Financial Results for Fiscal Year 2013 (Consolidated)

May 9, 2014

Name of Listed Company: **SHIONOGI & CO., LTD.** Listed Exchanges: Section I of Tokyo

Code: 4507 URL: http://www.shionogi.co.jp

Representative: Isao Teshirogi, President and CEO

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Scheduled date of Annual General Meeting of Shareholders: June 25, 2014 Scheduled date of dividend payments: June 26, 2014

Scheduled date of annual securities report submission: June 26, 2014

Preparation of supplemental material for financial results: Yes

Holding of presentation for financial results: Yes (for investment analysts)

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

1. Consolidated results for the period from April 1, 2013 to March 31, 2014

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Year ended March 31, 2014	289,717	2.4	63,556	6.7	63,906	8.5	41,831	(37.3)
Year ended March 31, 2013	282,903	5.8	59,565	–	58,922	27.8	66,727	146.2

Reference: Comprehensive income :Year ended March 31, 2014: 70,574 million yen ((21.4)%) Year ended March 31, 2013: 89,762 million yen (204.5%)

	Earnings per share	Earnings per share (diluted)	Return on Equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	*Yen*	*%*	*%*	*%*
Year ended March 31, 2014	124.91	124.85	9.4	11.0	21.9
Year ended March 31, 2013	199.25	199.17	17.5	10.7	21.1

Reference: Equity in earnings (losses) of affiliates: Year ended March 31, 2014:(5) million yen Year ended March31, 2013: (1,594) million yen

Note: The Company has changed its presentation method for litigation expenses from the fiscal year ended March 31, 2014. Operating income for the fiscal year ended March 31, 2013 has been restated to reflect this change. However, the percentage change compared with the same period of the previous fiscal year has been omitted because it has not been calculated. Ratio of operating income to net sales change for the fiscal year ended March 31, 2013 also has been calculated using restated figure for the fiscal year ended March 31, 2013 that reflects this change.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	*Millions of yen*	*%*	*Yen*
As of March 31, 2014	584,803	472,412	80.1	1,398.78
As of March 31, 2013	574,882	423,633	73.1	1,254.44

Reference: Shareholders' equity As of March 31, 2014: 468,442 million yen As of March 31, 2013: 420,110 million yen

(3) Consolidated cash flows

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of period
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*
Year ended March 31, 2014	79,496	(20,040)	(53,798)	108,338
Year ended March 31, 2013	59,276	(19,959)	(37,687)	101,543

2. Dividends

	Dividends per share					Total dividends (Annual)	Payout ratio (consolidated)	Ratio of dividends to net assets
(Date of record)	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Annual			
	yen	*yen*	*yen*	*yen*	*yen*	*Millions of yen*	%	%
Year ended March 31, 2013	–	20.00	–	22.00	42.00	14,065	21.1	3.7
Year ended March 31, 2014	–	22.00	–	24.00	46.00	15,405	36.8	3.5
Year ending March 31, 2015 (forecast)	–	24.00	–	24.00	48.00		48.7	

3. Consolidated financial forecast for the year ending March 31, 2015

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

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Yen*
Six month ending September 30, 2014	130,000	(6.3)	18,500	(35.0)	24,000	(13.8)	16,000	(25.3)	47.78
Year ending March 31, 2015	269,000	(7.2)	45,000	(29.2)	50,000	(21.8)	33,000	(21.1)	98.54

4. Notes

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

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

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

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

c) Changes in accounting estimates: None

d) Restatements: None

Note: For details, please see "3. Consolidated Financial Statements (5) Notes Changes in Accounting Policies, Changes/Restatements of Accounting Estimates" on page 18 of the supplemental materials for the Financial Results for the Fiscal Year 2013 (Consolidated)

(3) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of March 31, 2014:	351,136,165 shares
As of March 31, 2013:	351,136,165 shares

b) Number of treasury stock

As of March 31, 2014:	16,242,701 shares
As of March 31, 2013:	16,236,003 shares

c) Average number of shares issued during the period

As of March 31, 2014:	334,896,392 shares
As of March 31, 2013:	334,900,608 shares

(Reference) Non-consolidated financial results

Non-consolidated results for the period from April 1, 2013 to March 31, 2014

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

	Net sales		Operating income		Ordinary income		Net income(loss)	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Year ended March 31, 2014	259,760	1.5	73,206	10.8	75,211	10.3	55,813	—
Year ended March 31, 2013	255,946	(0.1)	66,068	—	68,205	7.3	(32,014)	—

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Year ended March 31, 2014	166.66	166.57
Year ended March 31, 2013	(95.59)	—

Note: 1.*The Company has changed its presentation method for litigation expenses from the fiscal year ending March 31, 2014. Operating income for the fiscal year ended March 31, 2013 has been restated to reflect this change. However, the percentage change compared with the same period of the previous fiscal year has been omitted because it has not been calculated.*

2.As of March 31, 2013 : Although diluted shares exist, diluted net income per share is not disclosed since there is net loss per share for the period.

(2) Non-consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	*Millions of yen*	*%*	*Yen*
As of March 31, 2014	534,264	437,233	81.8	1,304.97
As of March 31, 2013	511,433	386,509	75.5	1,153.74

Reference: Shareholders' equity As of March 31, 2014: 437,025 million yen As of March 31, 2013: 386,386 million yen

※ *Implementation Status of Audit Procedures*

This Financial Results Report is exempt from the audit procedures stipulated under the Financial Instruments and Exchange Act of Japan. Audit procedures applicable to financial statements stipulated under the Financial Instruments and Exchange Act had not been completed at the time of disclosure of this Financial Results Report.

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

(Cautionary note concerning forward-looking statements)

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

For details of the assumptions used in the forecast of financial results and a cautionary note concerning appropriate use, please refer to "2. Financial forecast for the year ending March 31, 2015" on page 6 of the accompanying materials.

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

Financial results supplementary materials are posted via TDnet on the date of disclosure. The Company plans to hold a results briefing meeting for analysts on Friday, May 12, 2014. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on May 12, 2014 on the Company's website in a timely manner after the results briefing.

CONTENTS

1. Analysis of Financial Results

(1) Analysis of results of operations

1) Results for the fiscal year ended March 31, 2014

a. General overview

As a global R&D-based company, the Shionogi Group has a clear commitment to continuously discovering innovative, highly effective new drugs in order to maintain steady growth, and is strategically developing new drugs in Japan as well as the United States, Europe and Asia.

In the domestic prescription pharmaceuticals market, Japan has become a super-aging society, and the government is accelerating policies to control drug prices, including those to promote the use of generics. In the National Health Insurance (NHI) drug price reductions in April 2014, prices were reduced by an average of approximately 2 percent (including consumption taxes) across the industry. Not only was the institutionalization of the premium for new drug development, which new drug manufacturers had been anxiously awaiting, abandoned, but the revisions contained even stricter provisions, including additional rules for the drug price reductions. On the other hand, new provisions were presented in the pricing rules for new drugs that value innovation to a certain degree, such as the introduction of a premium for pioneer medicines and expansion of pricing by the cost calculation method, indicating the future direction of the Japanese pharmaceutical market. In overseas markets, policies aimed at improving health insurance finances are being advanced primarily in developed countries against a background of aging populations and unstable economic conditions. Meanwhile, newly industrialized markets, which had been expanding rapidly, are showing signs of slowing growth. The operating environment of the pharmaceutical industry is expected to continue to change rapidly on a global scale, and consequently international competition for survival among companies will intensify.

In this operating environment, the Shionogi Group positioned fiscal 2013 as the first year of the Group’s globalization in the Third Medium-Term Business Plan covering the five years ending in fiscal 2015, and worked to fulfill the purpose expressed in the Company Policy – “to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve” – on a global basis.

(ⅰ) Stable Operation and Expansion of Overseas Business

In the four years of the Third Medium-Term Business Plan, the Shionogi Group has made steady progress toward globalization, including the establishment of Shionogi Ltd., a development base in Europe, and the acquisition of Chinese company C&O Pharmaceutical Technology (Holdings) Limited, a base for business in Asia. U.S. subsidiary Shionogi Inc., which experienced volatile business results midway through the plan in transitioning to a business model focusing on new drugs, carried out reforms with a medium-to-long-term perspective under a new management team, and has stabilized its business. In the United States, the world’s largest market, ospemifene (U.S. product name: Osphena™), a treatment for postmenopausal vulvar and vaginal atrophy, was launched in June 2013 as the Shionogi Group’s first global drug. The resources of the entire Shionogi Group have been mobilized to build this drug into a major product in the field of gynecology, an area with significant unmet medical needs (medical needs that are not addressed for reasons including lack of effective treatment). Although Shionogi was unable to reach its first-year sales target, prescriptions are increasing steadily. Sales promotion activities such as informing healthcare providers about the product’s efficacy and safety and a disease education campaign aimed at patients, including television commercials, were carried out smoothly according to the plan set at the beginning of the fiscal year. Therefore, sales expansion is expected in the product’s second year on the market.

(ⅱ) Strengthening the Domestic Prescription Drug Business

In the domestic prescription drug business, with sales of existing products declining due to the NHI drug price revisions and promotion of the use of generics, Shionogi regards eight new drugs as a key to its growth, and has worked to expand their sales by positioning them as strategic products. As a result, the share of these eight strategic products in total domestic sales of prescription drugs expanded markedly to 55.2 percent in fiscal 2013, compared with 28.9 percent in fiscal 2009, the final year of the Second Medium-Term Business Plan, which drove an overall increase in sales of prescription drugs. For the Shionogi Group as a whole, sales increased slightly over the previous fiscal year, and operating income and ordinary income reached record levels for the second consecutive year.

(ⅲ) Results in Research and Development

In research and development, the anti-HIV drug dolutegravir, for which Shionogi's former co-development partner ViiV Healthcare Ltd. (ViiV) of the United Kingdom filed for approval in the United States, Europe and Canada at the end of 2012, obtained approval in all of these areas, starting with the United States in August 2013. Sales through ViiV are now under way. Dolutegravir has gained strong market acceptance, and is positioned as a first-line option for treatment-naive patients in the U.S. HIV treatment guidelines. In March 2014, approval was also obtained in Japan, where ViiV and Shionogi are co-promoting the product to healthcare providers.

Regarding the transfer of rights from Shionogi to ViiV of dolutegravir , which is expected to become a major product, Shionogi will receive dividends related to its participation in ViiV management as a shareholder with a 10 percent equity stake under the agreement framework with ViiV that was revised in 2012. In addition, Shionogi retains rights to royalties at a fixed percentage of sales.

(ⅳ) Response to Crestor Royalties

The Shionogi Group's most significant business challenge had been the loss of royalty revenue that was set to occur when the patents for the anti-hyperlipidemia treatment Crestor expired in 2016 and 2017 (the "Crestor Cliff"). To respond to that challenge, in addition to the aforementioned changes to the terms of the agreement for the anti-HIV drug dolutegravir, Shionogi adjusted its royalty agreement for Crestor in December 2013 with UK-based AstraZeneca, which markets Crestor globally. Under the new agreement, the royalty rate from 2014 to 2016 is reduced by a low single-digit number from the previous rate, and the period of royalty payments, which would have ended in 2016 under the previous agreement, is extended by seven years until 2023. In addition, Shionogi will receive a fixed minimum annual royalty payment in the low hundreds of million dollars from 2014 to 2020. These revisions to the agreement will enable Shionogi to secure a stable revenue base over the medium to long term.

Consolidated operating results

Millions of yen

	Net sales	Operating income	Ordinary income	Net income
Year ended March 31, 2014	289,717	63,556	63,906	41,831
Year ended March 31, 2013	282,903	59,565	58,922	66,727
Percentage increase	2.4	6.7	8.5	(37.3)

Note: The Company has changed its presentation method for litigation expenses from the fiscal year ending March 31, 2014. Operating income for the fiscal year ended March 31, 2013 has been restated to reflect this change. Percentage change comparing annual operating income for the fiscal year ending March 31, 2014 with annual operating income for the fiscal year ended March 31, 2013 also has been calculated using restated figure for the fiscal year ended March 31, 2013 that reflects this chan.

b. Sales

Net sales increased 2.4 percent year on year to ¥289.7 billion.

Billions of yen

	FY2012 Results	FY2013 Results	Change	change %
Sales	282.9	289.7	6.8	2.4
Prescription drugs	165.7	168.3	2.6	1.5
Export/Overseas subsidiaries	30.6	34.0	3.4	11.1
Shionogi INC.	17.0	21.4	4.4	26.0
C&O	5.8	5.9	0.1	1.0
Royalty income	69.8	70.7	0.9	1.2
CRESTOR	63.0	65.7	2.7	4.3

(ⅰ) Domestic Sales of Prescription Drugs

Domestic sales of prescription drugs increased. Sales of eight strategic products centered on anti-hyperlipidemia treatment Crestor, hypertension treatment Irbetan, and antidepressant drug Cymbalta increased 10.3 percent year on year to ¥92.9 billion, which compensated for lower sales of existing products.

(ⅱ) Exports and Overseas Subsidiary Sales

Export and overseas subsidiary sales increased ¥3.4 billion as existing products made a steady contribution to sales at Shionogi Inc. and ospemifene was launched. In addition, Shionogi sold the rights to its non-steroidal anti-inflammatory drug Naprelan ahead of its imminent patent expiration.

(ⅲ) Royalty Income

Global sales of Crestor by AstraZeneca decreased, but royalty income increased on a yen basis due in part to the weakening of the yen. Overall, royalty income increased ¥70.7 billion year on year.

c. Income

Operating income increased 6.7 percent year on year to ¥63.6 billion. Ordinary income increased 8.5 percent year on year to ¥63.9 billion.

Operating income increased because of the increase in gross profit reflecting growth in net sales and efforts to improve the gross margin. In addition, the increase in costs from investment in new products at Shionogi Inc. was limited by ongoing Company-wide cost reductions. Ordinary income increased partly because of foreign exchange gains from the weakening of the yen.

Net income on a consolidated basis decreased 37.3 percent year on year to ¥41.8 billion. This was due to a large decrease in taxes and other expenses on a non-consolidated basis related to a loss on valuation of the stock of Shionogi Inc. in the previous fiscal year.

d. Research and Development

The Shionogi Group has produced steady results in conducting research and development activities to achieve world-class research productivity and to quickly supply pharmaceuticals to global markets under its Third Medium-Term Business Plan. The Group is also continuously introducing products and technologies for future business expansion.

In the area of research in the Third Medium-Term Business Plan, Shionogi has been reinforcing its strength in discovering small molecule drugs as well as taking on the challenge of discovering large molecule drugs utilizing various leading-edge technologies. As a result, Shionogi has continuously created innovative, high-quality drug candidates, generating 12 potential new drugs in four years. In addition, Shionogi achieved its goal of reaching clinical POC(Proof of Concept: Proof in clinical trials that the compound's concept (site and mechanism of action), including efficacy and safety, is reasonable as a treatment for the target disease.) for over 50 percent of its drug candidates. In the area of development, new products generated by Shionogi Pharmaceutical Research Center (SPRC), where research functions are concentrated, quickly advanced through preclinical testing and reached clinical POC. In addition, Shionogi has evolved into an organization capable of conducting phase II and later clinical trials globally and filing for regulatory approval worldwide. The most significant achievement has been obtaining approval for ospemifine and dolutegravir in multiple countries. Ospemifine is the first drug containing a new active ingredient developed by Shionogi to obtain approval from the FDA, and is currently under review for approval in the Europe. Dolutegravir, which has gained approval in the United States, Europe, Japan, Canada and other countries, was filed for approval based on testing conducted in co-development by ViiV and Shionogi, and its approval is the result of that co-development.

(ⅰ) Research Activities

SPRC, the backbone of the Shionogi Group's research functions, has continued to energetically conduct activities aimed at strengthening cooperation within Shionogi's research organization, increasing candidates for development and improving the success rate in moving from non-clinical to clinical trials. As concrete results, S-010887, an analgesic agent for neuropathic pain with a novel mechanism of action, and S-237648, which is expected to demonstrate a high level of efficacy and safety as the successor product of obesity treatments S-2367 and S-234462, both advanced into new clinical stages. In addition, SPRC created an oral anti-influenza treatment with a novel mechanism of action as a development candidate using the knowledge on antiviral drug research cultivated in the creation of dolutegravir. Moreover, the Shionogi Group energetically collaborates with universities and research institutions in Japan and around the world to sustain the discovery of innovative new drugs.

(ⅱ) Development Activities

In October 2013, Shionogi filed for approval in the United States and Europe through ViiV for a single-tablet regimen containing the anti-HIV drug dolutegravir, an HIV integrase inhibitor approved globally in 2013, and the anti-HIV drugs abacavir and lamivudine, which have different modes of action from dolutegravir (both are nucleoside reverse transcriptase inhibitors). Combination therapy that includes two nucleoside reverse transcriptase inhibitors is a first-line treatment option in the current HIV treatment guidelines. Therefore, this single-tablet compound, which enables treatment with once-daily dosing, is expected to improve convenience for patients and contribute substantially to HIV treatment, which requires long-term adherence to therapy.

The Shionogi Group is steadily moving forward with development of compounds in its strong pipeline, including S-297995, which is in late-stage development for alleviation of opioid-induced adverse effects, and S-888711 for thrombocytopenia. S-297995 is the first proprietary drug candidate that Shionogi has advanced to global Phase III clinical trials independently. Administration of the drug began in fall 2013, and development is progressing smoothly. Phase III clinical trials of S-888711 also started in Japan in fall 2013, and the start for overseas clinical trials is cocurrently under consideration. The Shionogi Group will continue to move forward with faster, more effective development in Japan, the United States, Europe and Asia to enable the rapid supply of medicines that patients need to global markets.

(ⅲ) In-Licensing of Products and Technologies

In addition to research and development, the Shionogi Group actively in-licenses products and technologies for future business development. In the area of pain, one of the targeted therapeutic areas in the Third Medium-Term Business Plan, the Shionogi Group concluded a license agreement with Mundipharma in November 2013 for the exclusive rights to develop, manufacture and commercialize that company's opioid pain treatments (prescription narcotics) tamper-resistant OxyContin tablets and Oxycodone/Naloxone Combination tablets in Japan. Tamper-resistant OxyContin tablets are a formulation of the prescription narcotic OxyContin® that has been modified to prevent it from being used improperly for non-medical uses. Oxycodone/Naloxone Combination tablets are an abuse-deterrent formulation that provide the pain relief of oxycodone while alleviating its adverse effects on the digestive system.

Abuse of prescription narcotics is a social problem in various countries, particularly the United States. The FDA has announced that it will not accept or approve applications for generic versions of original formulations, which have been deemed as having the potential for abuse, without abuse-deterrent measures such as making the drug difficult to pulverize or dissolve. In Japan, the use of OxyContin® tablets is limited to cancer pain, but the Ministry of Health, Labour and Welfare has requested development of this drug for non-cancer pain, and the Shionogi Group is currently conducting Phase III clinical trials. With this expansion of the drug's indications to non-cancer pain, there are concerns that the risk of abuse will also rise in Japan as recipients of the drug increase. Therefore, the Shionogi Group, which conducts domestic sales of this prescription narcotic, has licensed and started domestic development of both agents.

In a similar initiative, the Shionogi Group concluded a license agreement with U.S. company Egalet Corporation in November 2013 for the development and commercialization of hydrocodone opioid drug candidates that use Egalet's abuse-deterrent technology. Shionogi is in-licensing this technology for the purpose of fortifying its pipeline of pain medications in its overseas business. The technology is expected to have a synergistic effect in development and commercialization of S-297995, on which Shionogi is currently conducting multiple global Phase III clinical trials as a medicine that alleviates the side effects commonly induced by opioid pain medications. The Shionogi Group is committed to providing new treatment options to meet social and medical needs in the area of pain, one of its targeted therapeutic areas.

e. Capital Investment

Shionogi Group capital investment for the fiscal year ended March 31, 2014 totaled ¥9.0 billion. The Group's primary investments were construction of a new animal breeding building at the Aburahi Facilities and a new injectable drug manufacturing facility by C&O Pharmaceutical Technology (Holdings) Limited.

2) Financial forecast for the year ending March 31, 2015

The financial forecast for the year ending March 31, 2015 is as follows.

Millions of yen

	Net sales	Operating income	Ordinary income	Net income
Year ending March 31, 2015	269,000	45,000	50,000	33,000
Year ended March 31, 2014	289,717	63,556	63,906	41,831
Percentage increase (decrease)	(7.2)	(29.2)	(21.8)	(21.1)

Regarding net sales, due to the December 2013 modification of the agreement with AstraZeneca on the royalties Shionogi receives for Crestor, the royalty period was extended, but the amount of royalties received in the fiscal year ending March 31, 2015 will decrease substantially. In the domestic prescription drug business, the Shionogi Group will continue to expand sales of strategic products, but sales are projected to decrease slightly due to the NHI drug price revision in April 2014. As a result, the Shionogi Group expects a decrease in net sales.

With the substantial decline in royalty income from Crestor, a decrease in profits will be unavoidable. However, the Group will work to minimize the decrease by controlling total expenses, including cost of sales, while maintaining active research and development.

(2) Analysis of financial position

1) Assets, liabilities and net assets

As of March 31, 2014, total assets increased ¥9,920 million from a year earlier to ¥584,803 million. Current assets decreased ¥13,715 million from a year earlier, largely due to an increase in cash and deposits and decreases in deferred tax assets and income taxes receivable (included in "Other" current assets). Non-current assets increased ¥23,636 million from a year earlier, mainly because of a gain on valuation of investment securities.

Total liabilities decreased ¥38,858 million from a year earlier to ¥112,390 million. Current liabilities decreased ¥19,538 million due to the decrease in repayment of loans and the reclassification of the current portion of bonds from non-current to current liabilities. Non-current liabilities decreased ¥19,320 million, mainly because of the decrease due to the aforementioned reclassification of bonds payable.

Net assets increased ¥48,779 million from a year earlier to ¥472,412 million. Shareholders' equity increased ¥27,081 million from a year earlier, mainly because of a net increase in retained earnings after addition of net income and deduction of dividends. Accumulated other comprehensive income increased ¥21,249 million from a year earlier due to the impact of exchange rates and stock prices. Subscription rights to shares increased ¥84 million to ¥207 million and minority interests increased ¥363 million to ¥3,762 million.

2) Cash flows

For the fiscal year ended March 31, 2014, net cash provided by operating activities increased ¥20,219 million compared with the previous fiscal year to ¥79,496 million. The increase was mainly due to cash received from income tax refund in addition to the increase in income before income taxes and minority interests.

Absent the purchases of property, plant and equipment in connection with the construction of a beta lactam injectable drug facility and a new production facility for high-potency active pharmaceutical ingredients in the fiscal year ended March 31, 2013, net cash used in investing activities increased ¥80 million compared with the previous fiscal year to ¥20,040 million, despite factors such as the purchase of government bonds.

Net cash used in financing activities increased ¥16,111 million compared with the previous fiscal year to ¥53,798 million, mainly due to repayment of long-term loans payable.

As a result, cash and cash equivalents at the end of the fiscal year increased ¥6,795 million from the end of the previous fiscal year to ¥108,338 million.

Cash flow indicators

	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014
Net worth ratio	63.2%	62.7%	65.9%	73.1%	80.1%
Net worth ratio on market value basis	110.1%	90.8%	73.4%	113.2%	109.5%
Interest-bearing liabilities/ Cash flow ratio	2.3	1.9	1.7	1.2	0.4
Interest coverage ratio (times)	35.0	37.9	44.5	55.0	87.3

Notes: *Net worth ratio: Total net assets/Total assets*

Net worth ratio on market value basis: Total market value of stock/Total assets

Interest-bearing liabilities/Cash flow ratio: Interest-bearing liabilities/ Net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities/Interest expense

1. *All indicators are calculated on a consolidated basis.*
2. *Total market value of stock is calculated based on the total number of shares outstanding excluding treasury stock.*
3. *Net cash provided by operating activities is as reported in the consolidated statements of cash flows.*
4. *Interest-bearing liabilities are liabilities stated on the consolidated balance sheets on which interest is paid.*

(3) Fundamental policy on the appropriation of retained earnings and cash dividends for the fiscal years ended March 31, 2014 and ending March 31, 2015

Among the results of our recent initiatives, the Shionogi Group clarified the future revenue outlook by adjusting the agreement framework with ViiV of the United Kingdom on an anti-HIV drug in October 2012, and extended the royalty period and further stabilized future revenues with the modification of the agreement with AstraZeneca on Crestor royalties in December 2013. As a result, the Shionogi Group has amended its policy on dividends. Going forward, the Group will take dividends on equity or net assets (DOE) into account in returning profits to shareholders with the aim of steadily increasing the dividend amount in proportion to growth.

Based on the policy above, and in view of results for the fiscal year, Shionogi plans to pay a year-end dividend of 24 yen per share for the fiscal year ended March 31, 2014. Together with the interim cash dividend, Shionogi will therefore pay annual cash dividends of ¥46 per share. DOE is expected to be 3.5 percent.

2. Management policy

(1) Fundamental management policy

Shionogi's corporate philosophy is to "constantly strive to provide medicine of the best possible kind essential for protection of people's health." For this purpose, we must create and manufacture progressively better pharmaceuticals, while ensuring that as many people as possible know about and use them. To accomplish this goal, we believe that having all of Shionogi's people improve technologies day by day enables us to contribute to expanding the benefits we offer our customers, shareholders, business partners, society, our employees, and all our other stakeholders.

(2) Management strategy and challenges ahead

In executing its Third Medium-Term Business Plan for the five years ending March 31, 2015, the Shionogi Group has been establishing the foundation to overcome the "Crestor Cliff" that was approaching in 2016 and achieve continued growth by taking various measures to respond to the slowing global economy and rapid changes in the external environment such as large swings in foreign exchange rates. These measures have included establishing a new framework for the agreement on anti-HIV drugs with ViiV and the modification of the Crestor royalty structure with AstraZeneca. As a result, the management issues that the Group needs to address going forward have changed. Therefore, the Group ended the Third Medium-Term Business Plan one year ahead of schedule and made a fresh start in April 2014 by formulating a new Medium-Term Business Plan, Shionogi Growth Strategy 2020 (SGS2020), which sets out a clear growth vision leading up to fiscal 2020, ending March 31, 2021.

The Shionogi Group's top priority is addressing the urgent task of overcoming the "Crestor Cliff," which was moved forward from fiscal 2016 to fiscal 2014 with the modification of the agreement with AstraZeneca in December 2013, and shifting to a new growth stage. Furthermore, the Group believes that stricter management of the business plan is necessary to link it to consistent growth while responding quickly to rapid changes in the operating environment. Accordingly, in executing SGS2020, the Shionogi Group will confirm results and progress each year and set clear objectives to be accomplished over the next three years on a rolling basis.

To achieve its targets for fiscal 2020, the Shionogi Group will make unified efforts to expedite measures to address management issues and enable growth as a globally competitive, drug discovery-based pharmaceutical company. The basic strategies of SGS2020 are as follows.

1) Top-line Growth

By improving efficiency with a strategy of selection and concentration, the Shionogi Group will work to create first-in-class (FIC)[1] and last-in-class (LIC)[2] pharmaceutical products that will drive future growth.

External environmental factors that we consider significant going forward are the rapid aging of society on a global scale, financial pressures on the health insurance systems of developed countries, and the uncertain economic conditions in emerging countries. With ospemifene and dortegravir in the early stages of marketing and global drug candidates such as S-297995 expected to be approved and launched after fiscal 2017, the Shionogi Group also must address internal challenges, increasing its ability to nurture growth drivers, strengthening its sales force for new drugs to be marketed worldwide, and securing the ability to generate earnings without depending on royalties. Given these challenges, we will promote selection and concentration, including rigorous control of costs, as we transition from overcoming the "Crestor Cliff" to a growth track led by new products. We have identified Japan and the United States as the markets that will drive the Shionogi Group's growth over the next three years. We will focus on strengthening domestic business in our home market and showing real growth in the U.S., where the Group has changed to a business focused on new drugs. We will select and concentrate operating resources on the unmet medical needs of the present, near future and future as our therapeutic areas of focus for research, development and sales activities during the next three years.

The specific areas selected for research and development for the near future are infectious diseases (drugs for viral and severe bacterial infections, and contributing to the anti-infective needs of emerging markets) and pain/neurology (opioid pain relievers, chronic pain drugs, etc.). We will work to create innovative new drugs to maximize the potential of existing products and strengthen our product lineup. To meet the medical needs of the future, particularly those created by the rapid aging of society, we will focus on research on obesity & geriatric metabolic disease and cancer & immunological disease, which will lead to continued growth after 2020.

To make sure that we satisfy medical needs, we believe that we must take a proactive and flexible approach to strengthening our pipeline not only through our own research but also by incorporating external research assets and drug discovery technologies. Accordingly, we established the Global Innovation Office (GIO) to unify functions for strengthening discovery and in-licensing of promising lead compounds and technologies. This will allow us to broaden our search for lead compounds with good potential while carrying out our strategy of selection and concentration.

Through these activities, the Shionogi Group will create world-class FIC and LIC drugs to realize medium-to-long-term growth.

Note:1.First in Class (FIC): Innovative medicines with particularly high novelty and efficacy that can change the existing therapeutic paradigm significantly
2.Last in Class (LIC): Unrivaled medicines with clear superiority over others with the same mechanism of action

2) Bottom-line Growth

Shionogi's basic strategy for enhancing its business operations on a continuing basis focuses upon the appropriate allocation of resources (human and financial) according to our growth stage. In the near term, we will maintain the current resource level while improving productivity per employee, after which we will expand our resources in accordance with our growth potential.

Strengthening head office functions will be essential to accelerate growth. In particular, we will focus on strengthening strategy planning and implementation and establish a support structure to facilitate quick and accurate decision-making by senior management. In addition, we will further enhance development of human resources who will be the key to Shionogi's growth. Our senior executives are committed to human resource development and dedicated to the continuous education of our employees in order to bring forth new leaders who can drive business innovation while maintaining full commitment to our mission to meet the challenges and needs of the society we serve. In response to the ever-changing conditions of the external environment, we will continue to develop each generation of employees with the goal that they will become leaders with the aforementioned capabilities, as such future leaders are our most important asset.

We will also return profits to shareholders by continually strengthening our business operations to maximize profit and implementing a dividend policy to share our growth with shareholders starting in fiscal 2014.

Financial Goals of [SGS2020] (Consolidated)

	FY2013 (result)	FY 2020 (Target)
Net sales	289.7 billion yen	500billion yen
R&D expenses	51.9 billion yen	100billion yen
Ordinary income	63.9 billion yen	125billion yen
ROE (Return on equity)	9.4%	15%

To actualize its Company Policy – "to strive constantly to supply the best possible medicine to protect the health and well-being of the patients we serve" – on a global basis, the Shionogi Group will grow as a drug discovery-based pharmaceutical company and to contribute to the growth and advancement of the Japanese economy as a global pharmaceutical company that is trusted by patients, their families, healthcare providers and other stakeholders.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2013	As of March 31, 2014
Assets		
Current assets		
Cash and deposits	*1 21,575	*1 34,238
Notes and accounts receivable-trade	67,908	64,290
Short-term investment securities	84,432	80,100
Merchandise and finished goods	26,531	24,005
Work in process	14,024	11,425
Raw materials and supplies	8,771	12,938
Deferred tax assets	21,035	10,197
Other	22,577	15,957
Allowance for doubtful accounts	(12)	(24)
Total current assets	266,845	253,130
Non-current assets		
Property, plant and equipment		
Buildings and structures	119,342	119,043
Accumulated depreciation	(72,688)	(72,826)
Buildings and structures, net	46,654	46,216
Machinery, equipment and vehicles	80,982	83,343
Accumulated depreciation	(72,903)	(73,370)
Machinery, equipment and vehicles, net	8,079	9,972
Land	9,769	9,755
Construction in progress	7,524	6,864
Other	36,894	37,797
Accumulated depreciation	(30,448)	(31,629)
Other, net	6,446	6,168
Total property, plant and equipment	78,473	78,976
Intangible assets		
Goodwill	40,293	42,878
Sales rights	24,048	24,355
Other	6,123	5,590
Total intangible assets	70,464	72,824
Investments and other assets		
Investment securities	*2 122,628	*2 149,519
Prepaid pension cost	25,272	—
Net defined benefit assets	—	19,047
Deferred tax assets	5,732	8,015
Other	5,555	3,379
Allowance for doubtful accounts	(90)	(90)
Total investments and other assets	159,098	179,871
Total non-current assets	308,036	331,673
Total assets	574,882	584,803

Millions of yen

	As of March 31, 2013	As of March 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable-trade	10,734	9,627
Short-term loans payable	7,500	—
Current portion of long-term loans payable	31,500	—
Current portion of bonds	—	20,000
Income taxes payable	1,146	12,392
Provision		
Provision for bonuses	7,134	7,071
Provision for sales returns	6,459	4,320
Other provision	26	21
Total provisions	13,620	11,413
Other	*1 33,706	*1 25,236
Total current liabilities	98,207	78,669
Non-current liabilities		
Bonds payable	20,000	—
Long-term loans payable	10,027	10,034
Deferred tax liabilities	12,756	12,627
Provision for retirement benefits	8,995	—
Net defined benefit liabilities	—	9,967
Other	1,262	1,091
Total non-current liabilities	53,041	33,721
Total liabilities	151,249	112,390
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,227
Retained earnings	407,007	434,103
Treasury stock	(19,741)	(19,756)
Total shareholders' equity	428,772	455,854
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	16,055	25,289
Deferred gains or losses on hedges	(450)	—
Foreign currency translation adjustment	(24,267)	(6,113)
Remeasurements of defined benefit plans	—	(6,588)
Total accumulated other comprehensive income	(8,662)	12,587
Subscription rights to shares	123	207
Minority interests	3,399	3,762
Total net assets	423,633	472,412
Total liabilities and net assets	574,882	584,803

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

Consolidated statements of income

Millions of yen

	Year ended March 31, 2013	Year ended March 31, 2014
Net sales	282,903	289,717
Cost of sales	[*1] 78,574	[*1] 77,993
Gross profit	204,329	211,724
Selling, general and administrative expenses	[*2, *3] 144,764	[*2, *3] 148,167
Operating income	59,565	63,556
Non-operating income		
Interest income	381	376
Dividends income	1,691	1,690
Foreign exchange gains	1,377	1,662
Other	770	1,059
Total non-operating income	4,220	4,789
Non-operating expenses		
Interest expenses	1,123	888
Contribution	1,363	1,413
Litigation expenses	716	1,235
Other	1,660	902
Total non-operating expenses	4,863	4,439
Ordinary income	58,922	63,902
Extraordinary income		
Gain on sales of non-current assets	[*4] 228	[*4] 4,203
Gain on sales of investment securities	1,018	554
Gain on exchange of investment securities	40,433	—
Total extraordinary income	41,680	4,757
Extraordinary loss		
Impairment loss	[*5] 40,835	[*5] 878
Business structure improvement expenses	—	[*6] 840
Settlement package	[*7] 489	[*7] 651
Loss on penalty	158	[*8] 500
Loss on disposal of non-current assets	—	[*9] 471
Loss on valuation of inventories	—	[*10] 451
Loss on sales of non-current assets	[*11] 329	—
Loss on disaster	[*12] 269	—
Loss on valuation of investment securities	124	—
Special retirement expenses	[*13] 89	—
Total extraordinary losses	42,296	3,794
Income before income taxes and minority interests	58,306	64,869
Income taxes-current	763	11,561
Income taxes-deferred	(9,295)	11,375
Total income taxes	(8,531)	22,937
Income before minority interests	66,838	41,932
Minority interests in income	110	101
Net income	66,727	41,831

Consolidated statements of comprehensive income

Millions of yen

	Year ended March 31, 2013	Year ended March 31, 2014
Income before minority interests	66,838	41,932
Other comprehensive income		
Valuation difference on available-for-sale securities	8,326	9,233
Deferred gains or losses on hedges	(309)	450
Foreign currency translation adjustment	14,907	18,957
Total other comprehensive income	* 22,924	* 28,641
Comprehensive income	89,762	70,574
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	89,286	69,669
Comprehensive income attributable to minority interests	475	904

(3) Consolidated statements of changes in net assets

Year ended March 31, 2013

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	21,279	20,227	353,676	(19,746)	375,436
Changes of items during the period					
Dividends from surplus			(13,395)		(13,395)
Net income			66,727		66,727
Purchase of treasury stock				(4)	(4)
Disposal of treasury stock				8	8
Other			(0)		(0)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	53,331	4	53,335
Balance at the end of current period	21,279	20,227	407,007	(19,741)	428,772

Millions of yen

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at the beginning of the period	7,729	(141)	(38,809)	—	(31,220)	58	2,923	347,198
Changes of items during the period								
Dividends from surplus								(13,395)
Net income								66,727
Purchase of treasury stock								(4)
Disposal of treasury stock								8
Other								(0)
Net changes of items other than shareholders' equity	8,326	(309)	14,541	—	22,558	64	475	23,098
Total changes of items during the period	8,326	(309)	14,541	—	22,558	64	475	76,434
Balance at the end of current period	16,055	(450)	(24,267)	—	(8,662)	123	3,399	423,633

Year ended March 31, 2014

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	21,279	20,227	407,007	(19,741)	428,772
Changes of items during the period					
Dividends from surplus			(14,735)		(14,735)
Net income			41,831		41,831
Purchase of treasury stock				(14)	(14)
Disposal of treasury stock					—
Other					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	27,095	(14)	27,081
Balance at the end of current period	21,279	20,227	434,103	(19,756)	455,854

Millions of yen

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at the beginning of the period	16,055	(450)	(24,267)	—	(8,662)	123	3,399	423,633
Changes of items during the period								
Dividends from surplus								(14,735)
Net income								41,831
Purchase of treasury stock								(14)
Disposal of treasury stock								—
Other								—
Net changes of items other than shareholders' equity	9,233	450	18,153	(6,588)	21,249	84	363	21,698
Total changes of items during the period	9,233	450	18,153	(6,588)	21,249	84	363	48,779
Balance at the end of current period	25,289	—	(6,113)	(6,588)	12,587	207	3,762	472,412

(4) Consolidated statements of cash flows

Millions of yen

	Year ended March 31, 2013	Year ended March 31, 2014
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	58,306	64,869
Depreciation and amortization	11,912	12,912
Impairment loss	40,835	878
Amortization of goodwill	3,203	2,713
Loss (gain) on disposal of property, plant and equipment	656	(3,290)
Loss (gain) on sales of investment securities	(1,018)	(554)
Loss (gain) on valuation of investment securities	124	7
Gain on exchange of investment securities	(40,433)	—
Increase (decrease) in provision for retirement benefits	(2,260)	—
Increase (decrease) in net defined benefit liability	—	(3,033)
Interest and dividends income	(2,072)	(2,067)
Interest expenses	1,123	888
Foreign exchange losses (gains)	(1,248)	(1,229)
Decrease (increase) in notes and accounts receivable-trade	(1,705)	4,269
Decrease (increase) in inventories	1,233	773
Increase (decrease) in notes and accounts payable-trade	1,965	(1,268)
Increase (decrease) in accrued expenses	7,986	(2,673)
Increase (decrease) in accounts payable-other	(7,251)	(1,886)
Other, net	6,651	(2,400)
Subtotal	78,006	68,909
Interest and dividends income received	2,072	2,049
Interest expenses paid	(1,076)	(910)
Income taxes (paid) refund	(19,725)	9,448
Net cash provided by (used in) operating activities	59,276	79,496
Net cash provided by (used in) investing activities		
Payments into time deposits	(5,138)	(10,786)
Proceeds from withdrawal of time deposits	5,418	7,397
Purchase of short-term investment securities	(19)	—
Proceeds from sales and redemption of securities	4,032	2,021
Purchase of investment securities	(4,274)	(5,585)
Proceeds from sales of investment securities	3,828	652
Purchase of property, plant and equipment	(12,769)	(6,960)
Proceeds from sales of property, plant and equipment	530	4,723
Purchase of intangible assets	(8,516)	(10,436)
Purchase of stock of affiliates	(2,750)	—
Purchase of investments in subsidiaries	—	(954)
Other, net	(299)	(116)
Net cash provided by (used in) investing activities	(19,959)	(20,040)

Millions of yen

	Year ended March 31, 2013	Year ended March 31, 2014
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	7,500	(7,500)
Proceeds from long-term loans payable	25	—
Repayment of long-term loans payable	(21,500)	(31,500)
Redemption of bonds	(10,000)	—
Purchase of treasury stock	(4)	(14)
Cash dividends paid	(13,377)	(14,718)
Other, net	(330)	(66)
Net cash provided by (used in) financing activities	(37,687)	(53,798)
Effect of exchange rate change on cash and cash equivalents	1,225	1,138
Net increase (decrease) in cash and cash equivalents	2,855	6,795
Cash and cash equivalents at beginning of period	98,687	101,543
Cash and cash equivalents at end of period	*1 101,543	*1 108,338

(5) Notes

Going concern assumption

None

Changes in accounting policies, changes/restatements of accounting estimates

(Changes in Accounting Policies)

Application of Accounting Standard for Retirement Benefits, etc.

Effective from the fiscal year ended March 31, 2014, the Company has adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) (excluding the provisions specified in paragraph 35 of the Accounting Standard for Retirement Benefits and paragraph 67 of the Guidance on Retirement Benefits). The accounting standard and guidance were amended such that the excess of retirement benefit obligations over pension plan assets is recognized as a net defined benefit liability, and the Company recorded previously unrecognized actuarial gains and losses and unrecognized past service cost as net defined benefit liabilities. However, if plan assets exceed retirement benefit obligations, the difference is recognized as a net defined benefit asset in investments and other assets.

The Company has applied the Accounting Standard for Retirement Benefits and the related implementation guidance according to the transitional provisions specified in paragraph 37 of the Accounting Standard for Retirement Benefits. The impact of this change was recognized as an adjustment to remeasurements of defined benefit plan in accumulated other comprehensive income.

As a result, net defined benefit liabilities as of March 31, 2014 were ¥9,967 million, net defined benefit assets were ¥19,047 million, and accumulated other comprehensive income decreased ¥6,588 million.

Net assets per share decreased by 19.67 yen.

Changes in presentation methods

(Consolidated statement of income)

''Loss on disposal of noncurrent assets'' posted under non-operating expenses for the previous fiscal year has been included in "Other" under non-operating expenses from the fiscal year ended March 31,since its amount no longer exceeds 10% of the total amount of non-operating expenses.

In order to reflect this change of presentation, the consolidated statements of income for the previous fiscal year have been reclassified.

As a result, ¥566 million presented as "Loss on disposal of noncurrent assets" under non-operating expenses in the consolidated statements of income for the previous fiscal year have been reclassified as "Other".

Expenses associated with litigation were formerly recognized under selling, general and administrative expenses together with non-litigation legal expenses on the grounds of materiality. However, from the fiscal year ended March 31, 2014, litigation expenses are recognized separately under non-operating expenses.

This change was made because the number of lawsuits involving foreign corporations has increased as Shionogi's business has expanded overseas, the cost of these lawsuits has become material, and the Company expects these expenses to increase going forward as its business becomes more global in scale. Therefore, after an internal review, Shionogi judged that including expenses associated with litigation in non-operating expenses more accurately presents the Company's position.

The Company has restated its consolidated statements of income for the previous fiscal year to reflect this change.

As a result, ¥716 million of the ¥145,480 million in selling, general and administrative expenses has been reclassified as litigation expenses under non-operating expenses in the consolidated statements of income for the previous fiscal year. As a result of this change, operating income for the previous fiscal year increased from ¥58,848 million to ¥59,565 million.

Notes to consolidated balance sheets

*1 Pledged assets and secured liabilities

The assets listed below have been pledged as collateral against borrowings and other debts:

1) Carrying value of pledged assets:

	Year ended March 31, 2013	Year ended March 31, 2014
Cash and deposits	7 million yen	7 million yen

2) Liabilities secured by the above assets:

	Year ended March 31, 2013	Year ended March 31, 2014
'Other' of current liabilities	6 million yen	6 million yen

*2 Stocks etc, of unconsolidated subsidiaries and affiliates

	Year ended March 31, 2013	Year ended March 31, 2014
Investments in securities (stocks etc.)	1,551 million yen	1,617 million yen

3 Guaranteed liabilities

Guarantee of loans from financial institutions and other companies not included in consolidation

	Year ended March 31, 2013	Year ended March 31, 2014
Employee housing loans	9 million yen	6 million yen

Notes to consolidated statements of income

*1 Inventories are stated at net selling value. The following inventory valuation totaling is included in cost of sales.

Year ended March 31, 2013	Year ended March 31, 2014
1,692 million yen	1,303 million yen

*2 The major items and amounts included in selling, general and administrative expenses were as follows:

	Year ended March 31, 2013		Year ended March 31, 2014	
Sales promotional activities	14,668	million yen	16,181	million yen
Salaries	24,244		28,129	
Provision for bonuses	3,804		3,658	
Provision for directors' bonuses	26		21	
Retirement benefit expenses	1,731		1,420	
R & D expenses	53,021		51,924	
[Provision for bonuses]	[2,073]		[2,307]	
[Retirement benefit expenses]	[984]		[795]	

*3 R&D expenses

R&D expenses, which are included in SG&A expenses, were as follows. No R&D expenses are included in production expenses.

Year ended March 31, 2013	Year ended March 31, 2014
53,021 million yen	51,924 million yen

*4 Gain on sales of non-current assets

Year ended March 31, 2013		Year ended March 31, 2014	
Land	228 million yen	Buildings and land	4,203 million yen

*5 Impairment loss

The Shionogi Group recognized asset impairment as follows.

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

Location	Class	Amount
U.S.A	Goodwill	26,371 million yen
U.S.A	Sales rights etc.	14,464 million yen

The Shionogi Group categorizes assets for business operations into groups that are based on the product lines used in management accounting, and categorizes rental and underutilized assets individually.

Upon concluding the agreement concerning anti-HIV drugs with ViiV of the United Kingdom, Shionogi considered reallocation of the management resources of U.S. operations and found impairment of marketing rights and other assets associated with products that Shionogi Inc. handles. Shionogi also found impairment of goodwill due to a change in grouping from the overall prescription drug business to U.S. operations. As a result, the Shionogi Group recognized impairment loss equivalent to the reduction in carrying value to recoverable value required for impaired asset groups.

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

Location	Use	Class	Amount
Aburahi Facilities (Koka, Shiga Prefecture)	Idle assets	Buildings, etc.	312 million yen
Shionogi Pharma Chemicals Co., Ltd., C4 Building (Tokushima, Tokushima Prefecture)	Idle assets	Construction in progress	565 million yen

The Shionogi Group categorizes assets for business operations into groups that are based on the product lines used in management accounting, and categorizes rental and underutilized assets individually.

Shionogi has decided to dismantle assets at the Aburahi Facilities that will become inactive with the construction of a new animal breeding facility. As a result, Shionogi will record an impairment charge equal to the carrying value of these idle assets. In addition, the C4 building located on the premises of consolidated subsidiary Shionogi Pharma Chemicals Co., Ltd., which is a pharmaceutical research and development and production facility owned by Shionogi, has been classified as an idle asset as its original projects were suspended and there are no immediate plans to use it. Shionogi has recorded an impairment charge equal to the carrying value of this asset.

*6 Business structure improvement expenses

Year ended March 31, 2014(April 1, 2013 to March 31, 2014)

This expense is primarily associated with the restructuring of Shionogi Inc. by its sales of the rights of Naprelan®.

*7 Settlement package

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

This expense is attributable to a lawsuit brought against Lupin Ltd.by Shionogi Inc.

Year ended March 31, 2014(April 1, 2013 to March 31, 2014)

This expense is attributable to a lawsuit brought against Cowen Healthcare Royalty Partners by Shionogi Inc.

*8 Loss on penalty

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

This expense is attributable to the termination of the agreement between Shionogi Inc. and CaremarkPCS Health, LLC.

*9 Loss on disposal of noncurrent assets

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

This consists of costs associated with the disposal of idle assets at the Aburahi Facilities.

*10 Loss on valuation of inventories

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

Due to the termination of an agreement for sales of the antibiotic doripenem between the Shionogi Group and Johnson & Johnson, Shionogi has recorded a valuation loss on the portion of inventories transferred to Shionogi that are not available for sale.

*11 Loss on sales of noncurrent assets

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

The Shionogi Group recognized noncurrent asset loss as follows.

Class	amount	
Buildings and structures	205	million yen
Land	57	
Other	66	
Total noncurrent assets	329	

*12 Loss on disaster

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

This expence is the amount assumed not covered by insurance claim in connection with the disposal of inventory by fire in the supplier of Shionogi Inc. in 2011.

*13 Special retirement expenses

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

This expense is attributable to the retirement of Shionogi Inc.

Notes to consolidated statements of comprehensive income

Amount of recycling and amount of income tax effect associated with other comprehensive income

	Year ended March 31, 2013	Year ended March 31, 2014
Valuation difference on available-for-sale securities		
Amount recognized in the period under review	13,792 million yen	11,211 million yen
Amount of recycling	(860)	(547)
Before income tax effect adjustment	12,932	10,664
Amount of income tax effect	(4,606)	(1,430)
Valuation difference on available-for-sale securities	8,326	9,233
Deferred gains or losses on hedges		
Amount recognized in the period under review	(217)	(273)
Amount of recycling	(281)	999
Before income tax effect adjustment	(498)	726
Amount of income tax effect	189	(276)
Deferred gains or losses on hedges	(309)	450
Foreign currency translation adjustment		
Amount recognized in the period under review	15,586	18,957
Amount of recycling	(678)	—
Before income tax effect adjustment	14,907	18,957
Amount of income tax effect	—	—
Deferred gains or losses on hedges	14,907	18,957
Total other comprehensive income	22,924	28,641

Notes to consolidated statement of changes in net assets

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

(1) Type and number of shares in issue and type and number of shares of treasury stock

Shares

	April 1, 2012	Increase	Decrease	March 31, 2013
Shares in issue				
Common stock	351,136,165	–	–	351,136,165
Total	351,136,165	–	–	351,136,165
Treasury stock				
Common stock	16,240,245	2,958	7,200	16,236,003
Total	16,240,245	2,958	7,200	16,236,003

Note: The increase in treasury stock reflects the purchase of odd-lot shares.
The decrease in treasury stock reflects the exercise of subscription rights to shares.

(2) Matters concerning subscription rights and subscription rights owned by the Company

Category	Detail of subscription rights to shares	March 31, 2013
The Company (parent company)	Stock options	123 million yen
Total	–	123 million yen

(3) Dividends

A) Dividend payments

Resolution	Category	Total dividends	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders held on June 27, 2012	Common stock	6,697 million yen	20 yen	March 31, 2012	June 28, 2012
Meeting of Board of directors on Nobember 2, 2012	Common stock	6,698 million yen	20 yen	September 30, 2012	December 3, 2012

B) Dividends whose effective date is subsequent to March 31, 2013

Resolution	Category	Total dividends	Resolution	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 26, 2013	Common stock	7,367 million yen	Retained earnings	22 yen	March 31, 2013	June 27, 2013

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

(1) Type and number of shares in issue and type and number of shares of treasury stock

Shares

	April 1, 2013	Increase	Decrease	March 31, 2014
Shares in issue				
Common stock	351,136,165	–	–	351,136,165
Total	351,136,165	–	–	351,136,165
Treasury stock				
Common stock	16,236,003	6,698	–	16,242,701
Total	16,236,003	6,698	–	16,242,701

Note: The increase in treasury stock reflects the purchase of odd-lot shares.

(2) Matters concerning subscription rights and subscription rights owned by the Company

Category	Detail of subscription rights to shares	March 31, 2014
The Company (parent company)	Stock options	207 million yen
Total	–	207 million yen

(3) Dividends

A) Dividend payments

Resolution	Category	Total dividends	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders held on June 26, 2013	Common stock	7,367 million yen	22 yen	March 31, 2013	June 27, 2013
Meeting of Board of directors on October 31, 2013	Common stock	7,367 million yen	22 yen	September 30, 2013	December 2, 2013

B) Dividends whose effective date is subsequent to March 31, 2014

The following is to be approved at the 149th Annual General Meeting of Shareholders to be held on June 25, 2014.

Resolution	Category	Total dividends	Resolution	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 25, 2014	Common stock	8,037million yen	Retained earnings	24 yen	March 31, 2014	June 26, 2014

Notes to consolidated statements of cash flow

*1. Reconciliation of balance of cash and cash equivalents as of the period end with the amounts reported in the consolidated balance sheets:

	Year ended March 31, 2013		Year ended March 31, 2014	
Cash and deposits	21,575	million yen	34,238	million yen
Time deposits with a maturity exceeding three months	(2,432)		(6,000)	
Cash and cash equivalents including "Marketable securities"	82,400		80,100	
Cash and cash equivalents	101,543		108,338	

2. Details of major non-cash transactions

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

Acquisition of investment securities by contribution in-kind 53,717 million yen

Note: The Shionogi Group received shares of ViiV Healthcare Ltd. in consideration of equity ownership in Shionogi-ViiV Healthcare L.P. (an equity method affiliate) by contribution in-kind.

Notes to segment information

Segment information

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013) and Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

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

Notes to amounts per share

Item	Year ended March 31, 2013	Year ended March 31, 2014
Net assets per share	1,254.44 yen	1,398.78 yen
Earnings per share	199.25 yen	124.91 yen
Earnings per share (diluted)	199.17 yen	124.85 yen

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

Item	Year ended March 31, 2013	Year ended March 31, 2014
Earnings per share		
Net income	*66,727 million yen*	*41,831 million yen*
The amount which is not attributable to ordinary shareholders	–	–
Net income related to common stocks	*66,727 million yen*	*41,831 million yen*
Average number of shares outstanding during the period	*334,900 thousands of stocks*	*334,896 thousands of stocks*
Earnings per share (diluted)		
Adjustments to net income	—	—
Increase of common stock	*125 thousands of stocks*	*167 thousands of stocks*
(Subscription rights to shares)	*125 thousands of stocks*	*167 thousands of stocks*

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

Item	Year ended March 31, 2013	Year ended March 31, 2014
Total net assets	*423,633 million yen*	*472,412 million yen*
Amount deducted from total net assets	*3,522 million yen*	*3,970 million yen*
(Amounts attributed to Subscription rights to shares in total net assets)	*123 million yen*	*207 million yen*
(Amounts attributed to minority interests in total net assets)	*3,399 million yen*	*3,762 million yen*
Net assets at year end available to common stocks	*420,110 million yen*	*468,442 million yen*
Shares outstanding as of the period end	*334,900 thousands of stocks*	*334,893 thousands of stocks*

Important Subsequent Events

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

None

4. Others

Change in Directors (Scheduled on June 25, 2014)

(1) Change in Representative Directors

No change.

(2) Change in other Directors

No change.

The change in Directors will be formally determined at the 149th Annual General Meeting of Shareholders to be held on June 25, 2014.