11-year summary

	The Second Medium-Term Business Plan		Third Medium-Term Business Plan	
	"Accelerating toward significant strides" Reinforced R&D and enhanced global operating structure ■ Focused on priority therapeutic areas (infectious diseases, pain and metabolic diseases) ■ Acquired US-based company Sciele Pharma, Inc.		"SONG for the Real Growth" Progress toward global growth ■ Launched *Osphena* in US ■ Increased sales of eight strategic products in Japan	
	2009	2010	2011	2012
For the years ended March 31:				
Net sales	¥227,512	¥278,503	¥282,350	¥267,275
Cost of sales	70,929	76,264	81,737	77,753
Selling, general and administrative expenses	124,568	149,801	153,721	142,519
Operating income	32,015	52,438	46,892	47,003
Profit before income taxes	30,786	58,541	33,135	41,495
Profit attributable to owners of parent	15,661	38,626	20,027	27,102
Net cash provided by operating activities	29,120	52,902	56,528	54,724
Net cash used in investing activities	(149,056)	(826)	(13,947)	(38,290)
Net cash used in financing activities	105,294	(4,979)	(27,011)	(27,749)
Research and development expenses	52,822	51,808	50,921	53,599
Capital investments	10,875	12,547	17,967	13,233
Depreciation and amortization	13,468	18,048	17,966	16,282
As of March 31:				
Property, plant and equipment, net	¥ 71,812	¥ 62,448	¥ 70,221	¥ 74,282
Total assets	501,853	540,762	523,242	522,162
Total long-term liabilities	114,955	131,956	115,326	92,900
Total net assets	310,094	341,976	328,096	347,198
Per share amounts:				
Profit attributable to owners of parent	¥ 46.75	¥ 115.33	¥ 59.80	¥ 80.93
Net assets	924.43	1,019.71	979.69	1,027.83
Dividend	28	36	40	40
Other:				
Equity ratio	61.7	63.2	62.7	65.9
Return on equity [ROE]	4.8	11.9	6.0	8.1
Payout ratio	59.9	31.2	66.9	49.4

■ Established footholds in Europe and China

New Medium-Term Business Plan

Shionogi Growth Strategy 2020 (SGS2020)

Aim to grow as a drug discovery-based pharmaceutical company

- Identify and channel resources into strategic sales areas and therapeutic areas
- Growth led by FIC and LIC compounds
- Continued improvement of business operations

2013	2014	2015	2016	2017	2018	2019	2019
						Millions of yen	Thousands of U.S. dollars
¥282,904	¥289,717	¥273,991	¥309,973	¥338,890	¥344,667	¥363,722	$3,276,775
78,575	77,993	82,190	74,758	77,777	73,911	54,881	494,424
144,764	149,849	141,437	143,809	152,935	155,537	170,303	1,534,261
59,565	61,875	50,364	91,406	108,178	115,219	138,538	1,248,090
58,307	63,188	82,052	97,453	122,695	137,378	170,343	1,534,622
66,728	40,618	44,060	66,687	83,880	108,867	132,759	1,196,027
59,276	79,496	45,604	102,290	111,903	129,790	145,685	1,312,477
(19,960)	(20,040)	(31,697)	(32,895)	(31,644)	(51,238)	(36,350)	(327,477)
(37,687)	(53,799)	(46,211)	(18,525)	(57,411)	(53,894)	(87,012)	(783,892)
53,021	53,606	48,870	49,788	59,908	59,946	68,325	615,541
11,447	8,962	8,163	9,943	9,659	5,678	7,900	71,171
11,912	12,913	12,673	12,579	13,363	15,973	16,479	148,459
						Millions of yen	Thousands of U.S. dollars
¥ 78,474	¥ 78,977	¥ 77,023	¥ 78,674	¥ 78,788	¥ 75,957	¥ 74,653	$ 672,550
574,882	580,566	595,067	631,600	661,499	711,464	778,741	7,015,685
53,042	33,721	48,427	45,740	44,692	34,057	17,204	154,991
423,633	467,836	478,883	513,877	526,212	604,841	672,430	6,057,928
						Yen	U.S. dollars
¥ 199.25	¥ 121.29	¥ 132.67	¥ 204.83	¥ 259.88	¥ 342.71	¥ 424.31	$ 3.82
1,254.44	1,385.11	1,456.70	1,564.73	1,638.46	1,911.36	2,144.33	19.32
42	46	52	62	72	82	94	0.85
						%	
73.1	79.9	79.7	80.7	79.0	84.5	85.7	
17.5	9.2	9.4	13.6	16.3	19.4	20.9	
21.1	37.9	39.2	30.3	27.7	23.9	22.2	

Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥111.00 = U.S. $1.00, the approximate rate of exchange on March 31, 2019.
2. From the fiscal year ended March 31, 2015, the Company has adopted a new accounting standard for research and development expenses (business research expenses). This change has been reflected in figures for the fiscal year ended March 31, 2014.
3. From the fiscal year ended March 31, 2019, the Company has adopted a new accounting method for tax effect accounting. The change has been reflected in figures for the fiscal year ended March 31, 2015, and subsequent periods.

Consolidated financial statements

Consolidated Balance Sheet

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Assets			
Current assets:			
Cash and cash equivalents (Note 12)	¥ 195,801	¥ 172,401	$ 1,763,973
Short-term investments (Notes 5 and 12)	131,014	92,006	1,180,306
Notes and accounts receivable:			
Affiliates (Note 12)	213	289	1,919
Trade (Note 12)	65,903	53,240	593,721
Other	17,571	16,186	158,297
Allowance for doubtful accounts	(44)	(37)	(396)
	83,643	69,678	753,541
Inventories (Note 6)	40,111	34,637	361,360
Other current assets	11,175	10,782	100,676
Total current assets	461,744	379,504	4,159,856
Property, plant and equipment:			
Land (Notes 7 and 15)	8,438	8,352	76,018
Buildings and structures (Notes 7 and 15)	115,162	118,547	1,037,496
Machinery, equipment and vehicles (Note 8)	85,178	85,229	767,369
Furniture and fixtures	39,979	38,943	360,171
Construction in progress (Note 7)	3,908	1,058	35,207
Accumulated depreciation	(178,012)	(176,172)	(1,603,711)
Property, plant and equipment, net	74,653	75,957	672,550
Investments and other assets:			
Investments in securities (Notes 5 and 12)	143,844	154,333	1,295,892
Investments in affiliates	8,582	1,916	77,315
Asset for retirement benefits (Note 10)	30,722	21,735	276,775
Goodwill (Note 7)	19,258	32,853	173,495
Marketing rights (Note 7)	30,319	38,073	273,144
Long-term prepaid expenses	873	573	7,865
Deferred tax assets (Notes 3 and 11)	1,793	738	16,153
Other assets (Note 17)	6,953	5,782	62,640
Total investments and other assets	242,344	256,003	2,183,279
Total assets (Note 3)	¥ 778,741	¥ 711,464	$ 7,015,685

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable:			
Affiliates (Note 12)	¥ 711	¥ 738	$ 6,405
Trade (Note 12)	8,732	7,279	78,667
Construction	4,372	2,680	39,387
Current portion of long-term debts (Notes 9 and 12)	921	10,000	8,297
Provision for employees' bonuses	9,059	8,741	81,613
Provision for sales returns	1,428	1,360	12,865
Accrued expenses	12,154	11,094	109,495
Accrued income taxes (Notes 11 and 12)	33,157	18,337	298,712
Other current liabilities (Note 9)	18,573	12,337	167,325
Total current liabilities	89,107	72,566	802,766
Long-term liabilities:			
Long-term debts (Notes 9 and 12)	—	18,492	—
Liability for retirement benefits (Note 10)	11,931	8,097	107,486
Deferred tax liabilities (Notes 3 and 11)	125	3,124	1,126
Long-term accounts payable—other	3,680	3,527	33,153
Other long-term liabilities (Notes 9 and 17)	1,468	817	13,226
Total long-term liabilities	17,204	34,057	154,991
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 316,786,165 shares in 2019 and 324,136,165 shares in 2018	21,280	21,280	191,711
Capital surplus	20,512	20,227	184,793
Retained earnings	639,462	574,392	5,760,919
Less treasury stock, at cost	(28,883)	(36,642)	(260,207)
Total shareholders' equity	652,371	579,257	5,877,216
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	28,928	35,857	260,613
Deferred gain on hedges	748	1,175	6,739
Translation adjustments	(18,371)	(15,331)	(165,505)
Retirement benefit liability adjustments (Note 10)	3,826	(111)	34,468
Total accumulated other comprehensive income, net	15,131	21,590	136,315
Share subscription rights	528	528	4,757
Non-controlling interests	4,400	3,466	39,640
Total net assets (Note 18)	672,430	604,841	6,057,928
Total liabilities and net assets	¥778,741	¥711,464	$7,015,685

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Net sales (Notes 15 and 19)	¥363,722	¥344,667	$3,276,775
Cost of sales (Notes 6 and 15)	54,881	73,911	494,424
Gross profit	308,841	270,756	2,782,351
Selling, general and administrative expenses (Notes 14 and 15)	170,303	155,537	1,534,261
Operating income	138,538	115,219	1,248,090
Other income (expenses):			
Interest and dividend income	32,328	27,703	291,243
Interest expense	(582)	(558)	(5,243)
Litigation expenses	(791)	(535)	(7,126)
Loss on disposal of property, plant and equipment	(1,364)	(577)	(12,288)
Foreign exchange loss, net	(692)	(1,416)	(6,234)
Gain on sales of investments in securities (Note 5)	17,947	—	161,685
Gain on sales of property, plant and equipment (Note 15)	2,908	—	26,198
Loss on impairment of fixed assets (Note 7)	(13,149)	(520)	(118,459)
Special retirement expenses (Note 15)	(2,849)	—	(25,667)
Loss on disaster (Note 15)	(824)	—	(7,423)
Other, net	(1,127)	(1,938)	(10,154)
	31,805	22,159	286,532
Profit before income taxes	170,343	137,378	1,534,622
Income taxes (Note 11):			
Current	39,988	30,152	360,252
Deferred	(2,951)	(1,563)	(26,585)
	37,037	28,589	333,667
Profit	133,306	108,789	1,200,955
Profit (loss) attributable to:			
Non-controlling interests	547	(78)	4,928
Owners of parent (Note 18)	¥132,759	¥108,867	$1,196,027

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Profit	¥133,306	¥108,789	$1,200,955
Other comprehensive (loss) income:			
Net unrealized holding (loss) gain on securities	(6,929)	10,815	(62,423)
Deferred (loss) gain on hedges	(427)	1,052	(3,847)
Translation adjustments	(3,261)	4,766	(29,378)
Retirement benefit liability adjustments (Note 10)	3,937	5,151	35,468
Other comprehensive (loss) income (Note 16)	(6,680)	21,784	(60,180)
Comprehensive income	¥126,626	¥130,573	$1,140,775
Comprehensive income (loss) attributable to:			
Owners of parent	¥126,300	¥130,582	$1,137,838
Non-controlling interests	326	(9)	2,937

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities
Balance at April 1, 2017	¥21,280	¥ 20,227	¥508,050	¥(27,111)	¥522,446	¥25,042
Profit attributable to owners of parent	—	—	108,867	—	108,867	—
Dividends	—	—	(24,230)	—	(24,230)	—
Purchases of treasury stock	—	—	—	(29,369)	(29,369)	—
Disposal of treasury stock	—	438	—	1,105	1,543	—
Retirement of treasury stock	—	(18,733)	—	18,733	—	—
Other changes	—	18,295	(18,295)	—	—	10,815
Balance at April 1, 2018	21,280	20,227	574,392	(36,642)	579,257	35,857
Profit attributable to owners of parent	—	—	132,759	—	132,759	—
Dividends	—	—	(27,670)	—	(27,670)	—
Purchases of treasury stock	—	—	—	(50,021)	(50,021)	—
Disposal of treasury stock	—	(1,415)	—	19,175	17,760	—
Retirement of treasury stock	—	(38,605)	—	38,605	—	—
Other changes	—	40,305	(40,019)	—	286	(6,929)
Balance at March 31, 2019	¥21,280	¥ 20,512	¥639,462	¥(28,883)	¥652,371	¥28,928

	Millions of yen						
	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2017	¥ 122	¥(20,027)	¥(5,262)	¥ (125)	¥416	¥3,475	¥526,212
Profit attributable to owners of parent	—	—	—	—	—	—	108,867
Dividends	—	—	—	—	—	—	(24,230)
Purchases of treasury stock	—	—	—	—	—	—	(29,369)
Disposal of treasury stock	—	—	—	—	—	—	1,543
Retirement of treasury stock	—	—	—	—	—	—	—
Other changes	1,053	4,696	5,151	21,715	112	(9)	21,818
Balance at April 1, 2018	1,175	(15,331)	(111)	21,590	528	3,466	604,841
Profit attributable to owners of parent	—	—	—	—	—	—	132,759
Dividends	—	—	—	—	—	—	(27,670)
Purchases of treasury stock	—	—	—	—	—	—	(50,021)
Disposal of treasury stock	—	—	—	—	—	—	17,760
Retirement of treasury stock	—	—	—	—	—	—	—
Other changes	(427)	(3,040)	3,937	(6,459)	—	934	(5,239)
Balance at March 31, 2019	¥ 748	¥(18,371)	¥ 3,826	¥15,131	¥528	¥4,400	¥672,430

	Thousands of U.S. dollars (Note 4)					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities
Balance at April 1, 2018	$191,711	$ 182,225	$5,174,703	$(330,108)	$5,218,531	$323,036
Profit attributable to owners of parent	—	—	1,196,027	—	1,196,027	—
Dividends	—	—	(249,279)	—	(249,279)	—
Purchases of treasury stock	—	—	—	(450,640)	(450,640)	—
Disposal of treasury stock	—	(12,748)	—	172,748	160,000	—
Retirement of treasury stock	—	(347,793)	—	347,793	—	—
Other changes	—	363,109	(360,532)	—	2,577	(62,423)
Balance at March 31, 2019	$191,711	$ 184,793	$5,760,919	$(260,207)	$5,877,216	$260,613

	Thousands of U.S. dollars (Note 4)						
	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2018	$10,586	$(138,117)	$ (1,000)	$194,505	$4,757	$31,225	$5,449,018
Profit attributable to owners of parent	—	—	—	—	—	—	1,196,027
Dividends	—	—	—	—	—	—	(249,279)
Purchases of treasury stock	—	—	—	—	—	—	(450,640)
Disposal of treasury stock	—	—	—	—	—	—	160,000
Retirement of treasury stock	—	—	—	—	—	—	—
Other changes	(3,847)	(27,388)	35,468	(58,190)	—	8,415	(47,198)
Balance at March 31, 2019	$ 6,739	$(165,505)	$34,468	$136,315	$4,757	$39,640	$6,057,928

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Operating activities			
Profit before income taxes	¥ 170,343	¥ 137,378	$ 1,534,622
Adjustments for:			
Depreciation and amortization	16,479	15,973	148,459
Amortization of goodwill	2,721	3,036	24,514
Loss on impairment of fixed assets (Note 7)	13,149	520	118,459
(Gain) loss on sales or disposal of property, plant and equipment, net	(1,570)	573	(14,144)
Gain on sales of investments in securities (Note 5)	(17,947)	—	(161,685)
Increase in liability for retirement benefits	521	2,610	4,694
Interest and dividend income	(32,328)	(27,703)	(291,243)
Interest expense	582	558	5,243
Foreign exchange (gain) loss, net	(2,066)	3,071	(18,613)
Other	1,966	(1,344)	17,712
Changes in operating assets and liabilities:			
Notes and accounts receivable—trade and affiliates	(12,431)	5,974	(111,991)
Inventories	(4,832)	6,552	(43,532)
Other current assets	(899)	(1,591)	(8,099)
Notes and accounts payable—trade and affiliates	1,221	(3,811)	11,000
Accrued expenses	(891)	(5,143)	(8,027)
Other current liabilities	5,919	529	53,325
Subtotal	139,937	137,182	1,260,694
Interest and dividends received	30,087	31,773	271,054
Interest paid	(622)	(545)	(5,604)
Income taxes paid	(23,717)	(38,620)	(213,667)
Net cash provided by operating activities	145,685	129,790	1,312,477
Investing activities			
Purchases of short-term investments	(131,730)	(115,740)	(1,186,757)
Proceeds from sales and redemption of short-term investments	93,064	82,272	838,415
Purchases of investments in securities	(3,886)	(2,817)	(35,009)
Proceeds from sales of investments in securities	18,726	2,291	168,703
Purchases of property, plant and equipment	(6,549)	(5,879)	(59,000)
Proceeds from sales of property, plant and equipment	4,261	112	38,387
Purchases of intangible assets	(2,577)	(11,132)	(23,216)
Purchase of investments in capital of affiliates	(5,742)	(100)	(51,730)
Payments for acquisition of businesses	(938)	—	(8,450)
Other	(979)	(245)	(8,820)
Net cash used in investing activities	(36,350)	(51,238)	(327,477)
Financing activities			
Purchases of treasury stock	(50,270)	(29,369)	(452,883)
Cash dividends paid	(27,639)	(24,235)	(249,000)
Repayment and redemption of long-term debts	(10,000)	—	(90,090)
Proceeds from sales of shares of a subsidiary not resulting in change in scope of consolidation	1,020	—	9,189
Other	(123)	(290)	(1,108)
Net cash used in financing activities	(87,012)	(53,894)	(783,892)
Effect of exchange rate changes on cash and cash equivalents	1,077	(1,581)	9,703
Net increase in cash and cash equivalents	23,400	23,077	210,811
Cash and cash equivalents at beginning of year	172,401	149,324	1,553,162
Cash and cash equivalents at end of year	¥ 195,801	¥ 172,401	$ 1,763,973

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2019

1. Basis of Preparation

The accompanying consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and its consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on consolidated profit or net assets.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and all companies controlled directly or indirectly by the Company.

The Company has not applied the equity method to its investments in seven affiliates, including TAKATA Pharmaceutical Co., Ltd., for the purpose of the consolidated financial statements for the year ended March 31, 2019 since the effects on profit and retained earnings on the accompanying consolidated financial statements were immaterial.

Investments in affiliates not accounted for by the equity method are carried at cost.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The fiscal year end of seventeen overseas consolidated subsidiaries is December 31, which is different from that of the Company. These subsidiaries are consolidated by using the financial statements as of and for the year ended December 31. The fiscal year end of one overseas consolidated subsidiary is June 30, which is different from that of the Company. For consolidation purposes, financial statements for this subsidiary are prepared as of and for the year ended December 31. For such overseas consolidated subsidiaries, adjustments have been made for any significant transactions taking place during the period from January 1 to March 31.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

Assets and liabilities of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses of the overseas consolidated subsidiaries are translated into yen at the average exchange rates. The components of net assets excluding non-controlling interests are translated at their historical exchange rates. Adjustments resulting from translating the foreign currency financial statements are not included in the determination of profit or loss and are reported as "Translation adjustments" in accumulated other comprehensive income and "Non-controlling interests" in the consolidated balance sheet.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments which are readily convertible to cash subject to an insignificant risk of any change in value and which were purchased with an original maturity of three months or less.

(d) Short-term investments and investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method. Investments in investment partnerships are stated at the amount of net assets attributable to the ownership percentage of the Company.

(e) Money in trust for cash management

Money in trust for cash management is carried at fair value.

(f) Derivatives

Derivatives are carried at fair value.

(g) Inventories

Inventories are principally stated at lower of cost, determined by the average method, or net selling value.

(h) Property, plant and equipment (other than leased assets)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is calculated by the straight-line method over the estimated useful lives of the respective assets.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	2 to 60 years
Machinery, equipment and vehicles	2 to 17 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(i) Intangible assets (other than leased assets)

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

Expenditures relating to computer software developed for internal use are charged to income as incurred unless these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(j) Leased assets

Finance lease transactions that do not transfer ownership are depreciated to a nil residual value over the period of the lease contract using the straight-line method.

(k) Goodwill

Goodwill is amortized over periods of no more than 20 years by the straight-line method.

(l) Research and development expenses

Research and development expenses are charged to income when incurred.

(m) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial reporting purposes which enter into the determination of taxable income in a different period.

(n) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(o) Provision for employees' bonuses

Provision for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year.

(p) Provision for sales returns

The Company provides a reserve for sales returns at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on a product sales margin and historical sales return ratio. Certain consolidated subsidiaries provide a reserve for sales returns at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on total product sales and historical sales return ratio.

(q) Retirement benefits

The asset and liability for retirement benefits are provided based on the amount of the projected benefit obligation after deducting plan assets at fair value at the end of the year.

The retirement benefit obligation is attributed to each period by the benefit formula basis.

Prior service cost is amortized as incurred by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial differences are amortized from the year following the year in which the gain or loss is recognized, principally by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Unrecognized actuarial differences and prior service cost, net of tax effect, are recognized as "Retirement benefit liability adjustments" in accumulated other comprehensive income as a component of net assets in the consolidated balance sheet.

(r) Hedge accounting

The Company utilizes derivative transactions for mitigating the fluctuation risks of trade receivable and payable denominated in foreign currencies, forecast transactions and interest rates of loans from financial institutions. Hedging instruments are forward foreign currency exchange contracts, currency options and interest rate swap agreements. Hedged items are trade receivable and payable denominated in foreign currencies, forecast transactions and interest rates of loans from financial institutions.

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (special accounting treatment).

Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding contract rates (allocation method).

The Company evaluates the effectiveness of its hedging activities by comparing the movements of cash flows of hedging instruments and the corresponding movements of cash flows of hedged items. However, with regard to the forward foreign exchange contracts accounted for by the allocation method and the interest-rate swaps accounted for by the special accounting treatment, the evaluation of hedge effectiveness is omitted.

(s) Distribution of retained earnings

Under the Company Act of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for the period do not reflect such distributions. (Refer to Note 20.)

(t) Accounting standards issued but not yet effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the Accounting Standards Board of Japan (the "ASBJ") issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contracts with a customer
2. Identify the performance obligations in the contracts
3. Determine the transaction prices
4. Allocate the transaction prices to the performance obligations in the contracts
5. Recognize revenue when or as the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and the implementation guidance from the beginning of the fiscal year ending March 31, 2021.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and the implementation guidance on its consolidated financial statements.

3. Accounting Changes

(1) Change in accounting policies

Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements and related Practical Solution

Effective from the fiscal year ended March 31, 2019, the Company has early adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements" (revised 2018) (PITF No.18) issued by the ASBJ on September 14, 2018.

The impact of this change on the consolidated financial statements was immaterial.

(2) Change in presentation

Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.

As a result, deferred tax assets under current assets decreased ¥11,762 million and deferred tax assets under investments and other assets increased ¥726 million in the consolidated balance sheet as of March 31, 2018. In addition, deferred tax liabilities under current liabilities decreased ¥0 million and deferred tax liabilities under long-term liabilities decreased ¥11,036 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 to the balance prior to this change.

Also, Note 11 "Income Taxes" in the notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting Standard for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in Note 11 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

4. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥111.00 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2019. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Short-Term Investments and Investments in Securities

(1) Marketable securities classified as other securities at March 31, 2019 and 2018 were as follows:

	Millions of yen		
	2019		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 58,586	¥ 21,550	¥37,036
Debt securities:			
Government bonds, municipal bonds, etc.	16,856	16,017	839
Other securities with maturities	1,513	1,298	215
Other	5,066	5,000	66
Subtotal	82,021	43,865	38,156
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	1,046	1,362	(316)
Debt securities:			
Other securities with maturities	37,752	37,752	—
Other	94,000	94,000	—
Subtotal	132,798	133,114	(316)
Total	¥214,819	¥176,979	¥37,840

	Millions of yen		
	2018		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 69,838	¥ 23,866	¥45,972
Debt securities:			
Government bonds, municipal bonds, etc.	16,934	16,022	912
Other securities with maturities	1,536	1,303	233
Other	5,315	5,000	315
Subtotal	93,623	46,191	47,432
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	84	890	(806)
Debt securities:			
Other securities with maturities	31,800	31,800	—
Other	92,500	92,500	—
Subtotal	124,384	125,190	(806)
Total	¥218,007	¥171,381	¥46,626

	Thousands of U.S. dollars		
	2019		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	$ 527,802	$ 194,144	$333,658
Debt securities:			
Government bonds, municipal bonds, etc.	151,856	144,297	7,559
Other securities with maturities	13,630	11,694	1,936
Other	45,640	45,045	595
Subtotal	738,928	395,180	343,748
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	9,423	12,270	(2,847)
Debt securities:			
Other securities with maturities	340,108	340,108	—
Other	846,847	846,847	—
Subtotal	1,196,378	1,199,225	(2,847)
Total	$1,935,306	$1,594,405	$340,901

Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted stocks of ¥62,289 million ($561,162 thousand) and ¥60,627 million at March 31, 2019 and 2018, respectively, are not included in the above table.

(2) Proceeds from sales of, and gross realized gain on, other securities for the year ended March 31, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	2019
Proceeds from sales	¥18,726	$168,703
Gross realized gain	17,947	161,685

There were no sales of other securities for the year ended March 31, 2018.

(3) Loss on devaluation of investments in securities
Loss on devaluation of investments in securities is recorded for securities whose fair value has declined by 30% or more if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers and other factors.

The Company recognized loss on devaluation of investments in securities of ¥84 million ($757 thousand) and ¥796 million for the years ended March 31, 2019 and 2018, respectively.

6. Inventories

Inventories at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise	¥ 5,603	¥ 4,929	$ 50,477
Finished goods	10,347	7,193	93,216
Semi-finished goods and work in process	10,064	9,588	90,667
Raw materials and supplies	14,097	12,927	127,000
	¥40,111	¥34,637	$361,360

Cost of sales included loss on devaluation of inventories of ¥(292) million ($(2,631) thousand) and ¥1,418 million for the years ended March 31, 2019 and 2018, respectively.

7. Loss on Impairment of Fixed Assets

The assets for business use are grouped based on their corresponding management segment, such as product lines. Assets available for rent and idle assets are grouped individually.

The Group recognized loss on impairment of fixed assets for the year ended March 31, 2019 as follows:

			Millions of yen	Thousands of U.S. dollars
Location	Use	Classification	2019	2019
United States of America	—	Goodwill	¥11,943	$107,595
Netherlands	Marketing rights for prescription drugs	Marketing rights	460	4,144

With regard to the goodwill of the U.S. subsidiary, Shionogi INC., the Group reduced the book value to the recoverable value due to downward adjustments to expected profitability that was initially anticipated due to the deterioration of the environment in the U.S. business, and the reduction was recorded as an impairment loss.

With regard to the marketing rights of the Netherlands subsidiary, Shionogi B.V., the Group reduced the book value to the recoverable value due to a decline in profitability of the items related to ethical pharmaceutical products, and the reduction was recorded as an impairment loss.

			Millions of yen	Thousands of U.S. dollars
Location	Use	Classification	2019	2019
Settsu Plant Building No.301 (Settsu, Osaka Prefecture)	Idle assets	Buildings, etc.	¥746	$6,720

In line with the maintenance of the Settsu plant, the Company made the decision to remove idle assets at the Settsu plant. As a result, the Company recorded a loss on impairment of fixed assets in an amount equal to the carrying value of these idle assets. The significant component of these idle assets was buildings in the amount of ¥678 million ($6,108 thousand).

The Group recognized loss on impairment of fixed assets for the year ended March 31, 2018 as follows:

Location	Use	Classification	Millions of yen 2018
Japan	Marketing rights for a prescription drug, etc.	Marketing rights, etc.	¥204

Due to the termination of a sales collaboration agreement with Allergan Japan K.K., the Company recognized a loss on impairment equal to the carrying value of the corresponding marketing rights, etc. for a product, which the Company and Allergan Japan K.K. used to jointly sell.

Location	Use	Classification	Millions of yen 2018
Kanegasaki Dormitory (Isawa, Iwate Prefecture)	Idle assets	Land, Buildings, etc.	¥129
Kuise Office Building No.500 (Amagasaki, Hyogo Prefecture)	Idle assets	Buildings, etc.	115
Settsu Plant (Settsu, Osaka Prefecture)	Idle assets	Construction in progress	72

The Company made a decision to abolish a dormitory for unmarried employees as a part of the employee welfare system. As a result, the Company recorded a loss on impairment of fixed assets in an amount equal to the carrying value of these idle assets. The significant components of these idle assets were buildings in the amount of ¥67 million and land in the amount of ¥60 million.

The Company made a decision to demolish and remove the building No.500 at Kuise office as a part of a reorganization of business offices. As a result, the Company recorded a loss on impairment of fixed assets in an amount equal to the carrying value of these idle assets. The significant component of these idle assets was buildings in the amount of ¥104 million.

The Company classified facilities for formulation research and production at Settsu plant as idle assets because these facilities were not in use due to a change in the business plan and were not expected to be used in the future. As a result, the Company recorded a loss on impairment of fixed assets in an amount equal to the carrying value of these idle assets.

8. Leases

The Group has entered into finance lease contracts which do not transfer the ownership of the leased assets. The main components of such finance leases are office automation equipment and security devices classified as machinery, equipment and vehicles in the consolidated balance sheet.

The Group also has entered into non-cancellable operating lease contracts. Future minimum lease payments subsequent to March 31, 2019 under non-cancellable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	2019	2019
2020	¥ 326	$ 2,937
2021 and thereafter	1,501	13,522
	¥1,827	$16,459

9. Long-Term Debts and Lease Obligations

Long-term debts and lease obligations at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unsecured loans from banks and financial institutions due through 2019	¥ —	¥ 10,000	$ —
Zero coupon convertible bonds due in 2019	921	18,492	8,297
Finance lease obligations (included in "other current liabilities" and "other long-term liabilities")	879	177	7,919
	1,800	28,669	16,216
Less current portion	(1,185)	(10,083)	(10,675)
	¥ 615	¥ 18,586	$ 5,541

The aggregate annual maturities of long-term debts and lease obligations subsequent to March 31, 2019 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥1,185	$10,675
2021	240	2,162
2022	211	1,901
2023	164	1,478
	¥1,800	$16,216

10. Retirement Benefits

(1) Overview

The Company has a defined benefit pension plan known as a "cash balance plan," which allows pension benefits to fluctuate in accordance with market interest rates, and it also has a lump-sum payment plan and a defined contribution pension plan. Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In certain cases, the Group may also pay special retirement benefits that are not subject to any actuarial calculations.

(2) Defined benefit plans for the years ended March 31, 2019 and 2018

The changes in retirement benefit obligations are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligations at beginning of the year	¥71,055	¥75,211	$640,134
Service cost	1,856	1,906	16,721
Interest cost	599	634	5,396
Actuarial differences	(43)	(739)	(387)
Retirement benefits paid	(5,703)	(5,957)	(51,378)
Retirement benefit obligations at end of the year	¥67,764	¥71,055	$610,486

The changes in plan assets at fair value are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at fair value at beginning of the year	¥84,693	¥84,037	$763,000
Expected return on plan assets	2,117	2,101	19,072
Actuarial differences	3,294	2,309	29,676
Contributions paid by the Group	994	995	8,955
Retirement benefits paid	(4,543)	(4,749)	(40,928)
Plan assets at fair value at end of the year	¥86,555	¥84,693	$779,775

The balance of retirement benefit obligation and plan assets at fair value, and liabilities and assets recognized in the consolidated balance sheets are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligations	¥ 65,935	¥ 69,101	$ 594,009
Plan assets at fair value	(86,555)	(84,693)	779,775
	(20,620)	(15,592)	(185,766)
Unfunded retirement benefit obligation	1,829	1,954	16,477
Net asset for retirement benefits in consolidated balance sheet	¥(18,791)	¥(13,638)	$(169,289)
Liability for retirement benefits	¥ 11,931	¥ 8,097	$ 107,486
Asset for retirement benefits	(30,722)	(21,735)	(276,775)
Net asset for retirement benefits in consolidated balance sheet	¥(18,791)	¥(13,638)	$(169,289)

The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 1,856	¥ 1,906	$ 16,721
Interest cost	599	634	5,396
Expected return on plan assets	(2,117)	(2,101)	(19,072)
Amortization:			
Actuarial differences	2,540	4,579	22,883
Prior service cost	(204)	(204)	(1,838)
Retirement benefit expenses	¥ 2,674	¥ 4,814	$ 24,090

The components of retirement benefit liability adjustments recognized in other comprehensive income, before tax effects, are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost	¥ (204)	¥ (204)	$ (1,838)
Actuarial differences	5,877	7,627	52,946
Total	¥5,673	¥7,423	$51,108

The components of retirement benefit liability adjustments recognized in accumulated other comprehensive income, before tax effects, are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service cost	¥(1,022)	¥(1,226)	$ (9,207)
Unrecognized actuarial differences	(4,491)	1,386	(40,460)
Total	¥(5,513)	¥ 160	$(49,667)

The percentage composition of each major category of plan assets at fair value at March 31, 2019 and 2018 was as follows:

Asset class	2019	2018
Equity securities	9%	25%
General accounts controlled by life insurance companies	25	23
Debt securities	29	26
Other	37	26
Total	100%	100%

As of March 31, 2019 and 2018, 14% and 26%, respectively, of total plan assets were included in retirement benefit trusts established for corporate pension plans.

Policy for determining expected long-term rate of return on plan assets

The expected long-term rate of return on plan assets is derived as a combination of the portfolio allocation of current and expected plan assets, and the forward-looking view of the long-term expected rates of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	0.8%	0.8%
Expected long-term rate of return on plan assets (Weighted average)	2.5%	2.5%
Expected rate of salary increase (Weighted average)	3.5%	3.5%

(3) Defined contribution plans for the years ended March 31, 2019 and 2018

The total contributions paid by the Group to the defined contribution plans were ¥1,590 million ($14,324 thousand) and ¥1,584 million for the years ended March 31, 2019 and 2018, respectively.

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively.

The overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates for the years ended March 31, 2019 and 2018 differ from the above statutory tax rate for the following reasons:

	2019	2018
Statutory tax rate	30.6%	30.8%
Expenses not deductible for income tax purposes	0.0	0.1
Dividends not taxable for income tax purposes	(3.3)	(4.1)
Amortization of goodwill	2.5	0.5
Tax credits	(6.4)	(6.1)
Inhabitants' per capita taxes	0.1	0.1
Difference in statutory tax rates of overseas subsidiaries	(1.7)	(2.0)
Increase in valuation allowance	1.3	2.4
Other	(1.4)	(0.9)
Effective tax rates	21.7%	20.8%

The tax effects of temporary differences at March 31, 2019 and 2018 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Tax loss carryforwards (Note)	¥ 27,298	¥ 23,064	$ 245,928
Adjustments to the carrying value of investments in a subsidiary	12,462	12,462	112,270
Research and development expenses	9,409	9,172	84,766
Intangible assets	3,219	3,249	29,000
Provision for employees' bonuses	2,619	2,485	23,595
Accrued expenses and other current liabilities	1,105	935	9,955
Loss on revaluation of investments in securities	2,442	2,642	22,000
Accrued enterprise taxes	1,786	925	16,090
Provision for sales returns	399	344	3,595
Other	7,052	9,486	63,531
Total gross deferred tax assets	67,791	64,764	610,730
Valuation allowance for tax loss carryforwards (Note)	(27,298)	—	(245,928)
Valuation allowance for deductible temporary differences	(23,891)	—	(215,234)
Total valuation allowance	(51,189)	(47,827)	(461,162)
Total deferred tax assets	16,602	16,937	149,568
Deferred tax liabilities:			
Unrealized gain on other securities	(8,913)	(11,575)	(80,297)
Reserve for advanced depreciation of property, plant and equipment	(1,685)	(1,741)	(15,180)
Investments in securities	(1,283)	(1,283)	(11,560)
Asset for retirement benefits	(1,926)	(1,321)	(17,351)
Other	(1,127)	(3,403)	(10,153)
Total deferred tax liabilities	(14,934)	(19,323)	(134,541)
Net deferred tax assets (liabilities)	¥ 1,668	¥ (2,386)	$ 15,027

Note: A breakdown of the tax loss carryforwards and valuation allowance by expiry date as of March 31, 2019 is as follows:

	Millions of yen				
	2019				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Tax loss carryforwards (*)	¥ —	¥ —	¥ 332	¥ 26,966	¥ 27,298
Valuation allowance	—	—	(332)	(26,966)	(27,298)
Deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars				
	2019				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Tax loss carryforwards (*)	$ —	$ —	$ 2,991	$ 242,937	$ 245,928
Valuation allowance	—	—	(2,991)	(242,937)	(245,928)
Deferred tax assets	$ —	$ —	$ —	$ —	$ —

(*) The tax loss carryforwards in the above table are measured using the statutory tax rates.

12. Financial Instruments

(1) Overview

(a) Policy for financial instruments

The Group obtains necessary funding principally by bank borrowings and bond issuance under the business plan for its main business for the production and sales of pharmaceuticals. Temporary surplus funds are managed by low-risk financial assets. Derivatives are utilized for mitigating risks described in the latter part of this note and not utilized for speculative purpose.

(b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivable, are exposed to the credit risk of customers. Trade receivables denominated in foreign currencies are exposed to the fluctuation risk of foreign currencies. Short-term investments and investments in securities are exposed to fluctuation risk of market price.

Trade payables, notes and accounts payable, are due within one year. Certain trade payables denominated in foreign currencies for the import of raw materials are exposed to the fluctuation risk of foreign currencies. Loans and bonds are utilized principally for necessary financing under the business plan and those maturity dates are due in 1 year, at the longest, subsequent to March 31, 2019.

Derivative transactions are made for hedging foreign currency fluctuation risk of trade receivables, trade payables, forecasted transactions and intercompany loans receivable denominated in foreign currencies by using forward foreign exchange contracts and currency option contracts. Refer to "Hedge accounting" in Note 2 "Summary of Significant Accounting Policies" for information on hedge accounting such as hedging instruments, hedged items, hedging policy, evaluation method of effectiveness of hedging activities and so forth.

(c) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the procedures determined in the Company, the Accounting and Finance Department and related sections of the Company periodically monitor the conditions of major customers, manage collection due dates and balances of each customer and try to identify credit risk of customers with worsening financial conditions at the early stage and mitigate the risk. Consolidated subsidiaries perform the similar credit management in accordance with the internal rules of the Company.

The Company enters into derivative transactions with financial institutions with high credit ratings to mitigate the counterparty risk.

The maximum amount of credit risk at balance sheet date is represented as the carrying value of financial assets exposed to the credit risk.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

The Company utilizes forward foreign currency exchange contracts and currency option contracts for hedging to mitigate fluctuation risk identified by each foreign currency of trade receivables, payables, forecasted transactions and intercompany loans receivable.

The Company continuously reviews securities holdings by monitoring periodically the market and financial condition of the securities' issuers (companies with business relationships with the Group) and also reviews holding conditions for securities other than held-to-maturities by evaluating the relationship of those companies.

The Accounting and Finance Department enters into derivative transactions under the rules determined in the Company and utilizes forward foreign exchange contracts and currency option contracts within the normal range of transactions. The Accounting and Finance Department manages information on transactions by reporting periodically to the Board of Directors' meetings. Consolidated subsidiaries do not utilize derivative transactions.

(iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

The Company manages liquidity risk with the Accounting and Finance Department preparing and updating cash flow plans on a timely basis and keeping necessary funds based on the reports prepared by each department.

(d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

In addition, the notional amounts of derivatives in Note 13 "Derivative Transactions" are not necessarily indicative of the actual market risk involved in the derivative transactions.

(e) Concentration of credit risk

At March 31, 2019 and 2018, 71% and 48%, respectively, of outstanding trade receivables represented receivables due from a specific and large-scale customer.

(2) Fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2019 and 2018, are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below).

	Millions of yen		
	2019		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥195,801	¥195,801	¥ —
Notes and accounts receivable—trade and affiliates	66,116	66,116	—
Short-term investments and investments in securities	213,492	213,668	176
Total assets	¥475,409	¥475,585	¥176
Notes and accounts payable—trade and affiliates	¥ 9,443	¥ 9,443	¥ —
Current portion of long-term debts:			
Bonds	921	1,535	614
Accrued income taxes	33,157	33,157	—
Total liabilities	¥ 43,521	¥ 44,135	¥614
Derivative transactions (*)	1,077	1,077	—

*Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

	Millions of yen		
	2018		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥172,401	¥172,401	¥ —
Notes and accounts receivable—trade and affiliates	53,529	53,529	—
Short-term investments and investments in securities	185,712	185,712	—
Total assets	¥411,642	¥411,642	¥ —
Notes and accounts payable—trade and affiliates	¥ 8,017	¥ 8,017	¥ —
Current portion of long-term debts:			
Long-term loans	10,000	10,123	123
Accrued income taxes	18,337	18,337	—
Long-term debts:			
Bonds	18,492	24,709	6,217
Total liabilities	¥ 54,846	¥ 61,186	¥6,340
Derivative transactions (*)	1,660	1,660	—

*Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

	Thousands of U.S. dollars		
	2019		
	Carrying value	Fair value	Difference
Cash and cash equivalents	$1,763,973	$1,763,973	$ —
Notes and accounts receivable—trade and affiliates	595,640	595,640	—
Short-term investments and investments in securities	1,923,351	1,924,937	1,586
Total assets	$4,282,964	$4,284,550	$1,586
Notes and accounts payable—trade and affiliates	$ 85,072	$ 85,072	$ —
Current portion of long-term debts:			
Bonds	8,297	13,829	5,532
Accrued income taxes	298,712	298,712	—
Total liabilities	$ 392,081	$ 397,613	$5,532
Derivative transactions (*)	9,703	9,703	—

*Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

Note 1: Methods to determine the fair value of financial instruments and other matters related to securities and derivative transactions

Assets

• Cash and cash equivalents

Since these items are settled in a short time period, their carrying value approximates fair value.

• Notes and accounts receivable—trade and affiliates

Since notes and accounts receivable are settled in a short time period, their carrying value approximates fair value.

• Short-term investments and investments in securities

With regard to short-term investments and investments in securities, fair value of debt securities is mainly determined by quoted market price or price offered by financial institutions and that of equity securities is determined by quoted market price. Refer to Note 5 "Short-Term Investments and Investments in Securities" for the information of securities by holding purpose.

However, the carrying value of money in trust for cash management included in short-term investments approximates fair value, because these items are settled in a short time period.

Liabilities

• Notes and accounts payable—trade and affiliates and accrued income taxes

Since these items are settled in a short time period, their carrying value approximates fair value.

• Current portion of long-term debts

The fair value of bonds is determined by quoted price offered by financial institutions.

The fair value of long-term loans is based on the present value of the total of principal and interest discounted by the estimated interest rates to be applied if similar new loans are made.

• Derivative transactions

Please refer to Note 13 "Derivative Transactions" of these notes to the consolidated financial statements.

Note 2: Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unlisted equity securities	¥62,289	¥60,627	$561,162

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

Note 3: The redemption schedule for monetary assets and marketable securities with maturities at March 31, 2019 and 2018

	Millions of yen			
	2019			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥195,796	¥ —	¥ —	¥ —
Notes and accounts receivable—trade and affiliates	66,116	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	14,000	—	2,000
Other securities with maturities	127,248	—	—	—
Total	¥389,160	¥14,000	¥ —	¥2,000

	Millions of yen			
	2018			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥172,396	¥ —	¥ —	¥ —
Notes and accounts receivable—trade and affiliates	53,529	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	12,000	2,000	2,000
Other securities with maturities	92,006	1,456	—	—
Total	¥317,931	¥13,456	¥2,000	¥2,000

	Thousands of U.S. dollars			
	2019			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$1,763,928	$ —	$ —	$ —
Notes and accounts receivable—trade and affiliates	595,640	—	—	—
Short-term investments and investments in securities:				
Government bonds, municipal bonds, etc.	—	126,126	—	18,018
Other securities with maturities	1,146,378	—	—	—
Total	$3,505,946	$126,126	$ —	$18,018

13. Derivative Transactions

(1) Derivative transactions to which hedge accounting is not applied

Currency-related transactions

There were no currency-related derivative transactions to which hedge accounting is not applied for the year ended March 31, 2019.

Classification	Transaction	Millions of yen 2018 Contract value Notional amount	Portion of notional amount over 1 year	Estimated fair value	Unrealized loss
Over-the-counter transaction	Forward foreign currency exchange contracts				
	Selling: USD	¥42,500	¥—	¥(32)	¥(32)

Note: Fair values are calculated based on the prices provided by counterparty financial institutions.

(2) Derivative transactions to which hedge accounting is applied

Currency-related transactions

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2019 Contract value Notional amount	Portion of notional amount over 1 year	Fair value
Allocation method	Forward foreign currency exchange contracts				
	Selling: GBP	Forecasted transactions	¥ 98,614	¥ —	¥1,049
	Subtotal		98,614	—	1,049
Deferral hedge	Forward foreign currency exchange contracts				
	Selling: USD	Forecasted transactions	11,100	—	(0)
	Buying: USD	Forecasted transactions	8,436	—	29
	Currency options				
	Buying call options: USD	Forecasted transactions	2,664	—	5
	Selling put options: USD	Forecasted transactions	2,664	—	(6)
	Subtotal		24,864	—	28
	Total		¥123,478	¥ —	¥1,077

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2018 Contract value Notional amount	Portion of notional amount over 1 year	Fair value
Allocation method	Forward foreign currency exchange contracts				
	Selling: GBP	Forecasted transactions	¥101,969	¥ —	¥1,693
	Total		¥101,969	¥ —	¥1,693

Method of hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars 2019 Contract value Notional amount	Portion of notional amount over 1 year	Fair value
Allocation method	Forward foreign currency exchange contracts				
	Selling: GBP	Forecasted transactions	$ 888,414	$ —	$9,450
	Subtotal		888,414	—	9,450
Deferral hedge	Forward foreign currency exchange contracts				
	Selling: USD	Forecasted transactions	100,000	—	(0)
	Buying: USD	Forecasted transactions	76,000	—	261
	Currency options				
	Buying call options: USD	Forecasted transactions	24,000	—	45
	Selling put options: USD	Forecasted transactions	24,000	—	(54)
	Subtotal		224,000	—	252
	Total		$1,112,414	$ —	$9,703

Notes: 1. Fair values are calculated based on the prices provided by counterparty financial institutions.
2. The currency option transactions are zero-cost options and no premium is received or paid.

14. Shareholders' Equity

The Company Act of Japan (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2019 and 2018 amounted to ¥5,388 million ($48,541 thousand), respectively.

Under the Act, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2019 and 2018 are summarized as follows:

	Number of shares 2019 April 1, 2018	Increase	Decrease	March 31, 2019
Issued shares of common stock	324,136,165	—	7,350,000	316,786,165
Treasury stock	9,780,027	7,353,561	11,634,837	5,498,751

	Number of shares			
	2018			
	April 1, 2017	Increase	Decrease	March 31, 2018
Issued shares of common stock	329,136,165	—	5,000,000	324,136,165
Treasury stock	10,347,876	4,803,153	5,371,002	9,780,027

The decrease in the number of shares of common stock during the year ended March 31, 2019 is due to the retirement of treasury stock.

The increase in the number of shares of treasury stock during the year ended March 31, 2019 consists of 7,350,400 shares due to the purchase of treasury stock based on resolution of the Board of Directors and 3,161 shares due to the purchase of fractional shares of less than one voting unit.

The decrease in the number of shares of treasury stock during the year ended March 31, 2019 consists of 7,350,000 shares due to the retirement of treasury stock and 4,249,737 shares due to the conversion of convertible bonds with share subscription rights and 35,100 shares due to the grants under the restricted stock compensation plans.

The decrease in the number of shares of common stock during the year ended March 31, 2018 is due to the retirement of treasury stock.

The increase in the number of shares of treasury stock during the year ended March 31, 2018 consists of 4,800,000 shares due to the purchase of treasury stock based on resolution of the Board of Directors and 3,153 shares due to the purchase of fractional shares of less than one voting unit.

The decrease in the number of shares of treasury stock during the year ended March 31, 2018 consists of 5,000,000 shares due to the retirement of treasury stock and 371,002 shares due to the exercise of share subscription rights.

Stock Options

The Company has a stock option plan for its directors and corporate officers. Stock option expense included in selling, general and administrative expenses amounted to ¥12 million ($108 thousand) and ¥110 million for the years ended March 31, 2019 and 2018, respectively.

A stock option plan for three directors and twelve corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 22, 2017 ("the 2017 plan"). Under the terms of this plan, 19,300 shares of common stock were granted and vested immediately. The options became exercisable on July 8, 2017 and are scheduled to expire on July 7, 2047.

A stock option plan for three directors and ten corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 23, 2016 ("the 2016 plan"). Under the terms of this plan, 17,300 shares of common stock were granted and vested immediately. The options became exercisable on July 9, 2016 and are scheduled to expire on July 8, 2046.

A stock option plan for three directors and eleven corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 24, 2015 ("the 2015 plan"). Under the terms of this plan, 21,100 shares of common stock were granted and vested immediately. The options became exercisable on July 10, 2015 and are scheduled to expire on July 9, 2045.

A stock option plan for two directors and eleven corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 26, 2014 ("the 2014 plan"). Under the terms of this plan, 42,400 shares of common stock were granted and vested immediately. The options became exercisable on July 11, 2014 and are scheduled to expire on July 10, 2044.

A stock option plan for two directors and twelve corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 26, 2013 ("the 2013 plan"). Under the terms of this plan, 43,900 shares of common stock were granted and vested immediately. The options became exercisable on July 12, 2013 and are scheduled to expire on July 11, 2043.

A stock option plan for two directors and eleven corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 27, 2012 ("the 2012 plan"). Under the terms of this plan, 79,100 shares of common stock were granted and vested immediately. The options became exercisable on July 13, 2012 and are scheduled to expire on July 12, 2042.

A stock option plan for three directors and nine corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 24, 2011 ("the 2011 plan"). Under the terms of this plan, 52,200 shares of common stock were granted and vested immediately. The options became exercisable on July 12, 2011 and are scheduled to expire on July 11, 2041.

Movement in the number of stock options after vesting for the 2011, 2012, 2013, 2014, 2015, 2016 and 2017 plans of the Company during the year ended March 31, 2019 is summarized as follows:

	2017 plan	2016 plan	2015 plan	2014 plan	2013 plan	2012 plan	2011 plan
	(Number of options)						
Outstanding as of April 1, 2018	19,300	17,300	20,200	36,300	33,800	63,300	36,800
Vested	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—
Outstanding as of March 31, 2019	19,300	17,300	20,200	36,300	33,800	63,300	36,800

The unit price of the stock options after vesting under the 2011, 2012, 2013, 2014, 2015, 2016 and 2017 plans of the Company as of March 31, 2019 is summarized as follows:

	2017 plan		2016 plan		2015 plan		2014 plan	
	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Unit price of stock options:								
Exercise price as of March 31, 2019	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01
Average market price per share upon exercise	—	—	—	—	—	—	—	—
Estimated fair value of unit price at grant date	5,741	51.72	5,256	47.35	4,553	41.02	1,899	17.11

	2013 plan		2012 plan		2011 plan	
	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Unit price of stock options:						
Exercise price as of March 31, 2019	¥ 1	$ 0.01	¥ 1	$0.01	¥ 1	$ 0.01
Average market price per share upon exercise	—	—	—	—	—	—
Estimated fair value of unit price at grant date	1,930	17.39	916	8.25	1,129	10.17

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects only the actual number of forfeited stock options.

15. Supplementary Information on Consolidated Statement of Income

(Reversal of provision) provision for sales returns

(Reversal of provision) provision for sales returns included in net sales and cost of sales for the years ended March 31, 2019 and 2018 amounted to ¥68 million ($613 thousand) and ¥(206) million, respectively.

Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2019 and 2018 amounted to ¥68,325 million ($615,541 thousand) and ¥59,946 million, respectively.

Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment for the year ended March 31, 2019 mainly includes a gain of ¥2,406 million ($21,676 thousand) recognized by C&O Pharmaceutical Technology (Holdings) Ltd., the Company's subsidiary, as a result of selling the Nanjing plant in China and a gain of ¥451 million ($4,063 thousand) recognized by the Company as a result of selling the Omori Dormitory for employees in Tokyo, Japan.

Special retirement expenses

Special retirement expenses for the year ended March 31, 2019 are retirement expenses in the amounts of ¥2,504 million ($22,559 thousand) and ¥345 million ($3,108 thousand) recognized by the Company and Netherlands subsidiary, Shionogi B.V.

The former represent payments related to the transfer system from the Company to Shionogi Pharma Co., Ltd. of the Company's subsidiary.

Loss on disaster

For the year ended March 31, 2019, the Company recorded loss on disaster in connection with the impact of an earthquake that occurred in northern Osaka on June 18, 2018.

16. Other Comprehensive (Loss) Income

The following table presents the analysis of other comprehensive (loss) income for the years ended March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ 8,352	¥13,473	$ 75,244
Reclassification adjustments included in gains or losses	(17,943)	796	(161,649)
Before tax effect	(9,591)	14,269	(86,405)
Tax effect	2,662	(3,454)	23,982
Total	(6,929)	10,815	(62,423)
Deferred (loss) gain on hedges:			
Amount arising during the year	(728)	1,677	(6,559)
Reclassification adjustments included in gains or losses	113	(161)	1,018
Before tax effect	(615)	1,516	(5,541)
Tax effect	188	(464)	1,694
Total	(427)	1,052	(3,847)
Translation adjustments:			
Amount arising during the year	(3,261)	4,766	(29,378)
Reclassification adjustments included in gains or losses	—	—	—
Before tax effect	(3,261)	4,766	(29,378)
Tax effect	—	—	—
Total	(3,261)	4,766	(29,378)
Retirement benefit liability adjustments:			
Amount arising during the year	3,337	3,048	30,063
Reclassification adjustments included in gains or losses	2,336	4,375	21,045
Before tax effect	5,673	7,423	51,108
Tax effect	(1,736)	(2,272)	(15,640)
Total	3,937	5,151	35,468
Other comprehensive (loss) income	¥ (6,680)	¥21,784	$ (60,180)

17. Related Party Transactions

Related party transactions for the years ended March 31, 2019 and 2018 and the related balances at March 31, 2019 and 2018 are summarized as follows:

Principal transactions between consolidated subsidiaries and related parties

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Shunjusha Co., Ltd.:			
Rent received—land and office building	¥ 52	¥ 52	$ 468
Rent expense—building	148	148	1,333
Management fee for leased property	4	4	36
Lease deposits, a component of other assets	42	42	378
Long-term lease deposits received, a component of other long-term liabilities	1	1	9

Shunjusha Co., Ltd. is directly owned by a director and a relative of the director of the Company and is engaged in the real estate leasing business. The percentage of voting rights owned by these two people was 100% as of March 31, 2019 and 2018. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥100 million ($901 thousand) at March 31, 2019 and 2018, respectively.

The prices for the above related party transactions were determined with reference to market value, transactions made in the same area and so on.

18. Amounts per Share

Amounts per share as of and for the years ended March 31, 2019 and 2018 were as follows:

	Yen		U.S. dollars
	2019	2018	2019
Profit attributable to owners of parent:			
Basic	¥ 424.31	¥ 342.71	$ 3.82
Diluted	420.67	337.43	3.79
Net assets	2,144.33	1,911.36	19.32
Cash dividends applicable to the year	94.00	82.00	0.85

Basic profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options and stock subscription rights.

Net assets per share have been computed based on the net assets excluding share subscription rights and non-controlling interests and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of profit per share and diluted profit per share for the years ended March 31, 2019 and 2018 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Profit attributable to owners of parent	¥132,759	¥108,867	$1,196,027
Adjustments to profit attributable to owners of parent:			
Interest income, net of tax	(7)	(14)	(63)

	Thousands of shares	
	2019	2018
Weighted-average number of shares of common stock outstanding	312,883	317,660
Increase in common stock:		
Bonds	2,465	4,713
Share subscription rights	227	222
Total	2,692	4,935

The financial data used in the computation of net assets per share at March 31, 2019 and 2018 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total net assets	¥672,430	¥604,841	$6,057,928
Amounts deducted from total net assets:			
Amounts attributable to share subscription rights in total net assets	(528)	(528)	(4,757)
Amounts attributable to non-controlling interests in total net assets	(4,400)	(3,466)	(39,640)
Net assets used in the computation of net assets per share	¥667,502	¥600,847	$6,013,531

	Thousands of shares	
	2019	2018
Number of shares used in the computation of net assets per share	311,287	314,356

19. Segment Information

1. Segment information for the years ended March 31, 2019 and 2018

The Group operates as a single business segment related to prescription drugs involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. While analyses of sales by products and evaluation of performance by group companies is performed, decisions of business strategy and allocation of management resources, especially allocation of research and development expenses, are made on a Group-wide basis. Therefore, disclosure of segment information for the years ended March 31, 2019 and 2018 was omitted.

2. Related information

(1) Information on sales by product and service

As the amount of sales to the third parties of only one type of product and service in a single segment accounted for more than 90% of net sales in the consolidated statement of income for the years ended March 31, 2019 and 2018, information on sales by product and service was omitted.

(2) Geographical information

(a) Net sales

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Japan	¥ 147,131	¥ 159,490	$ 1,325,505
Europe	186,505	160,705	1,680,225
(United Kingdom)	(153,912)	(141,200)	(1,386,595)
North America	13,212	12,360	119,027
(United States of America)	(13,205)	(12,356)	(118,964)
Other	16,874	12,112	152,018
Total	¥ 363,722	¥ 344,667	$ 3,276,775

Net sales information above is classified by countries and/or regions based on locations of customers. The main countries and regions included in each category are as follows:

(1) Europe: United Kingdom, Switzerland, Germany and others
(2) North America: United States of America and others
(3) Other: Asia and others

(b) Property, plant and equipment

As the balances of property, plant and equipment located in Japan accounted for more than 90% of the balances of property, plant and equipment recognized in the consolidated balance sheets at March 31, 2019 and 2018, information on property, plant and equipment by geographical segment was omitted.

(3) Information by major customer

	Net sales			
	Millions of yen		Thousands of U.S. dollars	
Customer name	2019	2018	2019	Related segment name
ViiV Healthcare UK Limited.	¥124,430	¥103,877	$1,120,991	Pharmaceuticals
SUZUKEN CO., LTD.	37,899	47,120	341,432	Pharmaceuticals

3. Information on loss on impairment of fixed assets by reportable segment

The Group operates as a single business segment related to prescription drugs involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. Accordingly, this information for the years ended March 31, 2019 and 2018 was omitted.

4. Information on amortization of goodwill and remaining unamortized balance by reportable segment

As described in the above 3, the Group operates as a single business segment. Accordingly, information on amortization of goodwill and remaining unamortized balance by reportable segment at March 31, 2019 and 2018 and for the years then ended was omitted.

5. Information on gain on negative goodwill by reportable segment

Information on gain on negative goodwill was omitted since there are no items to be disclosed for the years ended March 31, 2019 and 2018.

20. Subsequent Events

(1) Significant absorption-type company split

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

(a) Purpose of the Split

Shionogi Pharma Co., Ltd. (hereinafter, "Shionogi Pharma"), a wholly owned subsidiary of the Company that was established on October 1, 2018, succeeded the Company'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 the Company responsible for the Group's production-related functions and making innovative developments in production technology.

(b) 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:	¥50,960 million ($459,099 thousand)
Liabilities spun off:	¥43 million ($387 thousand)

(c) Form of the Split

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

(d) 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 ($225 thousand)
Liabilities:	¥165 million ($1,486 thousand)
Net assets:	¥(140) million ($(1,261) thousand)
Note:	Shionogi Pharma commenced operations on April 1, 2019.

(e) Timing of the Split

April 1, 2019

(f) Summary of accounting treatment

The transaction is treated as a transaction under common control based on the Accounting Standard for Business Combinations (ASBJ Statement No.21) and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10).

(g) Other significant items

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

(2) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2019, was approved at a shareholders' meeting held on June 18, 2019:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥50.00 = U.S.$0.45 per share)	¥15,564	$140,216

Independent Auditor's Report

The Board of Directors
Shionogi & Co., Ltd.

We have audited the accompanying consolidated financial statements of Shionogi & Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shionogi & Co., Ltd. and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

June 17, 2019
Osaka, Japan

Ernst & Young ShinNihon LLC

Our history

One hundred and forty-one years now have passed since Shiono Gisaburo Shoten, the drug wholesaler that would become Shionogi & Co., Ltd., began operations in Doshomachi, Osaka, in 1878.
Since then, Shionogi has evolved into a leading pharmaceutical manufacturer via the development of our first proprietary antibiotic, *Shinomin*; the launch of *Shiomarin*, the world's first oxacephem antibiotic, also developed in-house; and the success of our hyperlipidemia treatment *Crestor*, which has grown into a blockbuster.
From fiscal 2005, the Company identified priority therapeutic areas, concentrating business resources on infectious diseases, pain treatment, and metabolic diseases.
From fiscal 2010, we launched the anti-HIV agent *Tivicay* and other new growth drivers as we succeeded in our transition to a more robust profit-generating business structure. We aim to achieve further transformation by continuing to address healthcare needs.

1850–

1878
Company founded
- Gisaburo Shiono, Sr., founder of the Company, launched Shiono Gisaburo Shoten as a drug wholesaler at the present site of the head office, Doshomachi, Osaka.

Founder Gisaburo Shiono, Sr.
(1854-1931)
Gisaburo Shiono, Sr. was born in 1854 in Doshomachi, Osaka. He learned the wholesale trade under the guidance of his father Kichibe, and launched his own drug wholesaling business in Doshomachi on his 24th birthday, on March 17, 1878. This wholesaler was the predecessor of Shionogi & Co., Ltd.

1886
From Japanese medicine to Western medicine
- Shionogi switches its focus to imported Western drugs.

1897
- Shionogi starts to deal directly with trading firms in Europe and the US.

1900–

1909
From Western medicine to new drugs
- ***Antacidin*, an antacid agent, was launched as the first drug produced.**
- Registered the corporate emblem FUNDOH.

(FUNDOH from the Edo era)

Shionogi's corporate emblem

1910
- Constructed the Shiono Seiyakusho manufacturing plant.
  The seeds of our current SGS2020 vision – Grow as a drug discovery-based pharmaceutical company.

1919
- Shiono Gisaburo Shoten and Shiono Seiyakusho were merged and the new company was named Shionogi Shoten Co., Ltd.

1922
- Constructed the Kuise Plant (now the Kuise office).

1924
- Constructed new head office in Doshomachi, Osaka (rebuilt in 1993).

1943
- Renamed the Company Shionogi Seiyaku K.K. (now Shionogi & Co., Ltd.).

1946
- Developed the Aburahi Laboratories (now the Aburahi Facilities).
  Initiative launched to protect endangered plant species and rare plants.

1947
- Formation of Shionogi Seiyaku's women's softball team

1950–

1954
- Established the Hoansha Foundation to provide economic support to individuals and businesses involved in pharmaceutical research.

1957
The Company Policy of Shionogi was established.

1959
- **Launched sulfonamide drug *Shinomin*.**

1963
- Established Taiwan Shionogi & Co., Ltd.

1964
- First episode of Shionogi Music Fair, a TV music program sponsored exclusively by Shionogi.

1968
- Established the Settsu Plant.

1980
- Established the Developmental Research Laboratories (now Shionogi Pharmaceutical Research Center (SPRC)).

1982
- **Launched oxacephem antibiotic *Shiomarin*.**

1983
- Constructed the Kanegasaki Plant.

1988
- **Launched oxacephem antibiotic *Flumarin*.**
- Established the Cell Science Research Foundation to promote cell science research and encourage more researchers to work in the field.

1997
- **Launched cephem antibiotic *Flomox*.**

1998
- Established the Shionogi Charter of Conduct (revised 2012).

2000–

2000– The First Medium-Term Business Plan
Completion of corporate restructuring to concentrate on pharmaceutical business.
Transferred or sold six businesses: drug wholesaling, agrochemical, clinical laboratory, animal health products, industrial chemicals and capsules.

2001
- Established Shionogi USA, Inc. (now Shionogi Inc.).
- Established joint venture Shionogi-GlaxoSmithKline Pharmaceuticals LLC (now Shionogi-ViiV Healthcare LLC). Started joint R&D into HIV drugs.

2003
- **Launched cancer pain analgesic *OxyContin*** (followed by powdered version *OxiNorm* in 2007, injectable version *OxiFast* in 2012).

2005– The Second Medium-Term Business Plan
Established a constant flow of pipeline products through energizing and globalizing R&D.

2005
- **Launched hyperlipidemia treatment *Crestor*.**
- **Launched carbapenem antibiotic *Finibax*.**

2008
- **Launched hypertension treatment *Irbetan*** (followed by combination drug *AIMIX* in 2012, combination drug *IRTRA* in 2013).
- Established the Shionogi Innovation Center for Drug Discovery, a joint research facility with Hokkaido University.
- Acquired Sciele Pharma, Inc. (now Shionogi Inc.).
- **Launched idiopathic pulmonary fibrosis treatment *Pirespa*.**

2010– The Third Medium-Term Business Plan
Launch of multiple products developed globally and real growth.

2010
- **Launched flu drug *Rapiacta*.**
- **Launched SNRI *Cymbalta*.**
- Established the PET Molecular Imaging Center at the Osaka University Graduate School of Medicine.
- Established Shionogi Inc. (Florham Park, New Jersey) as the US group headquarters.
- Established Shionogi Techno Advance Research Co., Ltd.

2011
- Established the Shionogi Pharmaceutical Research Center (SPRC4). Drug discovery research functions consolidated at SPRC.

- Acquired C&O Pharmaceutical Technology (Holdings) Limited, a Chinese pharmaceutical company.

2012
- Established European subsidiary Shionogi Limited (London, UK).

2013
- Established Shionogi Pharmaceutical Technology Limited (Beijing) as a China subsidiary.
- **Launched postmenopausal vulvar and vaginal atrophy treatment *Osphena* in the US.**
- Established Shionogi Singapore Pte. Ltd. as a Singapore subsidiary.

2014– New Medium-Term Business Plan
Shionogi Growth Strategy 2020
Grow as a drug discovery-based pharmaceutical company.

2014
- **Launched HIV treatment *Tivicay*.**

2015
- **Launched anti-HIV agent *Triumeq*.**
- **Launched allergen immunotherapy *Actair*.**
- **Launched thrombocytopenia treatment *Mulpleta*.**

2016– New Medium-Term Business Plan Update to Shionogi Growth Strategy 2020 (SGS2020)
Grow sustainably as a drug discovery-based pharmaceutical company contributing to a more vigorous society through improved healthcare
- Established Shionogi Healthcare Co., Ltd.
- **Launched hyperlipidemia treatment *Crestor* OD tablets.**

2017
- **Launched cancer pain treatment *Methapain*.**
- **Launched ADHD therapeutic agent *Intuniv*.**
- **Launched opioid-induced constipation (OIC) treatment *Symproic*.**
- **Launched chronic cancer pain treatment *OxyContin* TR tablets.**
- Established Shionogi Marketing Solutions Co., Ltd.
- Established Shionogi Pharmacovigilance Center Co., Ltd.
- Established Shionogi Business Partner Co., Ltd.
- Established Shionogi Digital Science Co., Ltd.
- Established Shionogi Administration Service Co., Ltd.
- Established Shionogi Career Development Center Co., Ltd.

2018
- **Launched flu drug *Xofluza*.**
- **Launched thrombocytopenia treatment *Mulpleta* in the US.**
- **Launched anti-HIV agent *Juluca*.**
- Established Shionogi Pharma Co., Ltd.
- Established European subsidiary Shionogi B.V.

Non-financial data

	Mar. 31, 2015	Mar. 31, 2016	Mar. 31, 2017	Mar. 31, 2018	Mar. 31, 2019	Remark
Information on the number of employees (Information about only Shionogi & Co., Ltd. unless otherwise stated)						
No. of employees						
Consolidated	6,059 persons	5,896 persons	5,511 persons	5,120 persons	5,233 persons (4,554 persons)	The figure in parentheses is calculated for domestic consolidated companies.
Shionogi & co., Ltd.	4,139 persons	4,055 persons	3,911 persons	3,677 persons	3,596 persons	
Rate of female employees	28.7%	28.8%	28.8%	27.8%	28.1% (32.2%)	The figure in parentheses is calculated for domestic consolidated companies.
Average age						
Total	41.3 years old	41.4 years old	41.7 years old	41.4 years old	41.7 years old	Excluding seconded persons
Male	41.9 years old	42.1 years old	42.2 years old	41.9 years old	42.2 years old	
Female	39.6 years old	39.8 years old	40.6 years old	40.0 years old	40.4 years old	
Length of service						
Total	17.1 years	17.2 years	17.4 years	17.3 years	17.3 years	Excluding seconded persons
Male	17.0 years	17.1 years	17.1 years	16.9 years	17.1 years	
Female	17.4 years	17.5 years	18.1 years	17.4 years	17.8 years	
Average salary	8,360,225 yen	8,901,271 yen	9,276,750 yen	9,193,748 yen	9,042,130 yen	
No. of new recruits						
Total	98 persons	99 persons	91 persons	110 persons	101 persons	Recruits who will enter the company on April 1 of the following fiscal year
Male	57 persons	57 persons	61 persons	71 persons	59 persons	
Female	41 persons	42 persons	30 persons	39 persons	42 persons	
Turnover rate of recruits enrolled for three years	6.3%	0.0%	6.5%	6.5%	3.0%	Recruit who entered the company on April 1 three years ago
Turnover rate of employees	1.4%	1.4%	1.4%	1.9%	1.6%	Excluding retired persons
No. of labor union members	3,369 persons Rate of union members: 100%	3,396 persons Rate of union members: 100%	2,948 persons Rate of union members: 100%	2,758 persons Rate of union members: 100%	3,012 persons Rate of union members: 100%	
Employment rate of people with disabilities	2.1%	2.1%	2.3%	2.2%	2.0%(2.5%)	As of the end of March. The figure in parentheses is calculated for special cases in affiliated companies. Shionogi Smile Heart Co., Ltd. established in April 2018 and certified as a special subsidiary company in July 2018.
Rate of female managers	7.0%	7.8%	8.4%	8.0%	9.9%(10.0%)	As of April 1 of the following fiscal year.The figure in parentheses is calculated for domestic consolidated companies. Target: 10%(Domestic consolidation at the end of March 2021)
Rate of female heads of organizations	—	5.6%	6.7%	7.7%	8.6%	As of April 1 of the following fiscal year
Rate of female corporate officers	1/12 8.3%	2/13 15.4%	2/12 16.7%	1/14 7.1%	1/13 7.7%	As of April 1 of the following fiscal year
Rate of female members of the Board	0.0%	16.7%	16.7%	16.7%	16.7%	As of April 1 of the following fiscal year
Information on labor management (Shionogi & Co., Ltd.)						
Annual regular working hours for employees	1,860 hours	1,852 hours	1,860 hours	1,860 hours	1,852 hours	
No. of paid holidays	Up to 24 days	Up to 24 days	Up to 24 days	Up to 24 days	Up to 24 days	The number of legal annual holidays based on the Labor Standards Act is up to 20 days.
Average No. of paid holidays taken by employees	14.9 days	13.4 days	13.6 days	12.0 days	12.5 days	
Acquisition rate of childcare leave						
Female	100%	100%	100%	100%	100%	Rate of employees who have taken childcare leave during the year when their baby was born
Male	3.9%	14.8%	17.4%	21.0%	24.2%	
No. of employees who have taken nursing care leave						
Female	1 person	7 persons	4 persons	4 persons	2 persons	Total number
Male	2 persons	0 person	0 person	0 person	0 person	
No. of employees who have worked on short work hours due to child rearing						
Female	174 persons	181 persons	173 persons	162 persons	119 persons	Total number
Male	0 person	4 persons	2 persons	1 person	1 person	
Volunteer leave	2 persons	0 person	0 person	1 person	0 person	From FY 2014
Leave for bone marrow transplant donors	1 person	1 person	1 person	0 person	0 person	From FY 2014
Frequency rate	0.23	0.12	0.25	0.39	0.81	
Severity rate	0.006	0.0001	0.004	0.003	0.018	
Legal violation / Administrative guidance	0 case	0 case	0 case	0 case	4 cases	
Health (Shionogi & Co., Ltd.)						
Smoking rate	20.5%	18.7%	17.1%	16.4%	15.2%	Target: 15% to 16%
Rate of stress check attendance	—	—	94%	94%	96%	Target: 94% or higher
Participation rate in a healthy walk	31.8%	37.1%	35.4%	42.2%	41.5%	Target: 40%
Rate of health checkup attendance	100%	100%	100%	100%	100%	
Rate of employees on leave due to mental disorders	0.7%	0.7%	0.5%	0.4%	0.4%	
Environment (Domestic consolidated companies)						
CO_2 emissions (Scope 1 and 2)	68,194 tons-CO_2	69,420 tons-CO_2	67,764 tons-CO_2	64,370 tons-CO_2	61,866 tons-CO_2	
Energy consumption (Thousand)	1,693GJ	1,697GJ	1,657GJ	1,581GJ	1,522GJ	
Water use (Thousand)	1,583m^3	1,567m^3	1,528m^3	1,389m^3	1,315m^3	
Amount of waste generated	3,509 tons	3,944 tons	3,820 tons	3,486 tons	3,824 tons	
Recycling rate	71%	71%	79%	78%	81%	
Landfill rate	2.0%	2.5%	1.3%	1.0%	0.8%	
Type 1 chemicals designated under the PRTR Act						
Amount used	279 tons	377 tons	289 tons	251 tons	274 tons	
Amount released	50 tons	61 tons	63 tons	35 tons	43 tons	
Amount transferred	170 tons	235 tons	148 tons	177 tons	156 tons	
No. of complaints about the environment	1 case	1 case	1 case	2 cases	1 case	

Corporate information (As of March 31, 2019)

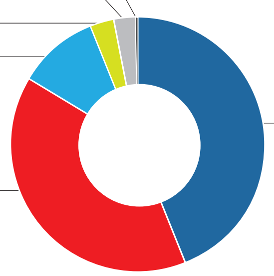
Corporate Data

Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,280 million
Number of Employees Consolidated	5,233
Fiscal Year-End	March 31
Website	http://www.shionogi.co.jp/en/

Investor Information

Stock (Securities) Listings:	Tokyo (#4507) (Shares listed in 1949)
Common Stock Authorized:	1,000,000,000 shares
Issued:	316,786,165 shares
Number of shareholders:	35,768

Shareholder Composition



Note: Treasury stock included in Individuals

Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	36,408	11.69
Japan Trustee Services Bank, Ltd. (Trust account)	20,200	6.48
Sumitomo Life Insurance Company	18,604	5.97
SMBC Trust Bank Ltd. (as a trustee for retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485	3.04
Nippon Life Insurance Company	8,409	2.70
STATE STREET BANK AND TRUST COMPANY 505001	5,859	1.88
Japan Trustee Services Bank, Ltd (Trust account 5)	5,017	1.61
Japan Trustee Services Bank, Ltd (Trust account 7)	5,000	1.60
STATE STREETWEST CLIENT-TREATY 505234	4,970	1.59
Sumitomo Mitsui Banking Corporation	4,595	1.47

Notes:
1. The Company owns 5,498,751 shares of treasury stock but the Company is not included in the major shareholders listed above (top 10).
2. The percentage of total is calculated as the proportion of shares to 311,287,414 shares of total issued stock (excluding 5,498,751 shares of treasury stock).