Financial Results for Fiscal Year 2018 (Consolidated)

May 9, 2019

Name of Listed Company: **SHIONOGI & CO., LTD.** Listed Exchanges: Section I of Tokyo
Code: 4507 URL: http://www.shionogi.co.jp
Representative: Isao Teshirogi, President and CEO
Contact responsibility: Yoshimasa Kyokawa,Vice President,Corporate Communications Department Tel.: (06)6202-2161
Scheduled date of Annual General Meeting of Shareholders: June 18, 2019
Scheduled date of dividend payments: June 19, 2019
Scheduled date of annual securities report submission: June 18, 2019
Preparation of supplemental material for financial results: Yes
Holding of presentation for financial results: Yes (for investment analysts)

(Note: All amounts are rounded down to the nearest million yen.)

1. Consolidated results for the period from April 1, 2018 to March 31, 2019

(1) Consolidated operating results *(% shows changes from the same period of the previous fiscal year)*

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Year ended March 31, 2019	363,721	5.5	138,537	20.2	166,575	20.1	132,759	21.9
Year ended March 31, 2018	344,667	1.7	115,219	6.5	138,692	12.7	108,866	29.8

Reference: Comprehensive income: Year ended March 31, 2019: 126,626 million yen ((3.0)%)
Year ended March 31, 2018: 130,573 million yen (88.2%)

	Earnings per share	Earnings per share (diluted)	Return on Equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	*Yen*	*%*	*%*	*%*
Year ended March 31, 2019	424.31	420.67	20.9	22.4	38.1
Year ended March 31, 2018	342.71	337.43	19.4	20.2	33.4

Reference: Equity in earnings (losses) of affiliates: Year ended March 31, 2019: ― million yen Year ended March31, 2018: ― million yen

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	*Millions of yen*	*%*	*Yen*
As of March 31, 2019	778,741	672,429	85.7	2,144.33
As of March 31, 2018	711,463	604,840	84.5	1,911.36

Reference: Shareholders' equity: As of March 31, 2019: 667,502 million yen As of March 31, 2018: 600,847 million yen

(3) Consolidated cash flows

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of period
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*
Year ended March 31, 2019	145,684	(36,349)	(87,011)	195,800
Year ended March 31, 2018	129,790	(51,238)	(53,893)	172,400

2. Dividends

	Dividends per share					Total dividends (Annual)	Payout ratio (Consolidated)	Ratio of dividends to net assets
(Date of record)	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Annual			
	yen	*yen*	*yen*	*yen*	*yen*	*Millions of yen*	*%*	*%*
Year ended March 31, 2018	―	38.00	―	44.00	82.00	25,946	23.9	4.6
Year ended March 31, 2019	―	44.00	―	50.00	94.00	29,402	22.2	4.6
Year ending March 31, 2020 (forecast)	―	50.00	―	50.00	100.00		23.4	

3. Consolidated financial forecast for the year ending March 31, 2020

(% shows changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Yen*
Six months ending September 30, 2019	159,000	(5.5)	52,000	(9.3)	63,000	(10.1)	49,000	(15.4)	157.41
Year ending March 31, 2020	365,500	0.5	147,000	6.1	170,500	2.4	133,000	0.2	427.26

※ Notes

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries involving changes in scope of consolidation): None

(2) Changes in accounting policies, changes/restatements of accounting estimates

a) Changes in accounting policies in connection with amendments to accounting standards, etc.: Yes

b) Changes in accounting policies other than a) above: None

c) Changes in accounting estimates: None

d) Restatements: None

(3) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of March 31, 2019: 316,786,165 shares

As of March 31, 2018: 324,136,165 shares

b) Number of treasury stock

As of March 31, 2019: 5,498,751 shares

As of March 31, 2018: 9,780,027 shares

c) Average number of shares issued during the period

As of March 31, 2019: 312,883,878 shares

As of March 31, 2018: 317,660,484 shares

(Reference) Non-consolidated financial results

Non-consolidated results for the period from April 1, 2018 to March 31, 2019

(1) Non-consolidated operating results *(% shows changes from the same period of the previous fiscal year)*

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Year ended March 31, 2019	327,991	3.8	138,366	18.4	139,836	19.0	100,037	12.2
Year ended March 31, 2018	315,941	3.5	116,907	7.7	117,534	8.7	89,135	209.9

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Year ended March 31, 2019	319.73	316.98
Year ended March 31, 2018	280.60	276.26

(2) Non-consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	*Millions of yen*	*%*	*Yen*
As of March 31, 2019	612,336	533,261	87.0	1,711.39
As of March 31, 2018	584,964	500,510	85.5	1,590.50

Reference: Shareholders' equity: As of March 31, 2019: 532,733 million yen As of March 31,2018: 499,983 million yen

※ This report of financial results is unaudited.

※ Explanation Concerning the Appropriate Use of Financial Results Forecasts and Other Special Instructions

(Cautionary note concerning forward-looking statements)

The forecast of financial results and forward-looking statements contained in this report are based on information currently available to the Company as well as certain assumptions that it judges to be reasonable. Actual results may differ materially due to a variety of factors.

For details of the assumptions used in the forecast of financial results and a cautionary note concerning appropriate use, please refer to "1. Overview of Operating Results and Financial Position (4) Outlook " on page 5 of the accompanying materials.

(Method of Obtaining Financial Results Supplementary Materials and Details of Results Briefing Meeting)

Financial results supplementary materials are posted via TDnet on the date of disclosure. The Company plans to hold a results briefing meeting for analysts on Friday, May 10, 2019. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on May 10, 2019 on the Company's website in a timely manner after the results briefing.

CONTENTS

1. Overview of Operating Results and Financial Position…… 2
(1) Operating Results for the Fiscal Year Ended March 31, 2019…… 2
(2) Financial Position for the Fiscal Year Ended March 31, 2019…… 4
(3) Cash Flows for the Fiscal Year Ended March 31, 2019…… 5
(4) Outlook…… 5
2. Accounting Standards…… 6
3. Consolidated Financial Statements and Notes…… 7
(1) Consolidated balance sheets…… 7
(2) Consolidated statements of income and Consolidated statements of comprehensive income… 9
Consolidated statements of income…… 9
Consolidated statements of comprehensive income…… 10
(3) Consolidated statements of changes in net assets…… 11
(4) Consolidated statements of cash flows…… 13
(5) Notes…… 15
Going concern assumption…… 15
Change in accounting policies…… 15
Change in presentation methods…… 15
Segment information…… 15
Amounts per share…… 16
Important subsequent events…… 17

1. Overview of Operating Results and Financial Position

(1) Operating Results for the Fiscal Year Ended March 31, 2019

1) Sales and profit

Net sales were ¥363.7 billion, a 5.5 percent increase year on year, and increased for the fourth consecutive fiscal year. Domestic prescription drug sales, the main component of net sales, were ¥128.7 billion (7.6 percent decrease), but royalty and milestone income of ¥180.3 billion (16.3 percent increase) contributed to sales growth.
Operating income increased 20.2 percent to ¥138.5 billion, a record for the fourth consecutive year. Despite higher selling, general and administrative expenses associated with strategic business investments, cost reductions due to changes in the product mix, in addition to the factors mentioned above, contributed to the increase in operating income.
Ordinary income increased 20.1 percent to ¥166.6 billion, a record for the seventh consecutive year, reflecting an increase in dividend income from UK-based ViiV Healthcare Ltd. ("ViiV") in addition to the increase in operating income.
Profit attributable to owners of parent increased 21.9 percent to ¥132.8 billion, a record for the third consecutive year. The increase was a result of the increase in ordinary income, as well as extraordinary income, largely from gain on sales of investment securities, and extraordinary losses including loss on impairment of goodwill.

■ Domestic sales of prescription drugs

In domestic sales of prescription drugs, Shionogi focused its management resources on strategic products, primarily Cymbalta, Intuniv, Xofluza, the OxyContin franchise and Symproic. As a result, sales of strategic products were ¥67.8 billion (63.1 percent increase) and sales of new products amounted to ¥73.8 billion (52.8 percent increase). Sales of Xofluza, an anti-flu drug launched in the previous fiscal year, were ¥26.3 billion.
Sales growth turned positive on a year-on-year basis in the third quarter because of the growth of the aforementioned strategic products along with the diminishing impact from the launch of generic versions of Crestor and Irbetan in the previous fiscal year.
During the fiscal year ended March 31, 2019, Shionogi reorganized its domestic sales operations, and established a new organization specifically for Mulpleta and inhaled pirfenidone, which are specialty products that require a high degree of expertise. With that reorganization, Shionogi established a structure that will enhance its expertise in specialty products and allow management resources to be further focused on strategic products with a large market size.

■ Exports/Overseas subsidiary sales

In overseas business, sales increased 24.6 percent to ¥29.4 billion. Shionogi received a one-time payment in connection with the termination of the alliance with Purdue Pharma L.P. in the United States for co-commercialization of Symproic. Shionogi switched to its own sales and distribution of Symproic, and in April 2019 entered into a marketing agreement with a new alliance partner, BioDelivery Systems International. In addition, Shionogi began U.S. sales of Mulpleta, a treatment for thrombocytopenia associated with chronic liver disease.

■ Royalty income and dividend income from ViiV

Global sales of the anti-HIV drug Tivicay and the combination drugs Triumeq and Juluca, which Shionogi licensed to ViiV, expanded steadily, and royalty income from ViiV increased 20.3 percent to ¥124.4 billion. In addition, dividend income from ViiV increased due to strong global sales of anti-HIV drugs. Furthermore, development of a new two-drug HIV regimen licensed to ViiV made steady progress during the fiscal year ended March 31, 2019.
As in the previous fiscal year, Shionogi continued to receive milestone payments from Switzerland-based Roche in connection with progress in global development and approval in the United States of anti-flu drug Xofluza. In addition, royalty income on Crestor sales from UK-based AstraZeneca decreased 2.9 percent to ¥22.0 billion.
As a result, total royalty and milestone income and dividend income increased 15.8 percent to ¥208.6 billion.

2) Research and development

■ Discovery research and CMC research*1

During the fiscal year ended March 31, 2019, Shionogi worked to continuously create development candidates and products under development. As a result, in the area of infectious diseases, one of its core therapeutic areas, Shionogi created a new anti-flu drug candidate. In the area of frontier areas,*2 Shionogi created a drug candidate for non-alcoholic steatohepatitis (NASH).

In the fiscal year ended March 31, 2019, Shionogi focused on research and development of eight high-priority projects, after adding S-812217, a development candidate for the treatment of depression licensed from U.S.-based Sage Therapeutics, to the seven high-priority projects set at the end of the previous fiscal year. In discovery research, Shionogi carried out pre-clinical studies on an anti-HIV drug with a novel mechanism of action; S-004992, an anti-tuberculosis candidate; and S-540956, a nucleic acid adjuvant,*3 and started five new research programs for peptide drugs.

In CMC research, we carried out development for commercial production of cefiderocol, a treatment for multidrug-resistant gram-negative bacterial infections, ahead of its launch in the United States, and development of a commercial inhalation device in preparation for the launch of S-770108 (inhaled pirfenidone), a treatment for idiopathic pulmonary fibrosis. In manufacturing technologies for small-molecule APIs, Shionogi developed a technology for improved absorbability into the body and worked on development of a technology that significantly reduces impurities and degradants compared with conventional methods.

*1 CMC research: Research that integrates API process research, formulation development research and quality evaluation research
*2 Frontier areas: Disease areas other than the core therapeutic areas of infectious diseases and pain/CMS
*3 Adjuvant: A substance that enhances the effect of drugs with a non-specific immunostimulatory action

■ Development

In the fiscal year ended March 31, 2019, Shionogi filed for approval of Xofluza, an anti-flu drug, in the United States, and obtained approval on October 24, two months earlier than planned. As a result, marketing by alliance partner Roche was able to begin before the start of the flu season. In addition, positive results were obtained in phase III clinical trials in influenza patients at high risk for influenza-related complications, and Roche filed a supplemental New Drug Application in the United States. In Japan, Shionogi moved forward on the development of a granule formulation of and prophylaxis indication for Xofluza to maximize the value of the product.

Shionogi obtained approval in the United States and Europe for Lusutrombopag (U.S. brand name: Mulpleta), a treatment for thrombocytopenia associated with chronic liver disease. Furthermore, approval of Rizmoic (Japan brand name: Symproic), a treatment for opioid-induced constipation, was obtained in Europe.

In addition, for cefiderocol, phase III clinical trials for multidrug-resistant gram-negative bacterial infections and phase III clinical trials for hospital-acquired pneumonia are under way, and applications have been filed in the United States and Europe.

Shionogi filed an application for approval in adult patients for Intuniv, a treatment for attention deficit hyperactivity disorder (ADHD), which has already been launched in Japan for pediatric patients. Shionogi also obtained approval of Vyvanse, an ADHD treatment for pediatric patients.

As for the eight high-priority projects, phase II clinical trials of S-600918 confirmed efficacy in patients with refractory/unexplained chronic cough. A phase I clinical trial of S-770108 (inhaled pirfenidone) for the treatment of idiopathic pulmonary fibrosis was completed, and Shionogi began a phase I clinical trial of S-812217, an anti-depressant in-licensed from Sage Therapeutics.

Furthermore, Shionogi began a phase I clinical trial of S-005151, a peptide drug candidate.

■ Expansion of R&D Pipeline and Technologies through Strategic Business Investments

As a drug discovery-based pharmaceutical company, Shionogi has set an in-house drug discovery ratio of at least 50 percent as one of its management targets; currently, this ratio stands at 68.8 percent.*4 While Shionogi develops pipeline projects created in-house, expansion of pipeline projects and technologies through alliances with other companies is also essential for driving innovation.

In the fiscal year ended March 31, 2019, in addition to ordinary research and development expenses, Shionogi made strategic business investments of ¥20.0 billion, in-licensed a total of 10 compounds, and entered into agreements for them.

To build these compounds and technologies into future growth drivers, Shionogi will conduct research and development along with products discovered in-house.

*4 As of March 31, 2019

(2) Financial Position for the Fiscal Year Ended March 31, 2019

As of March 31, 2019, total assets were ¥778,741 million, an increase of ¥67,277 million from a year earlier.
Current assets increased ¥82,239 million, reflecting an increase in cash and deposits, notes and accounts receivable-trade, and short-term investment securities for surplus fund management. Non-current assets decreased ¥14,961 million because of impairment of goodwill and a decrease in sales rights due to amortization, an increase in net defined benefit assets, and other factors.
Total liabilities were ¥106,311 million, a decrease of ¥311 million from a year earlier.
Current liabilities increased ¥16,541 million, a result of factors including increases in income taxes payable and accounts payable (included in "Other" in current liabilities) and a decrease due to repayment of loans. Non-current liabilities decreased ¥16,853 million, mainly because of the conversion of bonds (convertible bonds with warrants) and the transfer of bonds to the current portion of bonds payable.
Net assets were ¥672,429 million, an increase of ¥67,588 million from a year earlier.
Shareholders' equity increased ¥73,114 million, largely reflecting the increase due to profit attributable to owners of parent, a decrease due to cash dividends paid, and changes due to purchase and cancellation of treasury stock. Accumulated other comprehensive income decreased ¥6,458 million, reflecting a decrease in valuation difference on available-for-sale securities, mainly due to sales of stock held by the Company. Subscription rights to shares stood at ¥527 million and non-controlling interests increased ¥933 million to ¥4,400 million.
Shionogi is applying the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) as of the beginning of the fiscal year ended March 31, 2019. Year-on-year comparisons of financial position are made using retroactively adjusted figures for March 31, 2018.

(3) Cash Flows for the Fiscal Year Ended March 31, 2019

Net cash provided by operating activities during the fiscal year ended March 31, 2019 was ¥145,684 million, an increase of ¥15,894 million from the previous fiscal year. Factors included the increase in income before income taxes and a decrease in cash due to increases in notes and accounts receivable-trade and inventories.
Net cash used in investing activities was ¥36,349 million, a decrease of ¥14,888 million from the previous fiscal year due to factors including proceeds from sales of investment securities.
Net cash used in financing activities was ¥87,011 million due to factors including purchase of treasury stock, cash dividends paid and repayment of loans. As a result, cash and cash equivalents at the end of the period increased ¥23,399 million to ¥195,800 million.

Cash flow indicators

	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019
Net worth ratio	79.7%	80.7%	79.0%	84.5%	85.7%
Net worth ratio on market value basis	219.1%	273.0%	277.0%	242.6%	273.9%
Interest-bearing liabilities/Cash flow ratio	0.2	0.1	0.1	0.1	0.0
Interest coverage ratio (times)	145.1	533.6	538.5	238.0	234.1

Notes: Net worth ratio: Total net assets/Total assets
Net worth ratio on market value basis: Total market value of stock/Total assets
Interest-bearing liabilities/Cash flow ratio: Interest-bearing liabilities/Net cash provided by operating activities
Interest coverage ratio: Net cash provided by operating activities/Interest expense

1. *All indicators are calculated on a consolidated basis.*
2. *Total market value of stock is calculated based on the total number of shares outstanding excluding treasury stock.*
3. *Net cash provided by operating activities is as reported in the consolidated statements of cash flows.*
4. *Interest-bearing liabilities are liabilities stated on the consolidated balance sheets on which interest is paid.*
5. *Shionogi is applying the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). This accounting standard has been retrospectively applied to figures for the fiscal years ended March 31, 2015 through March 31, 2018.*

(4) Outlook

The financial forecast for the year ending March 31, 2020 is as follows.

Millions of yen

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
Year ending March 31, 2020	365,500	147,000	170,500	133,000
Year ended March 31, 2019	363,721	138,537	166,575	132,759
Percentage increase(decrease)	0.5	6.1	2.4	0.2

Shionogi is projecting an increase in net sales because of an expected increase in royalty income for Tivicay and Triumeq and in sales of new products.
Expenses for marketing promotion of new products are projected to increase, but with the decrease in research and development expenses due to the completion of in-licensing activities and the aforementioned increase in sales, Shionogi projects that operating income, ordinary income and profit attributable to owners of parent will each increase.

2. Accounting Standards

The Shionogi Group applies Japanese generally accepted accounting principles (GAAP), as they have reached a level of high quality and consistency with international standards as a result of convergence with International Financial Reporting Standards (IFRS), and are recognized by the European Union as equivalent to IFRS.

The Shionogi Group is making preparations based on the assumption that it will voluntarily adopt IFRS from the end of the fiscal year ending March 31, 2020, in order to enhance the international comparability of financial statements and to improve business operations by unifying accounting standards within the Group.

3. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	140,106	193,549
Notes and accounts receivable-trade	53,240	65,918
Short-term investment securities	124,300	133,264
Merchandise and finished goods	14,716	18,741
Work in process	6,993	7,272
Raw materials and supplies	12,926	14,097
Other	27,257	28,942
Allowance for doubtful accounts	(36)	(43)
Total current assets	379,504	461,743
Non-current assets		
Property, plant and equipment		
Buildings and structures	118,546	115,162
Accumulated depreciation	(69,820)	(70,012)
Buildings and structures, net	48,725	45,149
Machinery, equipment and vehicles	85,228	85,178
Accumulated depreciation	(72,633)	(73,999)
Machinery, equipment and vehicles, net	12,595	11,178
Land	8,352	8,437
Construction in progress	1,057	3,908
Other	38,942	39,979
Accumulated depreciation	(33,718)	(33,999)
Other, net	5,224	5,979
Total property, plant and equipment	75,956	74,653
Intangible assets		
Goodwill	32,852	19,258
Sales rights	38,073	30,319
Other	4,134	5,191
Total intangible assets	75,060	54,769
Investments and other assets		
Investment securities	155,675	151,851
Net defined benefit asset	21,735	30,721
Deferred tax assets	738	1,792
Other	2,835	3,250
Allowance for doubtful accounts	(42)	(42)
Total investments and other assets	180,942	187,574
Total non-current assets	331,959	316,997
Total assets	711,463	778,741

Millions of yen

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	8,016	9,442
Current portion of bonds	—	920
Current portion of long-term loans payable	10,000	—
Income taxes payable	19,513	35,870
Provision		
Provision for bonuses	8,741	9,058
Provision for sales returns	1,360	1,428
Other provision	105	166
Total provisions	10,207	10,654
Other	24,829	32,219
Total current liabilities	72,565	89,107
Non-current liabilities		
Bonds payable	18,491	—
Deferred tax liabilities	3,123	124
Net defined benefit liability	8,096	11,930
Other	4,344	5,147
Total non-current liabilities	34,056	17,203
Total liabilities	106,622	106,311
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,512
Retained earnings	574,392	639,461
Treasury stock	(36,641)	(28,882)
Total shareholders' equity	579,257	652,371
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,856	28,927
Deferred gains or losses on hedges	1,174	747
Foreign currency translation adjustment	(15,330)	(18,370)
Remeasurements of defined benefit plans	(111)	3,826
Total accumulated other comprehensive income	21,589	15,130
Subscription rights to shares	527	527
Non-controlling interests	3,466	4,400
Total net assets	604,840	672,429
Total liabilities and net assets	711,463	778,741

(2) Consolidated statements of income and Consolidated statements of comprehensive income

Consolidated statements of income

Millions of yen

	Year ended March 31, 2018	Year ended March 31, 2019
Net sales	344,667	363,721
Cost of sales	73,911	54,880
Gross profit	270,756	308,841
Selling, general and administrative expenses	155,537	170,303
Operating income	115,219	138,537
Non-operating income		
Interest income	1,167	2,393
Dividends income	26,535	29,934
Other	623	928
Total non-operating income	28,326	33,256
Non-operating expenses		
Interest expenses	557	581
Loss on retirement of non-current assets	577	1,098
Contribution	1,020	949
Litigation expenses	534	790
Foreign exchange losses	1,415	692
Other	747	1,106
Total non-operating expenses	4,852	5,218
Ordinary income	138,692	166,575
Extraordinary income		
Gain on sales of investment securities	—	17,946
Gain on sales of non-current assets	—	2,907
Total extraordinary income	—	20,854
Extraordinary losses		
Impairment loss	519	13,148
Special retirement expenses	—	2,848
Loss on disaster	—	823
Loss on disposal of non-current assets	—	265
Loss on valuation of investment securities	794	—
Total extraordinary losses	1,314	17,086
Income before income taxes	137,378	170,343
Income taxes-current	30,152	39,988
Income taxes-deferred	(1,562)	(2,951)
Total income taxes	28,589	37,037
Profit	108,788	133,306
Profit (loss) attributable to non-controlling interests	(78)	547
Profit attributable to owners of parent	108,866	132,759

Consolidated statements of comprehensive income

Millions of yen

	Year ended March 31, 2018	Year ended March 31, 2019
Profit	108,788	133,306
Other comprehensive income		
Valuation difference on available-for-sale securities	10,815	(6,929)
Deferred gains or losses on hedges	1,052	(427)
Foreign currency translation adjustment	4,765	(3,260)
Remeasurements of defined benefit plans	5,151	3,937
Total other comprehensive income	21,784	(6,679)
Comprehensive income	130,573	126,626
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	130,581	126,300
Comprehensive income attributable to non-controlling interests	(8)	326

(3) Consolidated statements of changes in net assets

Year ended March 31, 2018

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	21,279	20,227	508,049	(27,110)	522,445
Changes of items during period					
Dividends of surplus			(24,228)		(24,228)
Profit attributable to owners of parent			108,866		108,866
Purchase of treasury stock				(29,369)	(29,369)
Disposal of treasury stock		437		1,105	1,543
Retirement of treasury stock		(18,732)		18,732	—
Other		18,295	(18,295)		—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	66,342	(9,531)	56,811
Balance at the end of current period	21,279	20,227	574,392	(36,641)	579,257

Millions of yen

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available -for -sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	25,041	122	(20,026)	(5,262)	(125)	416	3,474	526,211
Changes of items during period								
Dividends of surplus								(24,228)
Profit attributable to owners of parent								108,866
Purchase of treasury stock								(29,369)
Disposal of treasury stock								1,543
Retirement of treasury stock								—
Other								—
Net changes of items other than shareholders' equity	10,815	1,052	4,696	5,151	21,715	110	(8)	21,817
Total changes of items during period	10,815	1,052	4,696	5,151	21,715	110	(8)	78,629
Balance at the end of current period	35,856	1,174	(15,330)	(111)	21,589	527	3,466	604,840

Year ended March 31, 2019

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	21,279	20,227	574,392	(36,641)	579,257
Changes of items during period					
Dividends of surplus			(27,669)		(27,669)
Profit attributable to owners of parent			132,759		132,759
Purchase of treasury stock				(50,020)	(50,020)
Disposal of treasury stock		(1,414)		19,174	17,759
Retirement of treasury stock		(38,604)		38,604	—
Other		40,305	(40,019)		285
Net changes of items other than shareholders' equity					
Total changes of items during period	—	285	65,069	7,759	73,114
Balance at the end of current period	21,279	20,512	639,461	(28,882)	652,371

Millions of yen

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available -for -sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	35,856	1,174	(15,330)	(111)	21,589	527	3,466	604,840
Changes of items during period								
Dividends of surplus								(27,669)
Profit attributable to owners of parent								132,759
Purchase of treasury stock								(50,020)
Disposal of treasury stock								17,759
Retirement of treasury stock								—
Other								285
Net changes of items other than shareholders' equity	(6,929)	(427)	(3,039)	3,937	(6,458)		933	(5,525)
Total changes of items during period	(6,929)	(427)	(3,039)	3,937	(6,458)	—	933	67,588
Balance at the end of current period	28,927	747	(18,370)	3,826	15,130	527	4,400	672,429

(4) Consolidated statements of cash flows

Millions of yen

	Year ended March 31, 2018	Year ended March 31, 2019
Net cash provided by (used in) operating activities		
Income before income taxes	137,378	170,343
Depreciation and amortization	15,972	16,479
Impairment loss	519	13,148
Amortization of goodwill	3,035	2,720
Loss (gain) on disposal of property, plant and equipment	572	(1,570)
Loss (gain) on sales of investment securities	—	(17,946)
Loss (gain) on valuation of investment securities	794	—
Increase (decrease) in net defined benefit liability	2,610	521
Interest and dividends income	(27,702)	(32,327)
Interest expenses	557	581
Foreign exchange losses (gains)	3,070	(2,066)
Decrease (increase) in notes and accounts receivable-trade	5,974	(12,430)
Decrease (increase) in inventories	6,552	(4,832)
Increase (decrease) in notes and accounts payable-trade	(3,811)	1,220
Increase (decrease) in accrued expenses	(5,143)	(890)
Increase (decrease) in accounts payable-other	1,695	4,639
Other, net	(4,895)	2,346
Subtotal	137,182	139,937
Interest and dividends income received	31,773	30,086
Interest expenses paid	(545)	(622)
Income taxes (paid) refund	(38,620)	(23,716)
Net cash provided by (used in) operating activities	129,790	145,684
Net cash provided by (used in) investing activities		
Payments into time deposits	(85,439)	(123,651)
Proceeds from withdrawal of time deposits	57,771	91,064
Purchase of short-term investment securities	(30,300)	(8,078)
Proceeds from sales and redemption of securities	24,500	2,000
Purchase of investment securities	(2,817)	(3,885)
Proceeds from sales of investment securities	2,291	18,725
Purchase of property, plant and equipment	(5,880)	(6,548)
Proceeds from sales of property, plant and equipment	112	4,260
Purchase of intangible assets	(11,132)	(2,576)
Purchase of shares of subsidiaries and associates	(100)	(5,742)
Payments for transfer of business	—	(937)
Other, net	(244)	(979)
Net cash provided by (used in) investing activities	(51,238)	(36,349)

Millions of yen

	Year ended March 31, 2018	Year ended March 31, 2019
Net cash provided by (used in) financing activities		
Purchase of treasury stock	(29,369)	(50,270)
Cash dividends paid	(24,235)	(27,639)
Repayments of long-term loans payable	—	(10,000)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	1,020
Other, net	(288)	(121)
Net cash provided by (used in) financing activities	(53,893)	(87,011)
Effect of exchange rate change on cash and cash equivalents	(1,581)	1,076
Net increase (decrease) in cash and cash equivalents	23,076	23,399
Cash and cash equivalents at beginning of period	149,324	172,400
Cash and cash equivalents at end of period	172,400	195,800

(5) Notes

Going concern assumption

None

Change in accounting policies

Application of Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Shionogi has applied the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Issues Task Force [PITF] No. 18, September 14, 2018) early from the fiscal year ended March 31, 2019.

The early application of this PITF has minimal impact on the consolidated financial statements.

Change in presentation methods

Change Associated with Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, Etc.

Shionogi has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) as of the beginning of the fiscal year ended March 31, 2019. Accordingly, Shionogi now classifies deferred tax assets under investments and other assets, and deferred tax liabilities under non-current liabilities.

As a result, deferred tax assets under current assets decreased ¥11,761 million and deferred tax assets under investments and other assets increased ¥725 million in the consolidated balance sheets for the previous fiscal year. In addition, deferred tax liabilities under current liabilities decreased ¥0 million and deferred tax liabilities under non-current liabilities decreased ¥11,035 million.

Deferred tax assets and deferred tax liabilities relating to the same taxation authority were offset against each other, and total assets decreased ¥11,036 million compared with the amount before the accounting change.

Notes to segment information

Year ended March 31, 2018 (April 1, 2017 to March 31, 2018) and Year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Shionogi group has a single business segment related to prescription drugs. The group operates research, development, purchase, manufacturing, and distributing prescription drugs and related businesses. While analysis of each product sales and profits or expenses of each subsidiary are made, decision of business strategy and allocation of the management resources, especially allocation of R&D expenses, are made on a company-wide basis. Therefore disclosure of segment information is omitted.

Notes to amounts per share

Item	Year ended March 31, 2018	Year ended March 31, 2019
Net assets per share	1,911.36 yen	2,144.33 yen
Earnings per share	342.71 yen	424.31 yen
Earnings per share (diluted)	337.43 yen	420.67 yen

Notes: 1. Information for the computation of Earnings per share and Earnings per share (diluted) is as follows.

Item	Year ended March 31, 2018	Year ended March 31, 2019
Earnings per share		
Profit attributable to owners of parent	*108,866 million yen*	*132,759 million yen*
The amount which is not attributable to ordinary shareholders	—	—
Profit attributable to owners of parent related to common stocks	*108,866 million yen*	*132,759 million yen*
Average number of shares outstanding during the period	*317,660 thousands of stocks*	*312,883 thousands of stocks*
Earnings per share (diluted)		
Adjustments to profit attributable to owners of parent	*(13) million yen*	*(7) million yen*
[Interest income, net tax]	*[(13) million yen]*	*[(7) million yen]*
Increase of common stock	*4,935 thousands of stocks*	*2,692 thousands of stocks*
[Bonds payable]	*[4,713 thousands of stocks]*	*[2,465 thousands of stocks]*
[Subscription rights to shares]	*[221 thousands of stocks]*	*[226 thousands of stocks]*

2. Information for the computation of net assets per share is as follows.

Item	As of March 31, 2018	As of March 31, 2019
Total net assets	*604,840 million yen*	*672,429 million yen*
Amount deducted from total net assets	*3,993 million yen*	*4,927 million yen*
[Amounts attributed to subscription rights to shares in total net assets]	*[527 million yen]*	*[527 million yen]*
[Amounts attributed to non-controlling interests in total net assets]	*[3,466 million yen]*	*[4,400 million yen]*
Net assets at year end available to common stocks	*600,847 million yen*	*667,502 million yen*
Shares outstanding as of the period end	*314,356 thousands of stocks*	*311,287 thousands of stocks*

Important subsequent events

(Significant company split)

Based on an absorption-type split agreement approved by resolution of the Board of Directors on February 18, 2019, Shionogi carried out the following absorption-type split (hereinafter, the "Split") on April 1, 2019.

(1) Purpose of the Split

Shionogi Pharma Co., Ltd. (hereinafter, "Shionogi Pharma"), a wholly owned subsidiary of Shionogi that was established on October 1, 2018, succeeded Shionogi's pharmaceutical manufacturing operations for the purpose of providing stable supplies of products with high quality and at competitive prices to domestic and overseas markets, with Shionogi responsible for the Shionogi Group's production-related functions and making innovative developments in production technology.

(2) Description of business subject to the Split and book values of assets and liabilities spun off

Description of business: Manufacturing and contract manufacturing of pharmaceutical products
Assets spun off: 51,088 million yen
Liabilities spun off: 43 million yen
Note: The amounts of assets and liabilities spun off are currently being calculated.

(3) Form of the Split

Simplified absorption-type split with Shionogi as the splitting company and Shionogi Pharma as the successor company

(4) Name of successor company in the Split, and amounts of its assets, liabilities and net assets (as of March 31, 2019)

Company name: Shionogi Pharma Co., Ltd.
Assets: 25 million yen
Liabilities: 164 million yen
Net assets: (139) million yen
Note: Shionogi Pharma commenced operations on April 1, 2019.

(5) Timing of the Split

April 1, 2019

(6) Summary of accounting treatment

The transaction is treated as a transaction under common control based on the Accounting Standard for Business Combinations and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

(7) Other significant items

On the same date, Shionogi Pharma, the successor company, carried out an absorption-type merger of Shionogi Pharma Chemicals Co., Ltd. and Shionogi Analysis Center Co., Ltd, which were wholly owned subsidiaries of Shionogi.