

# To Our Stakeholders

First of all, along with extending our heartfelt condolences to those affected by the Great East Japan Earthquake that struck on March 11, 2011, we pray for those who lost their lives. We also hope the affected areas recover from the disaster as soon as possible.

Shionogi employees and facilities were affected by the earthquake; in particular our Kanegasaki Plant in Iwate Prefecture was forced to suspend all operations. However, an all-out effort by our employees saw production resume roughly a month later, and by July operations were completely restored.

Fiscal 2010 marked the first year of our third medium-term business plan, under which we are implementing various measures aimed at realizing our basic corporate policies on a global basis. We believe tangible progress was made toward our goals, including year-on-year growth in domestic sales, advances in R&D, and recovery from the Great East Japan Earthquake. It was also a year, though, in which we were made keenly aware of the challenges ahead, such as the need to flesh out our development pipeline, and restructure our US operations.

**Motozo Shiono**  
Chairman of the Board

**Isao Teshirogi, Ph.D.**  
President and CEO



## Business Trends

In Japan, in addition to stretched public finances as the population ages and the birth rate declines, there is also the problem of how to pay for the nation's rebuilding in the aftermath of the Great East Japan Earthquake. Due to these factors, National Health Insurance (NHI) drug price revisions scheduled for next fiscal year are expected to be steeper. If pharmaceutical companies are to achieve sustained growth in the domestic market, we think it important that the new system called "NHI Drug Price Premiums for Promoting the Creation of New Drugs and the Elimination of Off-Label Drug Use" be made permanent after being introduced on a trial basis in April 2010. Along with ramping up development of innovative new drugs, it is imperative, in our view, that pharmaceutical companies in general strive to maximize the value of new drugs by attracting such premiums, and work to ensure

## Our Initiatives Ahead

We think it important that Shionogi continue expanding and strengthening its earnings base if it is to realize further growth. But with little prospect of marked expansion in the domestic market, it is essential that we launch on the global market a stream of products developed internally. Crestor® is one of our core products in the domestic market, and sales are also expanding worldwide. However, Shionogi will face the expiration of patents for Crestor® in 2016–2017, giving rise to the so-called "Crestor Cliff" in five years time. In response, we aim to achieve long-term growth by maximizing royalty income from Crestor®, which is currently expanding globally, and by actively investing in R&D activities worldwide with a view to creating future growth products.

Shionogi has designed its new medium-term plan as a road map for achieving substantial growth in the next five years based on our vision for the company ten years from now, while preparing to maintain growth after the expiration of patents for Crestor®. In the domestic market, we aim to expand and enhance our earnings base by maximizing sales of new products, while in R&D we will concentrate resources on priority diseases with the goal of

that medical professionals truly grasp the value of these products.

Turning to the international stage, mega-pharma companies and Japanese drug majors are leading the way in mapping out individual responses to change in the business climate and in company-specific circumstances. These include specialization in treatments for areas of high unmet medical needs, conditions for which there remains no satisfactory method of treatment (such as cancer, psychiatric and nervous system disorders, and orphan diseases), diversification into vaccine and generic drug businesses, and expansion into emerging markets.

In this era of rapid-fire change in the prescription drug market, companies have some difficult decisions to make to ensure ongoing viability at home and abroad.


expanding and advancing our pipeline on a global basis. We are striving to speedily develop and market such pipeline products as S-349572 for HIV treatment, ospemifene for vulvar and vaginal atrophy, S-297995 for alleviating opioid-induced adverse effects, and S-707106 for diabetes treatment. In addition, we plan to redouble our efforts to improve research productivity and generate a sustained flow of products developed internally at Shionogi. We expect the new pharmaceutical research building completed in July 2011 to play a key role in this regard.

At Shionogi we are determined to make concerted efforts to achieve the objectives of the new medium-term plan, enabling us to "provide medicine of the best possible kind essential for protection of the health of people," on a global basis as expressed in our basic corporate policies, and achieve real growth that is clear for all to see.

We look forward to receiving continued support and guidance from all our shareholders and other stakeholders.



**Motozo Shiono**  
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