

Chairman's governance statement



“
Effective corporate
governance —
enabling Shire to
do the right thing,
in the right way.
”

Effective corporate governance is central to Shire's foundation as the leading global biotechnology company focused on rare diseases. It underpins all that we do, from the oversight and guidance provided by the Board, to management's implementation of strategy, to the individual and collective accomplishments of our valued employees worldwide. Effective corporate governance enables us to do the right thing, in the right way.

In a year of transformation for Shire, the maintenance of our high standards of corporate governance has been a priority for the Board. Over the last 12 months, my fellow Directors and I have reviewed and refreshed many of the key policies and frameworks that support the Company's effective operation. In addition, we have overseen management's continued integration of Baxalta, confirming that the combined strategic initiatives of the new, larger company are consistent with Shire's focus on growth, innovation, efficiency and people.

Aligned with these corporate priorities, the Board has sought to ensure it remains an effective steward for a dynamic and high-performing business that operates in a fast-paced and competitive global market. During the past year, the Board conducted an internal evaluation to consider the skills, experience and diversity of its members and the infrastructure of its operation. We assessed the Board's performance supporting the business and refined our succession planning for Directors and management alike. Further details on the Board performance evaluation can be found on pages 73 to 74.

Contributing to the Board's knowledge and experience were the appointments of Gail Fosler and Albert Stroucken as new Non-Executive Directors. Both Gail and Al served as Directors of Baxalta prior to its acquisition by Shire and bring with them a valuable understanding of its operations and governance structure. In addition, we recently appointed Ian Clark as a third new Non-Executive Director. Following his retirement as CEO of Genentech, Ian brings an in-depth knowledge of the biotechnology sector and strong operational experience. Together, these appointments leave the Board well-positioned to guide the Company and support management in the ongoing execution of our strategy.

Looking ahead to 2017, the Board will continue to engage with shareholders and other stakeholders on key corporate priorities. Our focus remains on ensuring that Shire meets its commitment to shareholders: to execute our growth strategy, deliver efficient performance and develop effective therapies for the patients we serve, all while creating shareholder value.

Susan Kilsby
Chairman

Index to the Governance section

This section sets out Shire's governance structure and seeks to demonstrate how the main principles of the UK Corporate Governance Code (the "Governance Code") were applied throughout the financial year ended December 31, 2016. The Board is of the opinion that, during this period, the Company complied with the provisions of the Governance Code. Published by the Financial Reporting Council, the Governance Code is publicly available at www.frc.org.uk. This section is comprised of the following sub-sections:

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Board governance

Leadership

Role of the Board

The principal purpose of the Board is to provide leadership to the Company in a manner that promotes its long-term success, creating sustainable value for the benefit of shareholders and other stakeholders. The Board is responsible for determining the Group's strategy as well as overseeing its implementation by management. In doing so, the Board works closely with management to ensure that a culture of integrity, responsibility and patient focus exists throughout the organization. In addition, the Board has oversight of all material matters impacting the Company and its operations including key policies, significant financial matters and M&A activity, risk management and succession planning.

Division of responsibilities

The Board comprises the Chairman, 10 other Non-Executive Directors, the Chief Executive Officer and the Chief Financial Officer. The Chief Executive Officer, together with the Executive Committee, is responsible for business operations. The

Non-Executive Directors are charged with exercising independent judgment during Board deliberations and ensuring effective performance and delivery of strategy by management.

The Chairman, Senior Independent Director and Chief Executive Officer have distinctly different roles which are defined in writing and approved by the Board. These are summarized as follows:

Chairman

The Chairman's primary responsibility is to provide leadership to the Board, ensuring its effective operation. This is achieved in part through the promotion of an open and engaged culture that facilitates constructive dialogue both with management and in executive sessions of the Board. The Chairman is also responsible for ensuring effective communications between the Board and shareholders.

Senior Independent Director

The Senior Independent Director is responsible for providing a sounding board for the Chairman and for serving as a

trusted intermediary for the other Directors. In addition, the Senior Independent Director is responsible for leading meetings of the Non-Executive Directors in the absence of the Chairman and for consulting with shareholders when communication with the Chairman or Chief Executive Officer would be inappropriate.

Chief Executive Officer

The principal responsibility of the Chief Executive Officer is to manage Shire's day-to-day business. Having regard for the strategy, risk profile, objectives and policies set forth by the Board and its committees, the Chief Executive Officer is accountable to the Board for the development of the Company and its operations.

Full details of these roles and responsibilities can be found on the Company's website.

Key considerations

The principal considerations of the Board during the year were:

Strategy

- Transactional and integration developments relating to the combination with Baxalta, creating the leading global biotechnology company focused on rare diseases
- The Company's strategy and long range plan
- Material M&A and in-licensing transactions, including completion of the Dyax acquisition and related integration activity
- Clinical programs development updates, launch activity for key products (including XIIDRA) and ongoing commercial development
- Litigation updates, including the agreed settlement with the U.S. Department of Justice concerning our former Dermagraft business
- Ongoing group financing arrangements including the refinancing of external debt through the issuance of senior notes
- Developments to the global operating environment including BREXIT, the U.S. presidential election and other macro events

Operations

- Ongoing property portfolio rationalization including focused commercial and manufacturing investment in Ireland, including commitment to a new, state-of-the-art biologics manufacturing facility
- The Company's compassionate use program and related policy development
- Global digital capabilities, systems compatibility and integration
- Ongoing monitoring and review of the Company's principal risks, risk management and internal control systems
- The Company's ongoing performance against budget

Governance

- Ongoing investor feedback, with there being a high level of engagement regarding M&A transactions and executive remuneration
- The Company's full-year and half-year results, quarterly earnings releases, key financial reports and earnings guidance
- Board performance, effectiveness and succession planning including induction and training initiatives
- Senior management succession and talent assessment
- Key policies and frameworks, including the Delegation of Authority matrix, Board Diversity Policy and Code of Ethics

Board operation

During the year the Board met frequently in order to discharge its duties. Six scheduled Board meetings took place during 2016 of which five were held over two-day periods alongside Board committee meetings. In addition, five ad hoc meetings were held principally to consider M&A activity and other strategic matters.

Board member ¹	Date of appointment	Scheduled meeting attendance	Ad hoc meeting attendance ²
Susan Kilsby ³	September 1, 2011	6(6)	5(5)
Flemming Ornskov	January 2, 2013	6(6)	5(5)
Jeffrey Poulton	April 29, 2015	6(6)	5(5)
William Burns ⁴	March 15, 2010	6(6)	4(5)
Dominic Blakemore	January 1, 2014	6(6)	5(5)
Olivier Bohuon ⁵	July 1, 2015	5(6)	4(5)
Gail Fosler	June 3, 2016	4(4)	3(3)
Steven Gillis	October 1, 2012	6(6)	5(5)
David Ginsburg	June 16, 2010	6(6)	5(5)
Sara Mathew	September 1, 2015	6(6)	4(5)
Anne Minto	June 16, 2010	6(6)	4(5)
Albert Stroucken	June 3, 2016	4(4)	3(3)
David Kappler	April 5, 2004 – April 28, 2016	2(2)	2(2)

Note: The number in brackets denotes the number of meetings that Committee members were eligible to attend.

1. Ian Clark was appointed as a member of the Board on January 3, 2017.
2. Ad hoc meetings are those that fell outside of the usual Board calendar and were timed to facilitate maximum possible attendance.
3. Susan Kilsby served as an independent Non-Executive Director prior to her appointment as Chairman on April 29, 2014.
4. William Burns served as a Non-Executive Director prior to his appointment as Senior Independent Director on April 28, 2016.
5. Olivier Bohuon was absent from one scheduled meeting due to illness.

Only members of the Board are entitled to attend Board meetings, however, during the year members from the following internal Group functions attended by invitation:

- Finance
- Legal and Company Secretariat
- Corporate Development
- Human Resources
- Research and Development
- Global Compliance and Risk Management
- Communications and Public Affairs
- Investor Relations
- International Commercial
- U.S. Commercial
- Technical Operations

External professional advisors also attended meetings when necessary. During scheduled Board meetings it is customary for the Non-Executive Directors to meet at least once without Executive Directors or management present, following which a meeting of the Non-Executive Directors led by the Senior Independent Director is held in the absence of the Chairman. Matters considered by the Board are those reserved for its judgment and decision,

as defined in the Board Reserve Powers, although wider matters are considered by the Board as circumstances require. The Board Reserve Powers are available on the Company's website.

At the start of the year the Chairman, her fellow Directors and the Company Secretary agree a forward-looking schedule of matters to be considered by the Board and its committees, with specific updates made throughout the year as required. The Chairman is also supported by the Company Secretary and management in ensuring that all necessary information is provided to the Board in a timely manner, and that sufficient time is made available at meetings for the consideration of individual agenda items. Open and balanced discussion is encouraged with a view to achieving resolution by consensus, however, if consensus is not possible then decisions are to be taken by majority vote, with the Chairman having a casting vote in the case of an equality of votes.

Effectiveness

Effective stewardship is integral to the development and promotion of the Company's purpose, culture, values and

core behaviors and therefore to the execution of its strategy. The Board is committed to ensuring that the Company operates in accordance with the highest standards of governance in order to promote its success for the benefit of all stakeholders.

Diversity

The Board recognizes the inherent value of diversity at all levels within the Group and strives to foster an inclusive and respectful professional culture. During the year the Board reviewed its Diversity Policy and considered many of the related published reports and recommendations. Moreover, as part of the wider integration effort relating to the Baxalta acquisition, the Board and members of management took the opportunity to reinforce Shire's commitment to people of all backgrounds, irrespective of race, gender or sexual orientation. It is a core belief of Shire's leadership that an inclusive workforce brings a wealth of ideas, innovation and drive that in turn contributes to the Company's ability to anticipate, and adapt to, ongoing changes in its operating environment.

Shire's Board Diversity Policy acknowledges that the Company, its shareholders and other stakeholders are best served by a Board diverse in skill, experience, background, gender and ethnicity. The principles of the policy are taken into account by both the Board and the Nomination & Governance Committee in their consideration of potential Board members, consistent with the Group's focus on diversity. Additional disclosure relating to diversity within Shire is made on pages 38 to 39.

Independence

The Board has reviewed the independence of the Non-Executive Directors, other than the Chairman, in accordance with the factors set forth for consideration in the Governance Code and determined that everyone seeking election or re-election continues to be independent in character and judgment. In addition, the Board regards each of its members as possessing the skills, knowledge and experience necessary for it to function effectively. Board members' biographical information can be found on pages 66 to 68.

Appointments

The Board may appoint any individual as a Director either to fill a vacancy or as an additional member of the Board. The process for new appointments is led by the Nomination & Governance Committee

(procedural details are available on page 80) which ultimately makes a recommendation to the Board.

Appointments may be made by the Board at any time subject to subsequent election and annual re-election by the Company's shareholders. All Directors are seeking election or re-election at the Annual General Meeting to be held on April 25, 2017. At this meeting Non-Executive Director terms of appointment and Executive Director service contracts will be made available for inspection by shareholders.

Commitment

Prior to appointment, Non-Executive Directors are required to disclose to the Board their other significant commitments. This enables an assessment of their capacity to commit sufficient time to effectively discharge their anticipated duties and responsibilities. Each Non-Executive Director keeps the Board informed of any changes to their other significant commitments. As part of the 2016 Board performance evaluation, it was determined that each of the Directors demonstrated continued effective performance and commitment to their role.

Conflicts of interest

Directors are required to notify the Board before accepting any appointment, or taking any action, which may give rise to a conflict of interest or a potential conflict of interest (together a "conflict"), or on becoming aware of a conflict. Upon notification, the Board will consider whether to authorize a given conflict and, if so, set any terms and conditions to which the authorization shall be subject. These may include the relevant Director being requested to abstain from the related decision and/or discussion. In the event of a material change to the facts and/or circumstances relating to an authorized conflict, the Director concerned is required to notify the Nomination & Governance Committee. Authorized conflicts are reviewed annually, and at such other times as is necessary, by the Nomination & Governance Committee which then reports on its findings to the Board. Details on Directors' interests in transactions can be found on page 115.

Induction and development

Upon appointment to the Board all Directors undergo a formal induction program tailored to their individual skills, knowledge and experience. The purpose of such a program is to facilitate each Director's familiarization with the Company's business, strategy and

governance structure, as well as their own duties and responsibilities. Induction activities undertaken during the year are as follows:

Non-Executive Directors

As newly appointed Board members, Gail Fosler and Albert Stroucken have each undertaken induction meetings with members of Shire's Executive Committee and other members of management. Both Directors participated in an orientation visit to Shire's International Headquarters in Zug, focusing on the Group's international commercial operations and global product strategy. In addition, Ms. Fosler and Mr. Stroucken received briefings on Shire's research and development activities, tax strategy and U.S. commercial operations, as well as on the duties and responsibilities associated with being a director of a global, listed company. Further induction activities will be made available to both Directors.

In addition to undergoing an initial induction, on an annual basis each Director discusses with the Chairman their individual development requirements with a view to ensuring their skills, knowledge and experience are regularly refreshed, and that their familiarity with the Company's business is maintained. A standing schedule of training topics enables Directors to undertake, as required, detailed development initiatives focused on matters specific to the Company and its operating environment.

Information and support

The Chairman, in collaboration with the Company Secretary and management, is responsible for ensuring that Board members are provided at all times with the information necessary for them to effectively discharge their duties and responsibilities. Before decisions are taken at Board meetings, consideration is had as to the adequacy of the information available to the Board, enabling the deferral of decision making if necessary. Directors may seek clarification, additional information or professional advice necessary to the fulfillment of their duties and responsibilities from across the business, from the Company Secretary or from independent sources at the Company's expense.

In addition, the Chairman, supported by the Company Secretary, ensures that effective channels of communication exist between the Board, its committees and the Company's management.

Board performance evaluation Progress against points of focus from 2015

During 2015, the Board undertook an externally facilitated performance evaluation. In considering the results of that evaluation and how effectiveness might be improved, the Board agreed that, during 2016, greater focus would be placed on:

- improving the structure and content of Board papers and presentations
- developing the Board's agendas, objectives and priorities
- enhancing induction and development programs for Directors

To this end, during the year the Board, in conjunction with members of management, sought to refine the underlying Board support infrastructure, as well as enhance efficiency and streamline processes that underpin the Board's operation. A common standard for Board papers and presentations was introduced to help ensure the Board receives clear and balanced information that is sufficient in detail to enable it to make informed decisions. Moreover, greater emphasis was placed on time management during meetings to maximize productivity. The Chairman, committee chairmen and members of management routinely set aside time to undertake forward-looking reviews of Shire's operating environment with a view to ensuring that matters put forward for the Board's consideration were timely and those most deserving of its attention. In addition, efforts were made to enhance the training materials available to new and existing Directors with focus placed on areas of operational and strategic importance to Shire as well as on the duties and responsibilities that accompany being a Director of a public company.

2016 procedure, conclusions and points of focus

The 2016 Board performance evaluation was undertaken internally, led by the Chairman with the support of the Company Secretary, and covered the performance of the Board, its committees and members. The evaluation was conducted in accordance with the principles of the Governance Code and comprised:

- Directors each completing a performance and effectiveness questionnaire with responses aggregated on a non-attributable basis and shared with the Board
- the Chairman meeting with each Non-Executive Director to discuss individual performance, training needs and overall Board effectiveness

- the Chairman leading a performance evaluation and effectiveness review with the Board based on the aggregated questionnaire responses and individual Director feedback
- the Chairman of each Board committee holding similar performance and effectiveness discussions with each of their committee members
- the Senior Independent Director soliciting the views of fellow Directors with respect to the performance of the Chairman and providing her with feedback regarding the same

The review included consideration of the time and information made available to the Board in its assessment of strategy, risk management and internal control, governance and the integrity of the financial statements. The review also included succession planning at the Board and management level as well as the collective skill and experience of the Board that together contribute to the effective discharge of its responsibilities.

The overall conclusion drawn from the evaluation is that the Board performs to a high standard, demonstrating strength in sector-related knowledge and understanding. The skills and experience of individual directors are such that the Board is well-equipped to manage the complexities associated with leading a global, specialized organization in a fast-paced and ever-changing competitive market-environment. Furthermore, the Board's culture is one of positive engagement that supports open and constructive discussion and that has contributed to the establishment of strong links among the Directors and with management. The Chairman and committee chairmen are considered effective leaders, with individual Directors demonstrating commitment and preparedness as well as a willingness to understand the views of shareholders and other stakeholders. In pursuit of optimal effectiveness, the following areas were recommended for Board focus during the forthcoming year:

- the approach taken to reviewing corporate strategy and how this might be enhanced
- a continued focus on succession planning for both management and Non-Executive Directors

Accountability

Risk management and internal control

The Board is responsible for Shire's risk management and internal control systems which include the processes for identifying, evaluating and managing the principal risks faced by the Company. These systems are developed alongside the Company's strategy and in accordance with applicable regulatory guidelines including the Internal Control — Integrated Framework 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"), and the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Shire's risk management and internal control framework has been in place for the duration of the financial year covered by, and to the date of the approval of, this Annual Report.

Risk management and internal controls relating to financial reporting

The Group's internal control program related to financial reporting ("ICPFR") is aligned with the COSO Framework. It comprises a combination of manual, automated, preventative and detective controls, as well as underlying IT controls for key financial systems, which are documented, tested and reported on throughout the year. The ICPFR takes into account key policies such as the Financial Controller's Manual and the Delegation of Authority matrix, as well as pervasive entity level controls including those relating to integrity and ethical values, adherence to codes of conduct and the Board's oversight of internal control and organizational structure. In addition, on an annual basis the Internal Audit function develops and executes a risk-based audit plan covering areas of financial, compliance and operational risk across the various Group functions and geographic locations. Results of these audits, together with results of ICPFR testing, are regularly reviewed by the Audit, Compliance & Risk ("ACR") Committee which, along with management, assesses the ongoing effectiveness of the ICPFR against the COSO Framework. Furthermore, an established process of escalation enables the ACR Committee and the Board to review material matters on a timely basis as they arise. As part of the integration efforts relating to the acquisition of Baxalta, management has commenced the harmonization of risk management and internal control systems across the enlarged Group. These efforts will continue into 2017.

Monitoring and review

The Board, supported by the ACR Committee, is responsible for the ongoing monitoring and review of the Company's risk management and internal control systems. At the start of the year the Board determines how this will be achieved, including agreeing a scheduled monitoring program and identifying those aspects that will be overseen, on its behalf, by the ACR Committee. In addition, the Board ensures that considerations of risk feature within its wider discussions including those concerning the Company's business model and strategy. Together, this allows for reflection on the determination, identification, assessment and mitigation of the Company's principal risks, enabling the Board to continually evaluate whether the risk management and internal control systems remain appropriate. In anticipation of completion of the Baxalta acquisition, the Board took into consideration risk management and internal controls implementation, effectiveness and integration as part of its wider pre-transaction due diligence. In addition, following completion of the acquisition on June 3, 2016, specific audit and assurance activities were undertaken with respect to the legacy-Baxalta organization, with its principal business risks and risk management systems factored into Shire's biannual Enterprise Risk Management program and Enterprise Risk Assessment.

In addition to its ongoing appraisal, the Board is responsible for undertaking an annual review of the effectiveness of the Company's risk management and internal control systems. This is achieved through dedicated discussion during which key factors related to the Company's risk management and internal control regime are considered. Typically, these include its operation and integration, management's oversight and related reporting, risk appetite and culture as well as any other aspects pertinent to the affairs of the Company. Moreover, drawing on its more-regular discussions and feedback from the ACR Committee, the Board reflects on key matters that have arisen during the year and the Company's ability to respond appropriately to internal and external developments as they arise. Together, this enables the Board to evaluate the principal features of the risk management and internal control systems, consider their composition relative to Shire's strategic direction and draw conclusions as to their overall effectiveness. Following its review in respect of the 2016 financial year and the period up to the approval of this Annual Report, the Board neither identified, nor

was advised of, any deficiencies within the Company's risk management and internal control systems that were considered material to the Group as a whole. Further details on Shire's risk management framework can be found on pages 54 to 55.

Going concern

The Directors' Report (covering pages 2 to 118) includes the following information relating to the Group:

- financial position including cash flows, liquidity position and borrowing facilities
- business activities together with factors likely to affect future development, performance and financial position
- objectives, policies and processes for managing capital
- financial risk management objectives
- details of hedging activity and exposures to credit and liquidity risk

Details of the Group's financial instruments are disclosed in Note 16 to the consolidated financial statements. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they consider it appropriate to adopt the going concern basis of accounting in preparing the annual financial statements.

Ongoing viability

On an annual basis the Company undertakes a long-range planning exercise (the "LRP") as part of its strategic review. The LRP includes the evaluation of key sensitivities and scenarios that relate to certain of the Company's principal risks and uncertainties (as outlined on pages 54 to 65) with a view to determining their potential impact on the Company's financial position, ability to deliver on strategy and, ultimately, its viability. The scenarios considered during the year included increased pricing pressure, lower market share for key products, generic competition and the failure of key pipeline programs. The LRP also considers the Company's future cash flows and funding requirements, including the ability to repay outstanding debt obligations and maintaining compliance with ongoing loan covenants. Analysis of the LRP in conjunction with the Board's robust assessment of principal risks, including the realistic availability and likely effectiveness of mitigating actions, underpins the Group's planning processes and contributes to the determination and implementation of the Company's strategy.

For the purpose of assessing ongoing viability the Board considered the Company's prospects over a four-year period, consistent with the relative focus

within the LRP as well as brand and business planning horizons. The Board also keeps the Company's solvency and liquidity under review through regular reporting from the ACR Committee, management and from the Group's external auditor. The Board continually evaluates the assurance it receives and considers the impact of significant projects, strategic developments and other significant commitments on the Company's risk profile and ultimately its ongoing viability. Having regard to the strategic review (including the LRP) and the Company's principal risks and uncertainties, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the four-year period of its assessment.

Relations with shareholders

The Board is committed to maintaining open and constructive dialog with shareholders, helping to ensure a common understanding of strategic objectives, matters of governance and of the Company's performance. The principal points of contact for major shareholders are the Chairman, Chief Executive Officer, Chief Financial Officer and the Company's Investor Relations team, with the views of investors communicated to the Board as a whole. During the year the Group engaged with shareholders through the media below:

Relations with shareholders

Meetings with shareholders	The Chairman, Chief Executive Officer, Chief Financial Officer and members of management engaged with many of Shire's major shareholders to receive views on matters material to the Company and its operations. Such matters included the combination with Baxalta, the Company's strategy, financial targets and executive remuneration.
Healthcare conferences	Representatives of the Company engaged with shareholders and potential investors at many conferences held throughout the year at which presentations and other reference materials were made available.
Investor day	Shire hosted an investor day in New York on November 10, 2016, at which its commercial portfolio and innovative R&D pipeline, including late-stage clinical portfolio highlights, were showcased, supporting Shire's long-term growth aspirations.
Results announcements and presentations	The Company communicated its performance to shareholders and analysts through quarterly financial results announcements, each accompanied by an explanatory webcast and Q&A session provided by the Chief Executive Officer and the Chief Financial Officer.
Financial reporting	The Company published half and full-year reports and filed quarterly Form 10-Qs and an annual Form 10-K in accordance with obligations arising from its listing on the London Stock Exchange, New York Stock Exchange and the NASDAQ Global Select Market.
Annual General Meeting and General Meeting	The Company's Annual General Meeting was held in Dublin on April 28, 2016. Shareholders were invited to attend and vote on resolutions and also to meet with members of the Board. In addition, on May 27, 2016, the Company held a General Meeting at which shareholders were able to cast their votes in respect of the then-proposed combination with Baxalta, and other related matters.
Website	The Company's website (www.shire.com) provides information about the Group and is regularly updated with corporate and regulatory news, IR events, broker forecasts and other information related to the Company's operations.
Investor relations	The Group's Investor Relations department regularly responds to shareholder communications through its dedicated inbox: InvestorRelations@shire.com
Corporate responsibility reports and engagement	The Company's website has a dedicated "Responsibility" section where Shire's Annual Responsibility Review is posted along with regular updates on programs, policies and activities.
Digital application	Shire's IR Briefcase application is regularly updated with news and presentations and provides access to the Company's latest Annual Report.

Board committees

To ensure effective oversight and control over the Group's operations, the Board has constituted the Audit, Compliance & Risk Committee, the Remuneration Committee, the Nomination & Governance Committee, the Science & Technology Committee and the Executive Committee, each of which has been delegated specific authorities. The Board committees' terms of reference, which are subject to annual review and approval by the Board, are available on the Company's website, with further detail as to their operation and activities presented in the following reports.

Board of Directors
Audit, Compliance & Risk Committee
Remuneration Committee
Nomination & Governance Committee
Science & Technology Committee
Executive Committee

Audit, Compliance & Risk Committee



Dominic Blakemore
Committee Chairman

Membership and meetings

As at the year end the Audit, Compliance & Risk Committee comprised five independent Non-Executive Directors, each chosen for their knowledge and experience of financial matters, financial reporting, risk management and internal control. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience in accordance with the requirements of the Governance Code.

Committee member	Date of appointment	Meeting attendance
Dominic Blakemore ¹	Jan 1, 2014	5(5)
Gail Fosler	Jun 7, 2016	3(3)
Steven Gillis ²	Dec 3, 2014	5(5)
Sara Mathew	Sept 1, 2015	5(5)
Albert Stroucken	Jun 7, 2016	3(3)
David Kappler	Apr 5, 2004 – Apr 28, 2016	2(2)

Note: The number in brackets denotes the number of meetings that Committee members were eligible to attend.

- Dominic Blakemore served as a member of the Committee prior to his appointment as Committee Chairman on April 29, 2014.
- Steven Gillis served as an interim member of the Committee prior to his appointment on December 3, 2015.

Committee meetings held during the year typically coincided with key dates in the Group's financial reporting cycle. At the invitation of the Committee Chairman, regular additional meeting attendees included the Chairman of the Board and other Non-Executive Directors, the Chief Executive Officer, Chief Financial Officer, external audit partner and members from the following internal Group functions:

- Finance
- Global Compliance and Risk Management
- Legal and Company Secretariat

To facilitate open and unreserved discussion, it is the Committee's practice to set aside time for its private deliberation, with time also reserved for private discussion with each of the Group's external audit partner, Head of Internal Audit and Chief Compliance and Risk Officer.

Role of the Committee

The purpose of the Committee is to oversee Shire's accounting and financial reporting processes, the audits of its financial statements and the effectiveness of the Company's risk management and internal control framework. In doing so, the Committee's principal duties are to:

- monitor the integrity of the financial reports and statements of the Group and, where requested by the Board, advise on whether, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable
- make recommendations to the Board on matters relating to the appointment of the external auditor, to determine and agree the scope of the external audit engagement and to consider findings and recommendations arising from the external audit process
- monitor and review the integrity and effectiveness of the Group's internal financial controls and internal control and risk management systems
- review the Group's strategy for the management of key corporate and financial risks
- review the status of the Group's compliance program to ensure adherence to applicable legal and regulatory standards and to the Group's internal policies

In addition, the Committee is authorized to investigate any activity included within its terms of reference and is responsible for the resolution of any disagreement between management and the Group's external auditor regarding financial reporting matters. The Committee is also permitted to seek any information it requires from any employee of the Group, and any external professional advice at the Company's expense, necessary to the fulfillment of its duties.

Key considerations related to the financial statements

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities and equity at the date of the financial

statements, and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Committee reviews and critiques the critical accounting estimates, judgments and methodologies applied by management. The Committee's review considers reports and discussions with management and Deloitte LLP, the Company's external auditor, with the objective of confirming that the estimates, judgments and assumptions of management were reasonable and appropriately applied.

The significant issues considered by the Committee during the year in relation to the financial statements were:

Purchase accounting related to the acquisition of Baxalta and Dyax

- the valuation of acquired intangible assets
- the valuation of acquired inventory and the alignment of inventory accounting policies between Shire and Baxalta
- accounting for the termination of collaboration agreements
- recoverability of the accounts receivable, and alignment of Baxalta's accounting practice for sales deductions and rebates to Shire's practice
- the valuation of the assumed Baxalta pension obligations
- the valuation of the assumed Baxalta senior notes
- the subsequent adjustments to preliminary acquisition fair values

Further information is available in Note 4 to the consolidated financial statements.

Revenue recognition

- the amount of sales deductions and rebates recorded as liabilities on the balance sheet
- the assumptions related to the return rates for new product launches, most notably those related to XIIDRA

Further information is available in Note 3 to the consolidated financial statements.

Legal contingencies

- the amount and timing of legal reserves, most notably the settlement with the U.S. Department of Justice regarding our former Dermagraft business
- the nature, timing and content of the information disclosed in the Company's notes to its financial statements

Further information is available in Note 26 to the consolidated financial statements.

Tax-related matters

- the amount and timing of tax provisions related to ongoing operations
- the amount and timing of deferred tax accounting matters related to the purchase accounting for Baxalta
- the nature of tax exposures related to the Baxalta acquisition

Further information is available in Notes 3, 22 and 24 to the consolidated financial statements.

After due challenge and debate the Committee concluded that, in all of the aforementioned areas, the estimates, judgments and assumptions of management were reasonable and appropriately applied. Furthermore, as each of the areas was a prime source of audit focus, Deloitte LLP provided related detailed reporting to the Committee.

In addition to assessing the critical accounting estimates and key judgments applied by management, the Committee reviewed and supported the disclosures within the Group's 2015 full-year and 2016 quarterly results announcements and related financial reports.

Committee activities

In addition to the key considerations outlined above, the Committee's activities during the year included:

Financial reporting

- reviewing the Company's full-year and half-year results, quarterly earnings releases, key financial reports and earnings guidance
- reviewing the Group's updated Non GAAP policy, which incorporated guidance issued by the European Securities and Markets Authority, and the application of the policy including with respect to integration and acquisition costs
- reviewing tax matters impacting the Group

External audit

- reviewing quarterly updates provided by the external auditor encompassing key areas of judgment and risk, audit planning, governance updates and other business-related matters
- reviewing the 2015 audit and the initial review of the external auditor's performance and effectiveness during the 2016 financial year, including a review of management's assessment of the performance and effectiveness of the external auditor
- reviewing and approving the 2016 Audit Plan and audit fee

- assessing the objectivity and independence of the external auditor

Additional matters

- assessing the impact of the integration of the legacy Baxalta business on management's ability to undertake ongoing duties in a timely and effective manner
- reviewing compliance and audit updates from the Chief Compliance and Risk Officer and the Head of Internal Audit
- considering the renewal terms of the Group's insurance program
- reviewing the Group's treasury policies and ongoing treasury activities
- assessing the Group's financing arrangements including the issuance of senior notes
- assessing the Group's foreign exchange exposure and hedging strategy
- maintaining oversight of the Group's internal audit program
- assessing the Group's principal risks and the associated mitigation strategy

External audit

Independence and objectivity

The Committee recognizes both the need for an objective and independent external auditor and how such objectivity and independence might be, or appear, compromised through the provision of non-audit services. Accordingly, the Committee oversees an established policy on the provision of non-audit services by the external auditor with a view to safeguarding these core attributes. The policy, which was updated during the year to reflect guidance published by the Financial Reporting Council, provides that, amongst other things, the auditor must not provide a service which:

- creates a mutuality of interest
- places the auditor in a position where they would audit their own work
- results in the auditor acting as a manager or employee of the Company
- positions the auditor in the role of advocate for the Company

In addition, the policy prescribes services which the external auditor is explicitly prohibited from providing, and those the provision of which has been pre-approved by the Committee subject to individual and aggregate monetary limits. All proposed services falling outside of the scope of the policy, or the monetary limits contained therein, must receive pre-approval from the Committee or from its Chairman subject to Committee approval at its next scheduled meeting.

Fees relating to non-audit services provided by the external auditor to the Company in 2016 totaled \$20.2 million (2015: \$4.4 million). Nearly all of these fees (\$19.8 million) relate to the continuation of projects already underway at Baxalta prior to its combination with the Company, and the reporting accountant's services provided to the Company in connection with the combination with Baxalta. Fees incurred in 2015 principally related to the reporting accountant's services provided in connection with the combination with Baxalta. Further details on the breakdown of non-audit fees paid or due to the external auditor as a result of services provided during 2016 can be found in Note 30 to the consolidated financial statements.

The Committee was satisfied throughout the year that the objectivity and independence of Deloitte LLP was not impaired. In forming this view, the Committee considered the non-audit services provided by Deloitte LLP that increased in 2016 as a result of the acquisition of Baxalta. In particular, the Committee noted that:

- the acquisition of Baxalta was a Class 1 transaction pursuant to the Listing Rules of the UK Listing Authority. To support the transaction and facilitate regulatory reporting, the Committee approved the provision of certain services by Deloitte LLP that would ordinarily be provided by the external auditor in its capacity as reporting accountant; and
- as part of its own independent process prior to its acquisition by Shire, Baxalta had selected Deloitte LLP to provide consulting services related to certain strategic projects. In order to manage transition risk, the Committee approved the continuation of certain of these pre-existing services. All necessary adjustments to the services to ensure auditor independence were made in advance of the acquisition closing. The Committee and Deloitte LLP considered the need for additional safeguards and, once these had been identified, the Committee was satisfied that they were appropriately implemented. As approved by the Committee, a certain level of permitted consulting and advisory services relating to one of these strategic projects will continue to be provided by Deloitte LLP during 2017. It is intended that these services will substantially cease by the end of that year.

Further factors identified as contributing to Deloitte LLP's objectivity and independence as external auditor include its impartial and questioning approach, particularly with respect to issues of heightened sensitivity, the firm's prudent attitude to the consideration and undertaking of non-audit services and Shire's own policy of not recruiting staff directly from the external audit engagement team.

During the year the Committee met with the external auditor to consider independence and objectivity, ensuring that the relationship between the external auditor and members of management had not resulted, or appeared to result, in a lack of independence or objectivity. The Committee considers that, during 2016, the external auditor was sufficiently robust in dealings with members of management and that, in their absence, the external auditor was transparent and decisive in dealings with the Committee.

Effectiveness

The Committee recognizes the importance of having a high-caliber audit and, as such, undertakes an annual assessment of the effectiveness of the external audit process. As part of its evaluation, the Committee drew upon a survey of members of financial management which measured the external auditor's performance against predetermined "critical success factors" which were designed to facilitate continuing and measurable improvement in the effectiveness of the external audit process. The Committee concluded that the "critical success factors" had been substantially met and that there existed a constructive working relationship between the external auditor and members of management. Moreover, the Committee determined that the audit process was sufficiently robust, with the external auditor demonstrating continued commitment to the performance of high-quality audit work. Areas of development were identified and communicated to the external audit firm which in turn has committed to working with management and the Committee in addressing these in 2017.

Appointment and tendering

Deloitte LLP has served as Shire's external auditor since 2002, with the current audit partner commencing his appointment in 2016. Following the review of Deloitte's continued objectivity, independence and performance relating to the 2016 financial year, and having received an expression of willingness to continue in office as external auditor, the Committee recommended to the Board the re-appointment of Deloitte LLP as the Company's external auditor for the 2017 financial year. There existed no

contractual obligations that inhibited or influenced the Committee's recommendation.

In accordance with European and national regulation, and the UK corporate governance regime, it is the Company's policy that the external audit contract be put to tender at least once in every ten-year period, with the external audit partner rotating on a five-yearly basis. Notwithstanding such policy, having regard to transitional arrangements regarding external audit tendering and rotation provided by the relevant regulatory authorities, it is the Committee's intention, subject to then-prevailing circumstances, to put the external audit contract out to tender at a time that would see the process complete in 2020. This would result with the preferred external audit firm being appointed for the 2021 financial year. The Committee believes that the proposed timing of audit tender is in the best interests of shareholders as it stands to afford the Company continuity during the forthcoming years, particularly given the ongoing integration of the legacy Baxalta business. It should be noted that, despite the Committee's intention regarding the timing of tender, the external auditor is subject to ongoing effectiveness review, including with respect to the level of the annual audit fees, and that the Committee may choose to put the external audit contract out to tender at any time it considers appropriate. In accordance with best practice, the Committee confirms voluntary compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, as published by the UK Competition and Markets Authority.

Audit quality review

During the year the Financial Reporting Council's Audit Quality Review team reviewed Deloitte LLP's audit of Shire's 2015 financial statements as part of their annual inspection of audit firms. The focus of the review and their reporting was on identifying areas where improvements are required rather than highlighting areas performed at or above the expected level. The Chairman of the Committee received a full copy of the findings of the Audit Quality Review team and has discussed these with Deloitte LLP. The Committee confirms that there were no significant areas for improvement identified within the report. The Committee is also satisfied that there is nothing within the report that has a bearing on the appointment of the external auditor.

Additional matters

Internal audit

Internal audit effectiveness is monitored and reviewed on an ongoing basis by the Committee. The Internal Audit Plan is approved annually by the Committee, progression against which is reviewed quarterly. In addition, periodically the Company's internal audit procedures and capabilities undergo an independent external assessment against global standards, with the ensuing report reviewed by the Committee Chairman.

Whistleblowing

Shire's compliance effort is focused on the prevention and detection of misconduct through policy development, training, monitoring and audit. As part of this effort, Shire employees are encouraged to report suspected cases of misconduct, confidentially and without fear of retaliation, through management or through Shire's Global Compliance Helpline. The helpline, the operation of which is overseen by the Chief Compliance and Risk Officer, is managed by an independent third-party so as to preserve anonymity as appropriate. Concerns and allegations are thoroughly investigated with disciplinary action taken where necessary. Periodically, the Chief Compliance and Risk Officer provides the Committee with a summary of matters raised through management and the helpline as well as details of any resultant investigations.

Nomination & Governance Committee



Susan Kilsby
Committee Chairman

Membership and meetings

As at the year end the Nomination & Governance Committee comprised three independent Non-Executive Directors and the Chairman of the Board.

Committee member ¹	Date of appointment	Meeting attendance
Susan Kilsby ²	Feb 1, 2014	5(5)
William Burns	Jun 27, 2011	5(5)
David Ginsburg	Dec 3, 2015	5(5)
Anne Minto	Feb 8, 2012	5(5)
David Kappler	Apr 26, 2006 — Apr 28, 2016	2(2)

Note: The number in brackets denotes the number of meetings that Committee members were eligible to attend.

- Olivier Bohuon and Sara Mathew were appointed as members of the Committee on February 15, 2017.
- Susan Kilsby served as a member of the Committee prior to her appointment as Committee Chairman on April 28, 2016.

Committee meetings are typically held before scheduled meetings of the Board, with additional meetings convened as required. At the invitation of the Committee Chairman, regular additional meeting attendees included the Chief Executive Officer and members from the Company's Legal and Company Secretariat functions.

Role of the Committee

The Committee's responsibilities include:

- reviewing the size and composition of the Board and its committees and making recommendations to the Board with respect to any changes
- identifying, and nominating for the approval of the Board, candidates for new Board appointments and making recommendations with respect to the re-election and reappointment of existing Directors
- reviewing succession planning for Executive and Non-Executive Directors with a view to ensuring the long-term success of the Group

- making recommendations to the Board on matters of governance, reputation and political activity affecting the Company
- maintaining the policy concerning Directors' conflicts of interest and monitoring adherence to that policy

Key considerations and activities

During the year and up to the date of this report, the Committee's principal considerations and activities were:

Baxalta appointments

In anticipation of the Company's combination with Baxalta, early in the year the Committee reviewed the professional profiles of Baxalta's Board members with a view to identifying those individuals whose skills and experience would be of most benefit to the Shire Board. A shortlist was prepared and selected candidates spoke with members of the Committee. Following careful consideration, a recommendation was made to, and subsequently approved by, the Board for Gail Fosler and Albert Stroucken to be appointed Non-Executive Directors with effect from completion of the Company's acquisition of Baxalta. The appointment of serving Baxalta Directors to the Shire Board was a condition of the merger agreement between the two companies. Accordingly, neither an external search consultancy nor open advertising were used in identifying the prospective Board members.

New Non-Executive Director

In alignment with Shire's strategy to become a leading global biotechnology company, and in pursuit of enhancing relevant expertise on the Shire Board, during the year the Committee commenced a search for a new Non-Executive Director that would add experience in this area. Russell Reynolds Associates, which has no other connection with the Company, was retained to lead the search. Following an extensive review, Ian Clark was appointed to the Board on January 3, 2017.

Expansion of Committee responsibilities

During the year the Committee considered its remit in light of developments to the Company's structure and operating environment. Following a review of the stewardship requirements of the business, the Committee recommended to the Board that its responsibilities be expanded to encompass matters of a governance and reputational nature affecting the Company. The Committee's Terms of Reference were subsequently updated to reflect the change, which included the responsibility

for retaining oversight of the conflicts of interest policy applicable to Directors.

Board Diversity Policy

Committee members participated in the wider Board review of Shire's Board Diversity Policy in light of the evolving diversity environment and developments in practice. Further details on the review, including a description of the policy, can be found on page 72. In undertaking the review, the Committee and the Board reaffirmed their commitment to the promotion of diversity both in executive and non-executive appointments and in recruitment practice throughout the Group. Further details on diversity within Shire can be found on pages 38 to 39.

Board appointments procedure

Board composition is central to the effective leadership of the Group and therefore, prior to commencing any search for prospective Board members, the Committee reflects on the Board's balance of skills and experiences and those that would be conducive to the delivery of the Company's strategy. A recommendation is then made to the Board in respect of the core attributes desired, following which an appropriately qualified search firm is engaged and informed, amongst other things, of the experience, technical skills and other capabilities sought, of the time commitment required of any appointee and of Shire's Board Diversity Policy. Short-listed candidates are interviewed by as many of the Committee members as is feasible, following which any preferred candidate meets with other Directors prior to a decision being made by the Board.

Science & Technology Committee



Dr. David Ginsburg
Committee Chairman

Membership and meetings

As at the year end the Science & Technology Committee comprised four independent Non-Executive Directors. In accordance with the Committee's terms of reference, the Board is satisfied that at least one Committee member has scientific expertise relevant to pharmaceutical research and development.

Committee member ¹	Date of appointment	Meeting attendance
David Ginsburg	Jun 16, 2010	5(5)
Olivier Bohuon ²	Jul 1, 2015	4(5)
William Burns	Feb 8, 2012	5(5)
Steven Gillis	Oct 1, 2012	5(5)

Note: The number in brackets denotes the number of meetings that Committee members were eligible to attend.

1. Ian Clark was appointed as a member of the Committee on February 15, 2017.
2. Olivier Bohuon was absent from one meeting due to illness. In addition, Mr. Bohuon stood down as a member of the Committee on February 15, 2017.

The Committee typically meets before scheduled meetings of the Board. At the invitation of the Committee Chairman, regular additional meeting attendees during the year included the Chairman of the Board and other Non-Executive Directors, the Chief Executive Officer and members of the following internal Group functions:

- Research and Development
- Corporate Development
- Legal and Company Secretariat

Role of the Committee

The Committee's principal responsibilities are to periodically review and advise the Board on the Company's investment in research, development and technology, the quality of the R&D pipeline and the quality of R&D talent within the Group. In doing so, the Committee assesses, and advises the Board in respect of:

- the Company's R&D strategy relating to strategically important therapeutic areas
- emerging science and technology issues, trends and academic partnerships
- the overall quality and expertise of medical and scientific talent within the R&D organization
- the quality and competitiveness of the Company's R&D programs and technology initiatives from a scientific perspective, including the associated risk profile
- the scientific, technical and medical merits of any potential significant R&D investments

Key considerations

The Committee's principal areas of review during the year included:

- the clinical development pipeline and the research and non-clinical portfolio, including key program updates
- the R&D budget and productivity of the portfolio
- the relevant clinical or material pre-clinical data identified during due diligence relating to material business development transactions
- key clinical trial/study data including BAX930, SHP607 and SHP465
- integration activities concerning Dyax and Baxalta
- the Company's compassionate use program and related policy development
- ongoing strategy relating to Oncology

Executive Committee



Dr. Fleming Ornskov
Committee Chairman

Membership and meetings

Chaired by the Chief Executive Officer, the Executive Committee's membership is drawn from Shire's Executive Directors and management. As at the year end the Committee comprised the Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary, Head of U.S. Commercial, Head of International Commercial, Head of Technical Operations, Chief Human Resources Officer and the Head of Research and Development.

The Committee typically meets on a monthly basis to deliberate significant items of business, scheduling additional meetings as required. During the year there were 11 meetings of the Committee, each of which was attended by the Chief Executive Officer and the Chief Financial Officer. In addition to its members, other members of management attended Committee meetings at the invitation of the Committee Chairman.

Committee member	Position	Date of appointment
Flemming Ornskov	Chief Executive Officer	Jan 2, 2013
Jeffrey Poulton ¹	Chief Financial Officer	Jan 1, 2015
Ginger Gregory	Chief Human Resources Officer	Mar 1, 2014
Bill Mordan	General Counsel and Company Secretary	Oct 1, 2015
Perry Sternberg	Head of U.S. Commercial	Jun 3, 2016
Kim Stratton	Head of International Commercial	Jul 1, 2016
Philip Vickers	Head of Research and Development	Mar 1, 2014
Matt Walker	Head of Technical Operations	Jun 3, 2016

1. Jeffrey Poulton served as Interim Chief Financial Officer and as a member of the Executive Committee prior to his appointment as Chief Financial Officer on April 29, 2015.

Role of the Committee

The Committee is charged with managing Shire's business including:

- ensuring that the Group is run within the governance framework agreed by the Board
- making strategic recommendations to the Board and implementing the strategy approved by the Board
- considering matters referred from management committees that are material from a risk, financial, reputational or strategic perspective, referring decisions to the Board as appropriate

- supervising the preparation of financial plans and budgets to be recommended to the Board and monitoring the performance of the Group's In-line products and Pipeline projects against budget
- managing internal talent and senior leadership succession planning and directing the Group's human resources approach within parameters agreed with the Remuneration Committee, including the reward framework

Key considerations

The Committee's principal considerations during the year included:

- financial and operational matters, including budget tracking and product performance reviews
- matters of corporate strategy
- business development opportunities
- the integration of Baxalta and recognition of synergies
- compliance updates from across the Group
- the Company's risks and associated mitigation activities and initiatives
- updates on material litigation and investigations
- objectives and proposed budget for 2017
- human resource matters including talent assessment, talent management principles, remuneration policy and employee survey results