Fiscal 2014 Financial Results
SGS2020 Rolling Plan

May 11, 2015

SHIONOGI

Overview of FY2014 Financial Results

Summary of FY2014 Results

- Sales and operating income on track
  - Total sales of Crestor® by Shionogi and AstraZeneca K.K. achieved ¥100B on a list price basis in Japan
- Ordinary income is higher than the levels achieved in any prior full fiscal year (record-high levels for 3 consecutive years)
- Net income is higher than the last fiscal year even though an allowance was recorded for prior period income taxes

- Accelerating development and new drug applications for high priority compounds (S-297995, S-649266, additional indications for Cymbalta®, etc.)

- Share buyback and dividend increase demonstrated Shionogi's strong commitment to increase its shareholder returns
- Improvement of cash flow through reducing inventories and selling underutilized assets

Financial Results (Consolidated)

(Units: B yen)

	FY2014 forecasts*	FY2014 results	Achieve-ment(%)	FY2013 results**	Y on Y	
					change(%)	change
Sales	273.5	274.0	100.2	289.7	(5.4)	(15.7)
Operating income	49.5	50.4	101.7	61.9	(18.6)	(11.5)
Ordinary income	58.0	77.9	134.3	62.2	25.2	15.7
Net income	30.0	44.1	146.9	40.6	8.5	3.5

All numerical values are rounded to the nearest unit

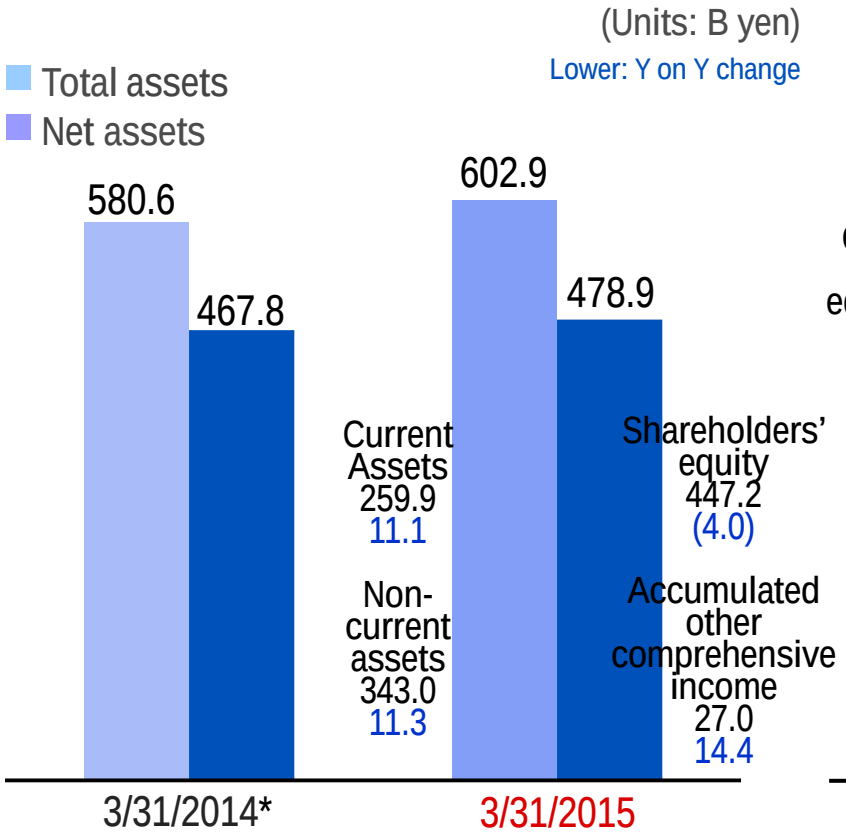
- Ordinary income : higher than the levels achieved in any prior full fiscal year (record full year ordinary income levels for three consecutive years)

Exchange rate (average)	FY2014 forecasts	FY2014 results	FY2013 results	Y on Y
USD ($) – JPY (¥)	105	109.76	100.18	+9.58 yen depreciation
EUR (€) – JPY (¥)	140	138.69	134.23	+4.46 yen depreciation
GBP (£) – JPY (¥)	170	176.68	-	-

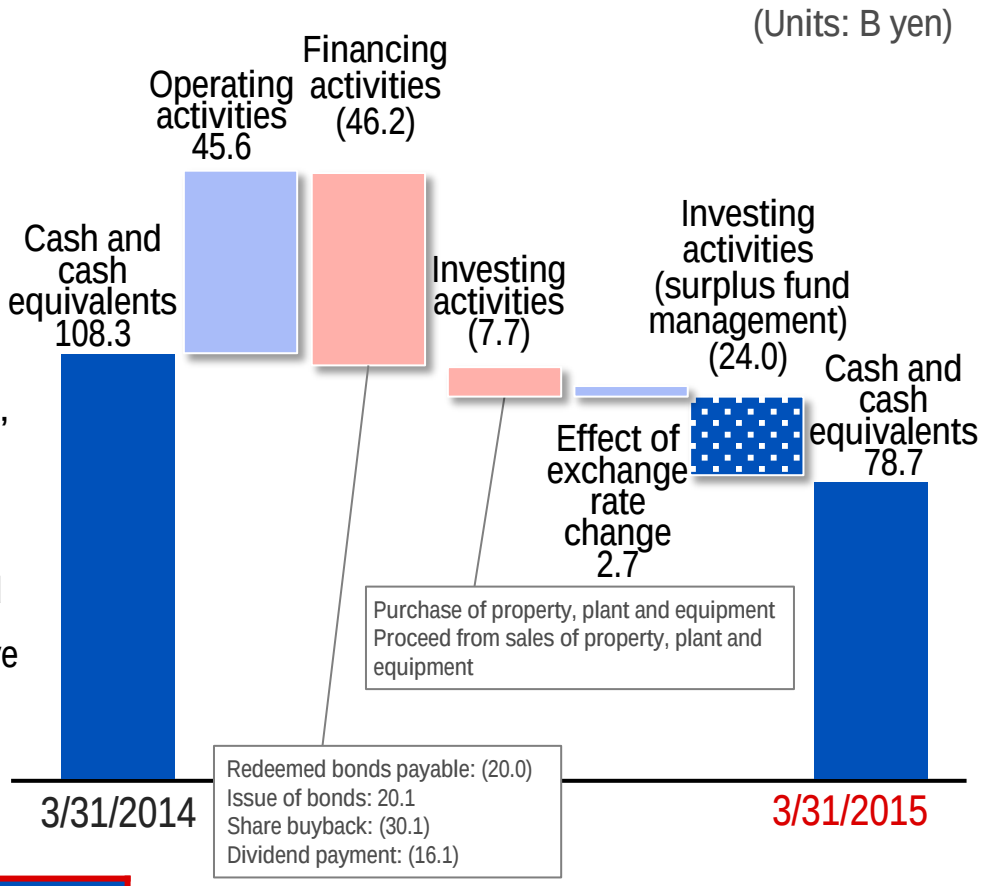
* The consolidated earnings forecasts announced on Oct. 29, 2014
** The accounting policy for R&D expenses was changed effective Apr. 1, 2014. Figures for FY2013 were restated to reflect this change

Financial Position and Cash Flow (Consolidated)

Financial Position



Cash Flow



	3/31/2014*	3/31/2015
Equity ratio	79.9%	78.7%

* The accounting policy for R&D expenses was changed effective Apr. 1, 2014. Figures for FY2013 have been restated to reflect this change

Statements of Income (Consolidated)

(Units: B yen)

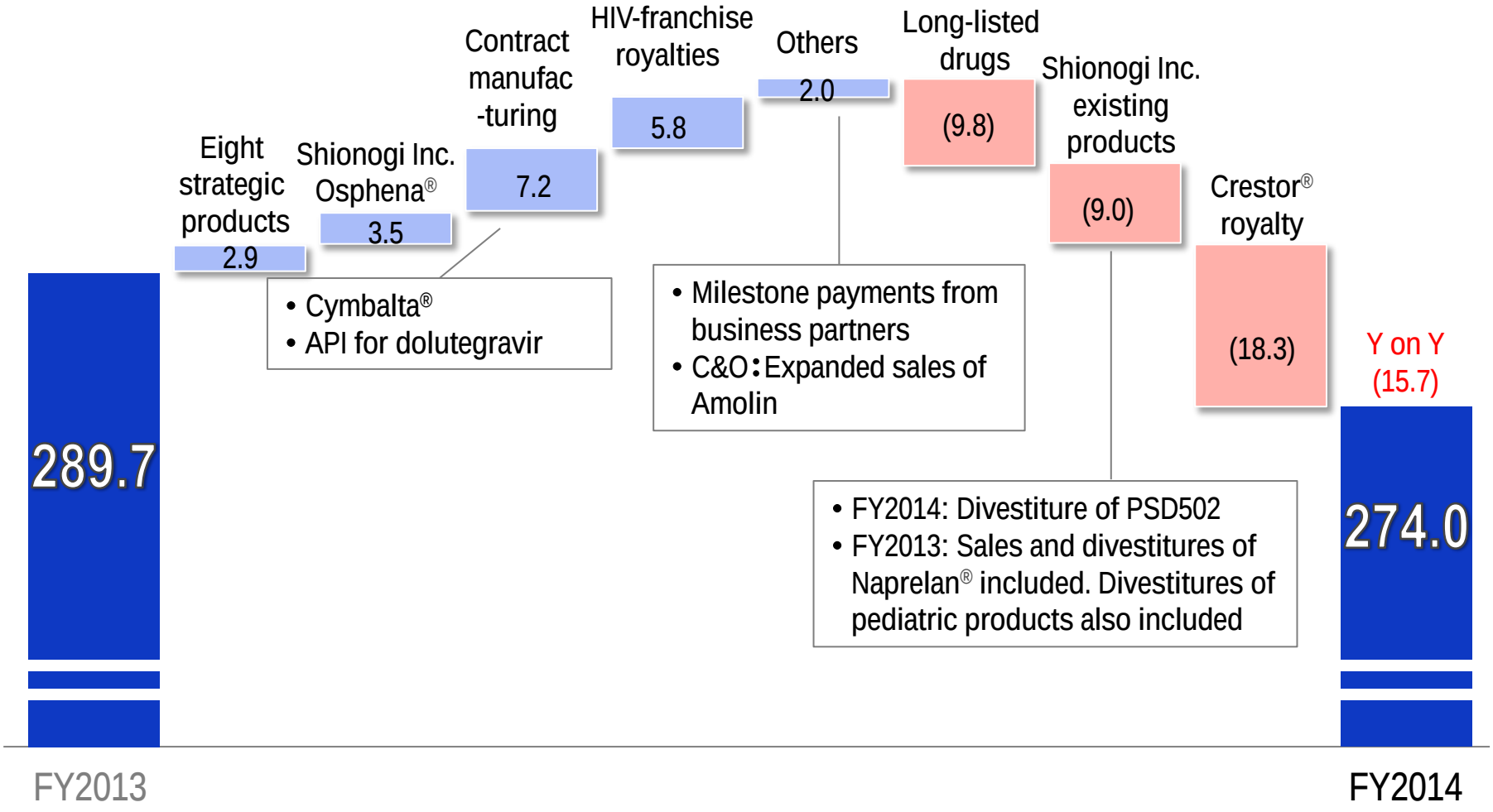
	FY2014		achieve-ment(%)	variance	FY2013 results	Y on Y	
	forecasts	results				change(%)	change
Prescription drugs	163.5	161.4	98.7	(2.1)	168.3	(4.1)	(6.9)
Total of 3 key products	72.0	69.7	96.7	(2.3)	66.3	5.0	3.4
Total of 8 strategic products	99.3	95.8	96.5	(3.5)	92.9	3.1	2.9
Overseas subsidiaries/export*	29.8	28.7	96.2	(1.1)	34.0	(15.8)	(5.3)
Shionogi Inc.	17.7	15.9	90.1	(1.8)	21.4	(25.4)	(5.5)
Osphena®	7.0	4.6	65.3	(2.4)	1.1	315.8	3.5
C&O	7.5	6.9	92.3	(0.6)	5.9	17.9	1.0
Contract manufacturing*	12.9	15.6	121.1	2.7	8.4	86.4	7.2
OTC and quasi-drugs	4.6	4.6	99.2	(0.0)	4.5	1.1	0.1
Royalty income	60.0	60.7	101.1	0.7	70.7	(14.2)	(10.0)
Crestor®	49.0	47.4	96.8	(1.6)	65.7	(27.8)	(18.3)
HIV franchise	—	5.8	-	-	—	-	5.8
Others	2.7	3.1	113.6	0.4	3.8	(19.6)	(0.7)
Total	273.5	274.0	100.2	0.5	289.7	(5.4)	(15.7)

Eight strategic products: Crestor®, Irbetan® franchise, Cymbalta® (3 key products), and OxyContin® franchise, Finibax®, Differin®, Pirespa®, Rapiacta®

* The accounting policy for API for dolutegravir was changed from export to contract manufacturing in FY2014.

Change in Sales vs. Previous Year

(Units: B yen)



Statements of Income (Consolidated)

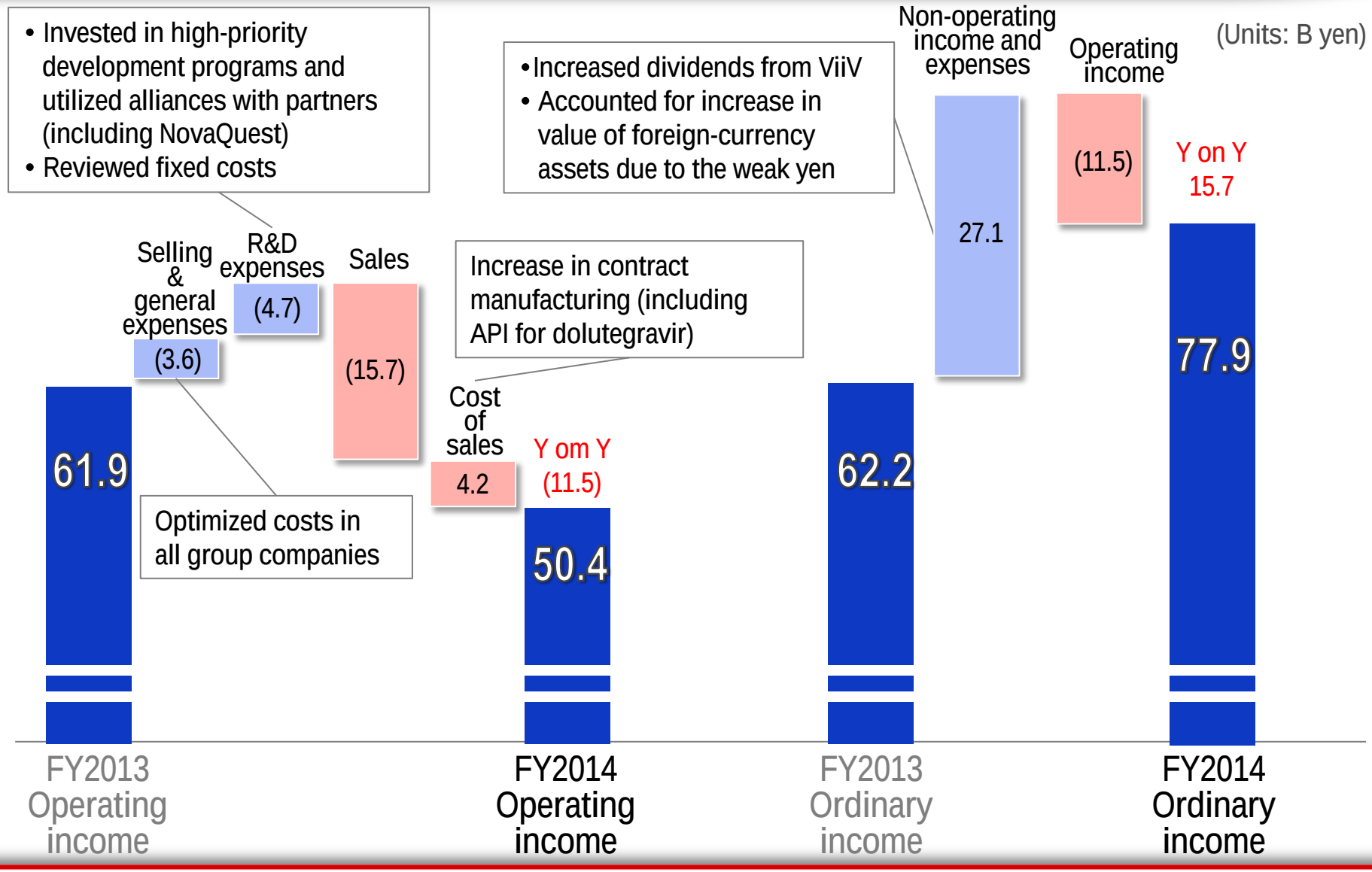
(Units: B yen)

	FY2014 forecasts	FY2014 results	achieve-ment(%)	variance	FY2013 results	Y on Y change(%)	Y on Y change
Sales	273.5	274.0	100.2	0.5	289.7	(5.4)	(15.7)
[Royalty income]	60.0	60.7	101.1	0.7	70.7	(14.2)	(10.0)
Cost of sales	28.7 [36.8] 78.5	30.0 [38.5] 82.2	104.7	3.7	26.9 [35.6] 78.0	5.4	4.2
Gross profit	195.0	191.8	98.4	(3.2)	211.7	(9.4)	(19.9)
SG&A expenses	53.2 145.5	51.6 141.4	97.2	(4.1)	51.7 149.8	(5.6)	(8.4)
Selling & general expenses	93.5	92.6	99.0	(0.9)	96.2	(3.8)	(3.6)
R&D expenses	52.0	48.9	94.0	(3.1)	53.6	(8.8)	(4.7)
Operating income	18.1 49.5	18.4 50.4	101.7	0.9	21.4 61.9	(18.6)	(11.5)
[Excluding royalty income]	(10.5)	(10.3)	-	0.2	(8.8)	-	(1.5)
Non-operating income and expenses	P8.5	P27.5	323.7	19.0	P0.4	-	27.1
Ordinary income	21.2 58.0	28.4 77.9	134.3	19.9	21.5 62.2	25.2	15.7
Extraordinary income and loss	P5.0	P4.2	83.4	(0.8)	P1.0	333.1	3.2
Income before income taxes and minority interests	63.0	82.1	130.2	19.1	63.2	29.9	18.9
Total income taxes, etc.	33.0	38.0	115.1	5.0	22.6	68.3	15.4
Net income	30.0	44.1	146.9	14.1	40.6	8.5	3.5

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties

Change in Earning Structure vs. Previous Year

(Units: B yen)



Three Acquired Strengths and Three Challenges

Strength-1

Development of business alliances for joint sales in Japan

Strength-2

Competitive drug discovery capabilities and flexible partnering strategies worldwide

Strength-3

Careful cost management as an organizational climate

Next business challenges

Challenge-1

Strengthening Japanese business as a business base

Challenge-2

Strengthening capability to support new global products

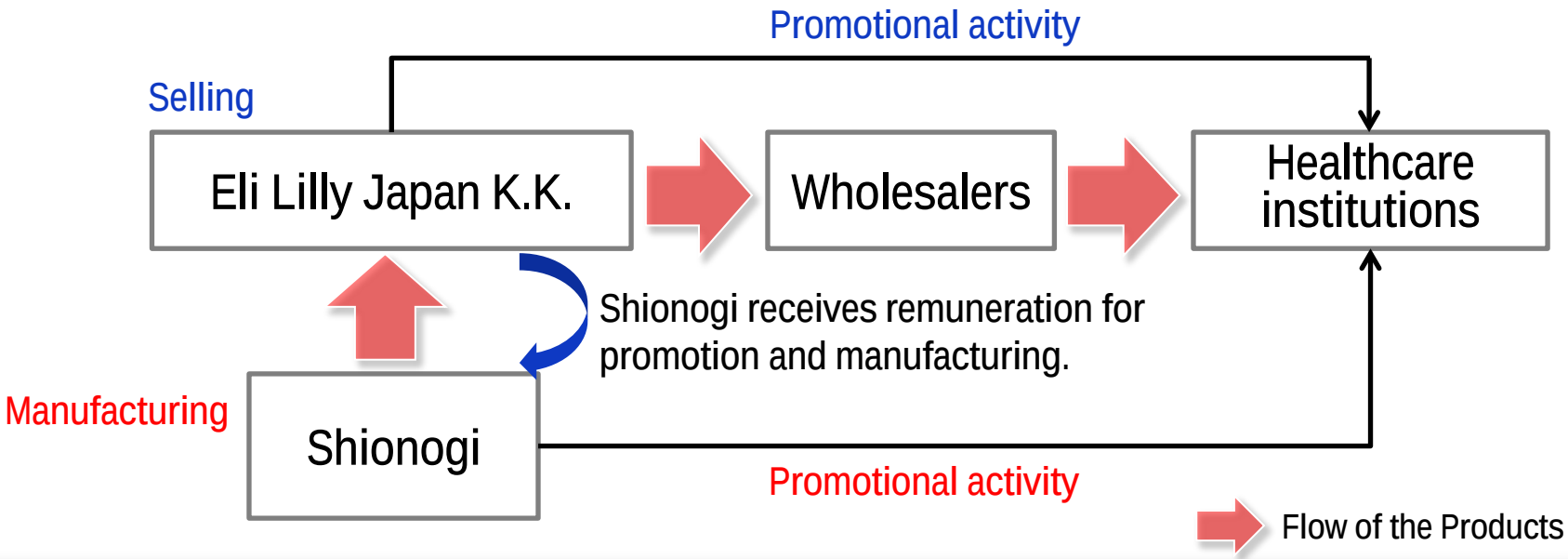
Challenge-3

Developing an operating structure independent of royalty income

FY2015　Financial Forecasts

Changes to Cymbalta® Contract

- Sales structure changed from 1brand-2channel to 1brand-1channel. (Sales channel is consolidated through Eli Lilly Japan K.K..)
- Both companies jointly provide medical information on Cymbalta®, as in the past. Shionogi receives remuneration for promotional activity.
- Shionogi manufactures the final product and supplies it to Eli Lilly Japan K.K.. Shionogi receives remuneration for manufacturing.



Financial Forecasts (Consolidated)

(Units: B yen)

	FY2015 forecasts		FY2014 results	Y on Y	
	full year	1H		change(%)	change
Sales	296.0	138.0	274.0	8.0	22.0
Operating income	72.5	28.5	50.4	43.9	22.1
Ordinary income	79.5	28.0	77.9	2.1	1.6
Net income attributable to owners of the parent	52.0	17.0	44.1	18.0	7.9

Note: All numerical values are rounded to the nearest unit

- Operating income: higher than the levels to be achieved in the full year of any prior fiscal year, in two years
- Ordinary income: higher than the levels to be achieved in the full year of any prior fiscal year for four consecutive years

(Units: Yen)

Exchange rate (average)	FY2015 forecasts	FY2014 results
USD($) - JPY(¥)	120	109.76
EUR(€) - JPY(¥)	130	138.69
GBP(£) - JPY (¥)	175	176.68

Statements of Income (Consolidated)

(Units: B yen)

	FY2015 forecasts		FY2014 results	Y on Y	
	full year	1H		change(%)	change
Prescription drugs	167.0	79.2	161.4	3.5	5.6
Total of 3 key products	78.8	37.2	69.7	13.1	9.1
Total of 8 strategic products	105.3	49.4	95.8	9.9	9.5
Overseas subsidiaries/export*	30.4	14.8	28.7	6.0	1.7
Shionogi Inc.	17.4	9.0	15.9	9.1	1.5
Osphena®	7.4	3.0	4.6	61.9	2.8
C&O	8.0	3.4	6.9	15.6	1.1
Contract manufacturing*	7.6	3.7	15.6	(51.3)	(8.0)
OTC and quasi-drugs	4.7	2.5	4.6	3.0	0.1
Royalty income	83.3	36.5	60.7	37.3	22.6
Crestor® and HIV franchise	74.5	32.0	53.2	39.9	21.3
Others	3.0	1.3	3.1	(2.2)	(0.1)
Total	296.0	138.0	274.0	8.0	22.0

* The accounting policy for API for dolutegravir was changed from export to contract manufacturing in FY2014

Statements of Income (Consolidated)

(Units: B yen)

	FY2015 forecasts		FY2014 results	Y on Y	
	full year	1H		change(%)	change
Sales	296.0	138.0	274.0	8.0	22.0
[Royalty* income]	74.5	32.0	53.2	39.9	21.3
Cost of sales	24.8 [33.2] 73.5	25.6 [33.3] 35.3	30.0 [37.2] 82.2	(10.6)	(8.7)
Gross profit	222.5	102.7	191.8	16.0	30.7
SG&A expenses	50.7 150.0	53.8 74.2	51.6 141.4	6.1	8.6
Selling & general expenses	101.0	50.2	92.6	9.1	8.4
R&D expenses	49.0	24.0	48.9	0.3	0.1
Operating income	24.5 72.5	20.7 28.5	18.4 50.4	43.9	22.1
[Excluding royalty* income]	(2.0)	(3.5)	(2.9)	-	0.9
Non-operating income and expenses	P7.0	L0.5	P27.5	(74.6)	(20.5)
Ordinary income	26.9 79.5	20.3 28.0	28.4 77.9	2.1	1.6

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties
* Royalty income from AstraZeneca and ViiV for the sales of Crestor® and HIV franchise

Basic Policy for Income Allocation

- Maximizing enterprise value by balancing three factors: return to shareholders, investment for future growth and strategic investment
- Increase shareholder return by sharing our mid- to long-term growth (including share buyback)
- Annual cash dividends of 56 yen per share in FY2015

Fiscal year	Dividends per share			DOE	ROE
	Half-year	Year-end	Annual		
2013	yen 22.00	yen 24.00	yen 46.00	3.5%	9.2%
2014	24.00	(forecast) 28.00	(forecast) 52.00	3.7%	9.4%
2015	(forecast) 28.00	(forecast) 28.00	(forecast) 56.00	-	(forecast) 10.6%

SGS2020 Rolling Plan
(Targets for FY2017)

Progress toward Achieving FY2016 Targets

Ordinary income target was achieved 2 years ahead of schedule

	FY2014 (Results)	FY2015 (Forecasts)	FY2016 (Targets)
Net sales	274.0 B yen	296.0 B yen	320.0 B yen
Cost of sales	30 %	25 %	25 %*
Ordinary income	77.9 B yen	79.5 B yen	75.0 B yen
ROE	9.4 %	10.6 %	11.0 %

* Target for FY2020

Positioning for FY2017

Advance core businesses and get on track for further growth

FY2015	FY2016	FY2017	FY2018	FY2019	FY2020

Clear priorities and focused resourcing

Evolution of Core business

Growth led by FIC and LIC compounds

Shift Gears for Growth

Net sales	350.0 billion yen
Ordinary income	90.0 billion yen
ROE	12%

Net sales	500.0 billion yen
Ordinary income	125.0 billion yen
ROE	15%

FIC: First In Class, LIC: Last In Class

Action Plans to Achieve FY2017 Targets

Quantitative targets

Net sales 350.0 B yen

Ordinary income 90.0 B yen ROE 12%

Actions

- Maximize the value of Crestor® and Cymbalta® in Japan
- Improve revenues from Osphena® in the US
- Strengthen pipeline in the core therapeutic areas
- Develop an operating structure independent of royalty income

Forward-Looking Statements

- Forecast or target figures in this material are neither official forecasts of earnings and dividends nor guarantee of target, achievement and forecasts, but present the midterm strategies, goals and visions. Official earnings guidance should be referred to in the disclosure of the annual financial report (*kessan tanshin*) in accordance with the rules set by Tokyo Stock Exchange.
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