Long-term Performance Based Restricted Stock is targeted (the "Evaluation Period"). The release rate is applied against the number of shares by multiplying, ranging from 0% to 100%. The achievement degree shall be totally evaluated by sales, operating profit, ROE and the growth rate of Total Shareholders Return (TSR) in the peer group etc., under our vision of "To grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare."

(3) Treatment in cases the Eligible Directors etc., retire from its position due to expiration of the term of office, reaching retirement age, or other due cause

- 1) Time of release

1. the Long-term Share Price Based Restricted Stock

In the event that an Eligible Board Members etc. resigns or retires from the position of Shionogi's Member of the Board or its Corporate Officer not

concurrently serving as Member of the Board during the transfer restriction period due to the expiry of term of office, attainment of retirement age, or other justifiable reason (excluding resignation or retirement by death), the transfer restrictions shall be lifted at the time immediately after the resignation or retirement. In the case of resignation or retirement by death, the transfer restriction will be lifted at a time decided separately by the Board of Directors after the death.

2. the Mid- to Long-term Performance Based Restricted Stock

In the event that an Eligible Board Members resigns or retires from the position of Shionogi's Member of the Board or its Corporate Officer not concurrently serving as Member of the Board during the transfer restriction period due to the expiry of term of office, attainment of retirement age, or other justifiable reason (excluding resignation or retirement by death), the transfer restrictions shall be lifted at the time immediately after the resignation or retirement. In the case of resignation or retirement by death, the transfer restriction will be lifted at a time decided separately by the Board of Directors after the death.

2) Number of shares subject to release

1. the Long-term Share Price Based Restricted Stock

The number of shares of the Eligible Board Members Etc. whose transfer restrictions are lifted shall be calculated by multiplying the number resulting when the period of office of the Eligible Board Members in the transfer restriction period (expressed in months) is divided by 12 (if that number exceeds 1, then make it 1) by the number of the Allotted Shares held at the time of resignation or retirement (provided, however, fractional shares less than one share will be dropped from the number of shares obtained by the calculation).

2. the Mid- to Long-term Performance Based Restricted Stock

The number of shares of the Eligible Board Members whose transfer restrictions are lifted shall be calculated by multiplying the number resulting when the period of office of the Eligible Board Members in the transfer restriction period (expressed in months) is divided by 36 (if that number exceeds 1, then make it 1) and the cancellation rate according to the achievement of performance goals, by the number of the Allotted Shares held at the time of resignation or retirement (provided, however, fractional shares less than one share will be dropped from the number of shares obtained by the calculation).

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## (4) Take-back without cost by the Company

The Company shall automatically take back all the allotted shares without cost immediately after expiration of the transfer restriction period, if transfer restriction on the allotted shares in question is still to be released.

## (5) Control of stocks

To ensure compliance with the transfer restriction during the transfer restriction period, the allotted shares shall be managed in a dedicated account at Nomura Securities Co., Ltd., opened by the Eligible Directors etc. The Company execute the memorandum on the control of the dedicated accounts of the Eligible Directors etc., with Nomura Securities Co., Ltd., in order to secure the effectiveness of the transfer restriction pertaining to the allotted stocks. In addition, the Company shall separately obtain the consent from the Eligible Directors etc., on the contents of the transfer restriction etc.

## (6) Treatment during reorganization, etc.

If, during the transfer restriction period, matters relating to a merger agreement in which Shionogi is the dissolving company, a share exchange agreement or share transfer plan in which Shionogi becomes a wholly owned subsidiary, or other reorganization are approved at Shionogi's General Meeting of Shareholders (or in the case where the approval at Shionogi's General Meeting of Shareholders is not required, in relation to the reorganization in question, a meeting of its Board of Directors ), based on the resolution of the Board of Directors, the number of shares that is reasonably calculated considering the number of months from the beginning of the transfer restriction period to the month including the approval day of the reorganization shall be released prior to the date the reorganization becomes effective.

## **4. Basis of Calculation and Specific Details for the Payment Amount**

The Disposal of Treasury Shares to the Eligible Directors etc., shall be funded by monetary compensation claims or monetary claims which the Company provided as the Restricted Stock Compensation for 2018 in accordance with the Compensation Plan. To eliminate arbitrariness in the disposal price, the closing price for the common shares of the Company on the First Section of the Tokyo Stock Exchange on March 19, 2018 (the business day prior to the day of resolution at the meeting of the Board of Directors) of ¥5,673 is used as the disposal price. As this is the market price the day prior to the day of resolution of the Board of Directors, we believe it is valid and does not represent a particularly favorable price.

## **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*

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*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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