



# **1<sup>st</sup> Half of Fiscal 2014 Financial Results**

**October 29, 2014**

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# Overview of 1<sup>st</sup> Half FY2014 Financial Results

# Summary of 1H FY2014

**Sales on track**

**Operating income and ordinary income higher than 1H forecasts**

- **Ordinary income: higher than the levels achieved in the 1H of any prior fiscal year (third straight year)**

**Net income exceeded 1H forecast, excluding an allowance recorded as prior period income taxes**

**Accelerating global development of high-priority compounds through clear priorities and focused resourcing (S-297995, S-888711, S-649266, etc. )**

# Financial Results (Consolidated)

(Units: B yen)

|                  | FY2014 forecasts | FY2014        |               | Achievement (%) | FY2013 1H results | Y on Y     |        |
|------------------|------------------|---------------|---------------|-----------------|-------------------|------------|--------|
|                  |                  | 1H forecasts* | 1H results    |                 |                   | change (%) | change |
| Sales            | 269.0            | 130.0         | 129.8         | 99.9            | 138.7             | (6.4)      | (8.9)  |
| Operating income | 45.0             | 18.5          | 22.7          | 122.8           | 27.9              | (18.7)     | (5.2)  |
| Ordinary income  | 50.0             | 24.0          | 31.4          | 130.9           | 27.3              | 15.0       | 4.1    |
| Net income       | 33.0             | 16.0          | 9.7           | 60.7            | 21.1              | (53.9)     | (11.4) |
| Net income       | -                | -             | <b>**23.5</b> | -               | 21.1              | -          | -      |

- Ordinary income level from Apr. to Sep. 2014 is higher than the levels achieved in the 1H of any prior fiscal year (third straight year)

Note:

All numerical values are rounded to the nearest unit.

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

| Exchange rate (average) | FY2014 forecasts | FY2014 1H results |
|-------------------------|------------------|-------------------|
| USD (\$) – JPY (¥)      | 100              | 103.01            |
| EUR (€) – JPY (¥)       | 140              | 138.90            |
| GBP (£) – JPY (¥)       | 165              | 172.73            |

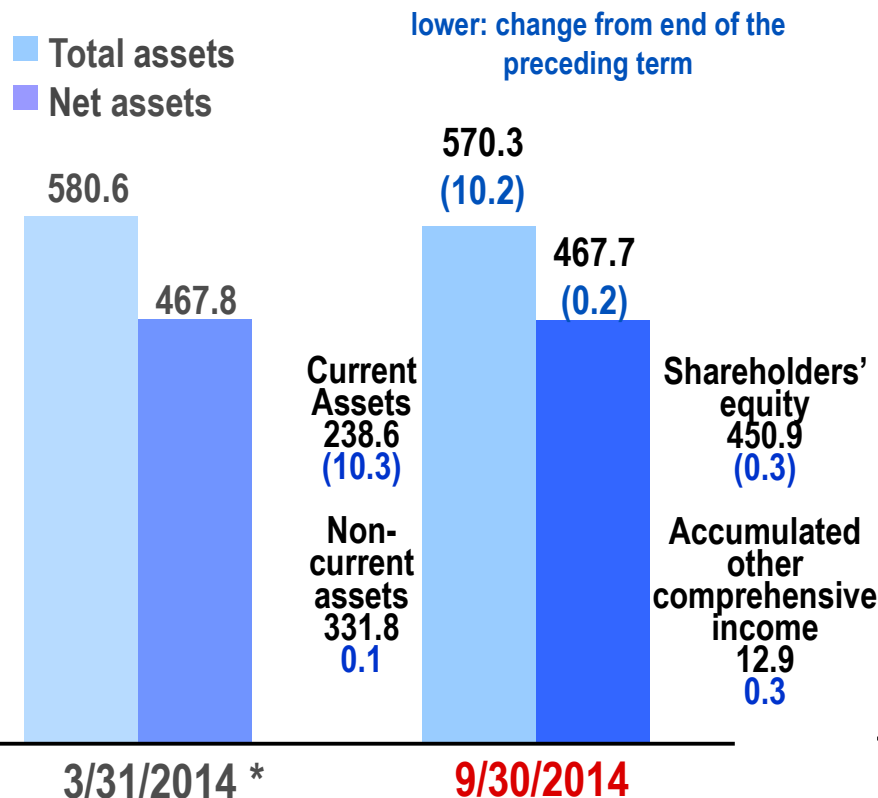
\* The consolidated earnings forecasts announced on May 9, 2014 were written here, and the revisions to the forecasts were announced on Oct. 20, 2014

\*\* Hypothetical net income excluding the additional allowance recorded as prior period income taxes

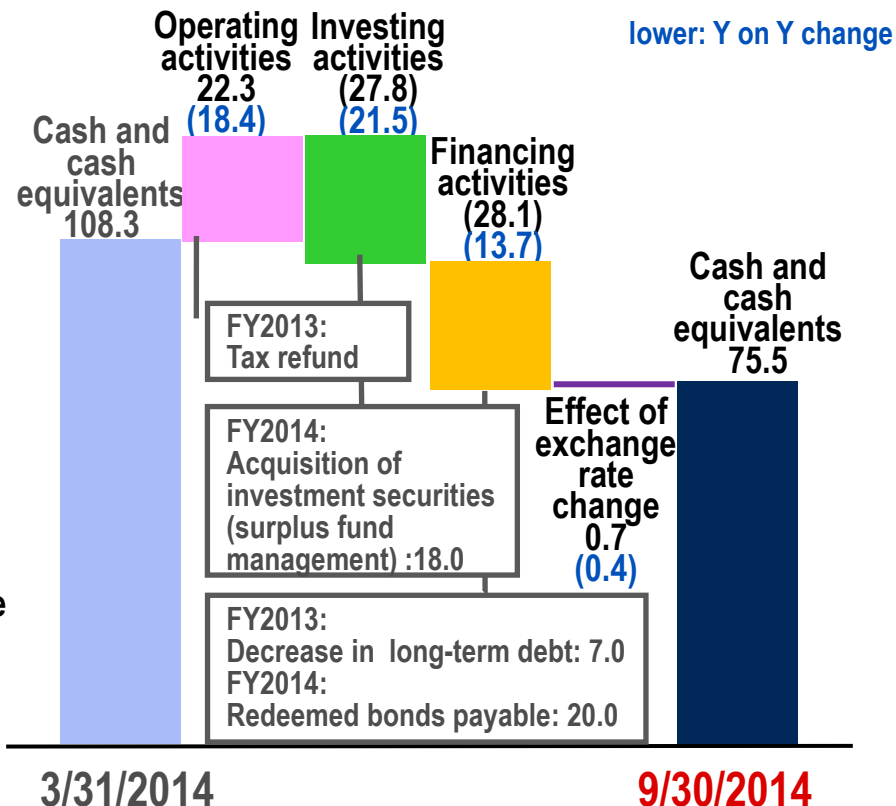
# Financial Position and Cash Flow (Consolidated)

(Units: B yen)

## ◆ Financial Position



## ◆ Cash Flow



|              | 3/31/2014 * | 9/30/2014 |
|--------------|-------------|-----------|
| Equity ratio | 79.9%       | 81.3%     |

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

# Statements of Revenue (Consolidated)

(Units: B yen)

|                               | FY2014       |              | Achievement (%) | FY2013<br>1H results | Y on Y       |              |
|-------------------------------|--------------|--------------|-----------------|----------------------|--------------|--------------|
|                               | 1H forecasts | 1H results   |                 |                      | change (%)   | change       |
| Prescription drugs            | 80.5         | 77.0         | 95.6            | 80.9                 | (4.9)        | (3.9)        |
| Total of 3 key products       | 34.5         | 34.0         | 98.7            | 32.5                 | 4.8          | 1.5          |
| Total of 8 strategic products | 47.3         | 45.7         | 96.6            | 44.4                 | 2.9          | 1.3          |
| Overseas subsidiaries/export  | 15.0         | 14.6         | 97.0            | 15.4                 | (5.2)        | (0.8)        |
| Shionogi Inc.                 | 7.9          | 7.4          | 93.9            | 9.5                  | (22.1)       | (2.1)        |
| Osphena <sup>®</sup>          | 2.5          | 1.7          | 67.5            | a) 0.1               | -            | 1.6          |
| C&O                           | 3.4          | 3.3          | 96.4            | 2.9                  | 12.8         | 0.4          |
| Contract manufacturing        | 4.8          | 6.1          | 126.4           | 5.0                  | 21.1         | 1.1          |
| OTC and quasi-drugs           | 2.4          | 2.5          | 102.2           | 2.3                  | 5.7          | 0.2          |
| Royalty income                | 26.0         | 28.3         | 108.9           | 33.4                 | (15.3)       | (5.1)        |
| Crestor <sup>®</sup>          | 24.2         | 24.4         | 100.8           | 31.2                 | (21.8)       | (6.8)        |
| Others                        | 1.3          | 1.5          | 115.1           | 1.7                  | (12.9)       | (0.2)        |
| <b>Total</b>                  | <b>130.0</b> | <b>129.8</b> | <b>99.9</b>     | <b>138.7</b>         | <b>(6.4)</b> | <b>(8.9)</b> |

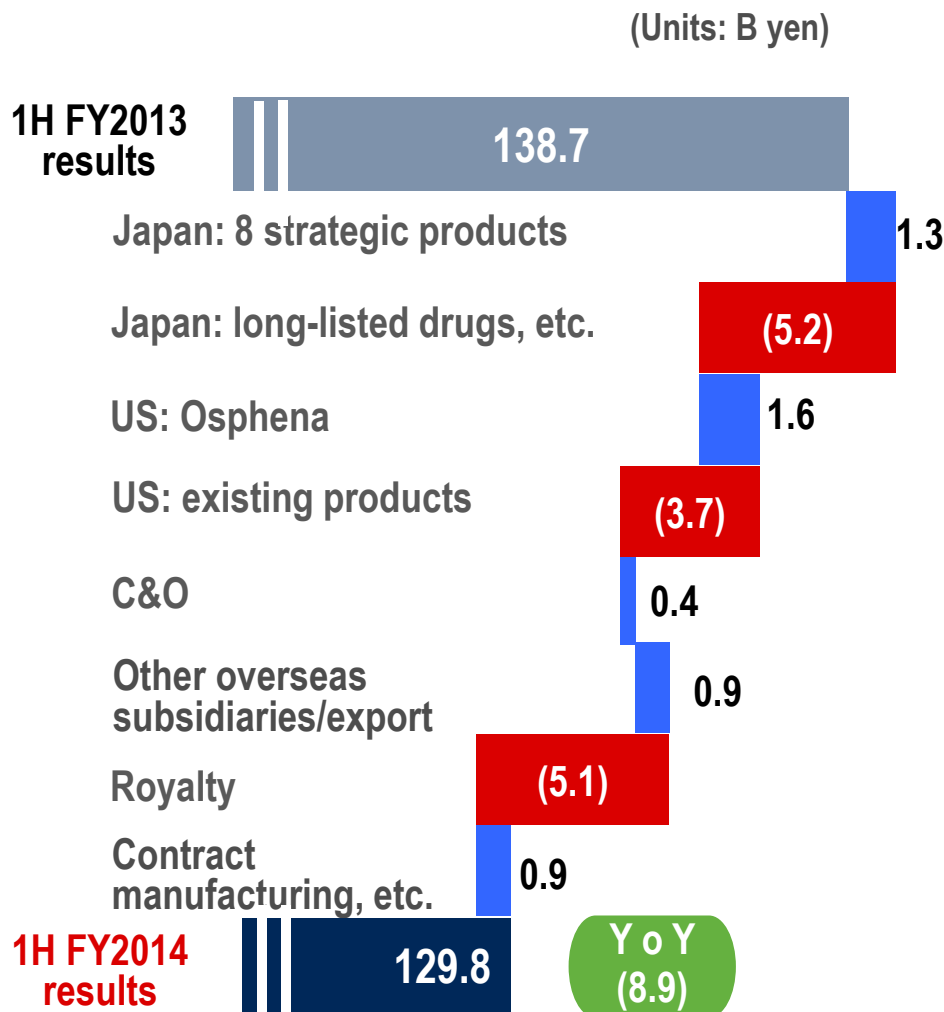
Eight strategic products: Crestor<sup>®</sup>, Irbetan<sup>®</sup> franchise, Cymbalta<sup>®</sup> (3 key products), and OxyContin<sup>®</sup> franchise, Finibax<sup>®</sup>, Differin<sup>®</sup>, Pirespa<sup>®</sup>, Rapiacta<sup>®</sup>

# Japan: Sales of 8 Strategic Products

(Units: B yen)

|                               | FY2014       |            | Achievement (%) | FY2013<br>1H results | Y on Y     |        |
|-------------------------------|--------------|------------|-----------------|----------------------|------------|--------|
|                               | 1H forecasts | 1H results |                 |                      | change (%) | change |
| Prescription drugs            | 80.5         | 77.0       | 95.6            | 80.9                 | (4.9)      | (3.9)  |
| Crestor                       | 21.0         | 21.1       | 100.2           | 20.6                 | 2.3        | 0.5    |
| Irbetan franchise             | 7.3          | 7.5        | 103.1           | 6.7                  | 13.0       | 0.8    |
| Cymbalta                      | 6.2          | 5.5        | 88.2            | 5.2                  | 4.2        | 0.3    |
| Total of 3 key products       | 34.5         | 34.0       | 98.7            | 32.5                 | 4.8        | 1.5    |
| OxyContin franchise           | 5.5          | 5.3        | 96.0            | 5.4                  | (1.7)      | (0.1)  |
| Finibax                       | 2.3          | 1.9        | 84.0            | 2.3                  | (14.8)     | (0.4)  |
| Differin                      | 2.1          | 1.8        | 85.5            | 1.9                  | (5.4)      | (0.1)  |
| Pirespa                       | 2.7          | 2.6        | 96.6            | 2.4                  | 10.8       | 0.2    |
| Rapiacta                      | 0.2          | 0.1        | 25.3            | 0.1                  | (33.6)     | (0.0)  |
| Total of 8 strategic products | 47.3         | 45.7       | 96.6            | 44.4                 | 2.9        | 1.3    |
| [percent of sales]            | 58.8%        | 59.4%      |                 | 54.9%                |            |        |

# Change in Sales vs. Previous Year



## ◆ Japanese domestic business

- Negative impact of NHI drug price revisions averaged approx. 2%
  - Expanded sales of Crestor and Irbetan franchise despite lower NHI drug prices
  - Decreased contribution of long-listed drugs due to NHI drug price revisions and generic penetration

## ◆ Shionogi Inc. (existing products)

- Divestiture of PSD502 in 2Q FY2014
- Sales of FY2013 included Naprelan<sup>®</sup> and divestitures of pediatric products around (4.5)

## ◆ C&O

- Expanded sales of *Amolin*

## ◆ Royalty income

- Reduced royalty rate of Crestor due to the new agreement with AstraZeneca (6.8)
- Increased other royalties

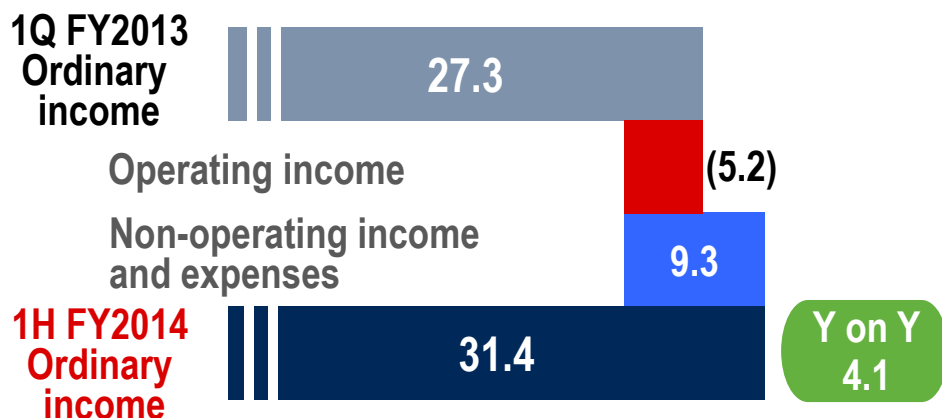
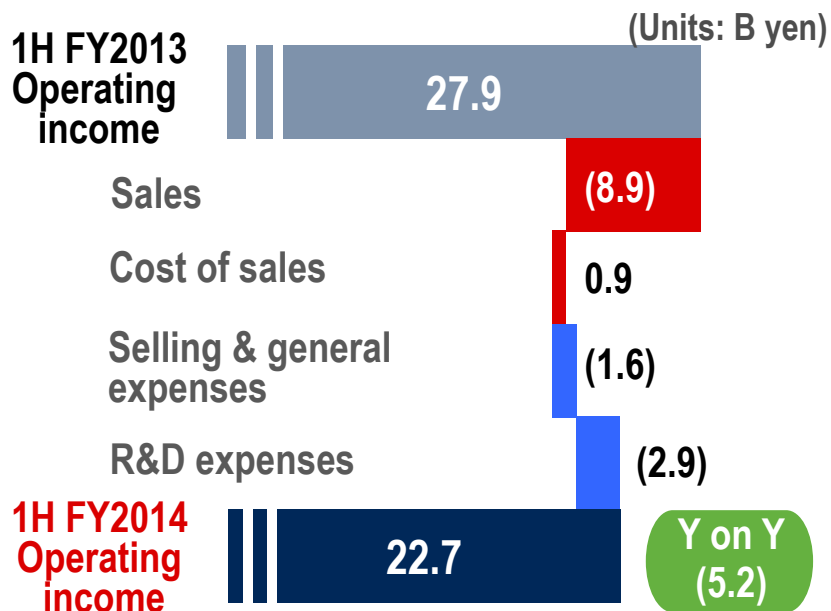
## ◆ Other businesses on track



# Statements of Income (Consolidated)

|  | FY2014                 |                        | vs. forecasts        |            | FY2013<br>1H results   | Y on Y        |        |
|--|------------------------|------------------------|----------------------|------------|------------------------|---------------|--------|
|  | 1H<br>forecasts        | 1H results             | Achieve-<br>ment (%) | difference |                        | Change<br>(%) | change |
| Sales  | 130.0                  | 129.8                  | 99.9                 | (0.2)      | 138.7                  | (6.4)         | (8.9)  |
| [Royalty income]                                     | 26.0                   | 28.3                   | 108.9                | 2.3        | 33.4                   | (15.3)        | (5.1)  |
| Cost of sales  | 29.2<br>[36.5]<br>38.0 | 29.4<br>[37.6]<br>38.1 | 100.4                | 0.1        | 26.9<br>[35.4]<br>37.2 | 2.4           | 0.9    |
| Gross profit   | 92.0                   | 91.7                   | 99.7                 | (0.3)      | 101.5                  | (9.6)         | (9.8)  |
| SG&A expenses  | 56.5<br>73.5           | 53.1<br>69.0           | 93.8                 | (4.5)      | 53.0<br>73.5           | (6.2)         | (4.5)  |
| Selling & general expenses                           | 46.5                   | 45.8                   | 98.4                 | (0.7)      | 47.4                   | (3.5)         | (1.6)  |
| R&D expenses   | 27.0                   | 23.2                   | 85.9                 | (3.8)      | 26.1                   | (11.1)        | (2.9)  |
| Operating income                                     | 14.2<br>18.5           | 17.5<br>22.7           | 122.8                | 4.2        | 20.1<br>27.9           | (18.7)        | (5.2)  |
| [Excluding royalty income]                           | (7.5)                  | (5.6)                  | -                    | 1.9        | (5.5)                  | -             | (0.1)  |
| Non-operating income and expenses                    | P5.5                   | P8.7                   | 158.1                | 3.2        | L0.6                   | -             | 9.3    |
| Ordinary income                                      | 18.5<br>24.0           | 24.2<br>31.4           | 130.9                | 7.4        | 19.7<br>27.3           | 15.0          | 4.1    |
| Extraordinary income and loss                        | -                      | P0.2                   | -                    | 0.2        | P4.3                   | -             | (4.1)  |
| Income before income taxes<br>and minority interests | 24.0                   | 31.7                   | 131.9                | 7.7        | 31.6                   | 0.1           | 0.1    |
| Total income taxes, etc.                             | 8.0                    | 22.0                   | 274.4                | 14.0       | 10.5                   | 108.4         | 11.5   |
| Net income   | 16.0                   | 9.7                    | 60.7                 | (6.3)      | 21.1                   | (53.9)        | (11.4) |

# Change in Earning Structure vs. Previous Year



- ◆ **Cost of sales**
  - Negative impact of NHI price revisions, exchange rate, etc.
- ◆ **Selling & general expenses**
  - Optimized costs in all group companies
  - Japan: Preferential investment in high-priority products and activities
  - Shionogi Inc.: Continued investment in Osphena
- ◆ **R&D expenses**
  - More focused investment in high-priority development programs
  - Reduced expenses by co-development with NovaQuest
- ◆ **Non-operating income and tax**
  - Increased dividends from ViiV
  - Accounted for increase in value of foreign-currency assets due to the weak yen
  - Reduced interest cost by repayment of debt

# FY2014 Financial Forecasts

# Actions in 1H FY2014

**Began FY2014 with ordinary income forecast of 50 B yen**

**Establish a stable foundation for our mid- to long-term growth by clear priorities and focused resourcing in the first year of SGS2020**

- ◆ **Overcome the “Crestor Hill” as soon as possible**
  - **Promote clear priorities and focused resourcing, appropriate cost allocation and reduction of cost of goods throughout the Shionogi group**
  - **Focus sales resources on the domestic and US markets; i.e. those with the highest growth potential**
  - **Accelerate R&D activities through clear priorities and focused resourcing**

# Achievements and Changes in Business Environment

## Achievement in 1H FY2014:

**Ordinary income was higher than in 1H of any prior fiscal year**

- ◆ **Achieved tight cost control and focused cost allocation throughout all of the Shionogi group**
- ◆ **Royalty income exceeded the original forecasts by 2.3 B yen**
- ◆ **Increased dividend from ViiV Healthcare and increased value of assets in foreign currency generated by a drop in the yen**

## Changes in business environment

- ◆ **Robust expansion of Tivicay franchise**
- ◆ **More difficult situation than expected in the domestic market**
  - **Effects of NHI drug price reductions**
  - **Lower than expected sales of long-listed drugs due to the promotion of generic drug use by the government and a competitive market**

# Challenges Detected in 1H FY2014

## Identified challenges

- ◆ **Cost-effectiveness analysis throughout our business operations**
  - Achieved good cost control and focused resource allocation; however,
  - Need more analysis for maximally effective resource allocation
- ◆ **Strengthen the domestic business**
  - Growth in strategic products could not fully cover the unexpected sales decrease in long-listed products
    - Need more effective responses to changes in the domestic market
    - Need to drive Cymbalta growth in the pain/CNS area more intensively
- ◆ **Sales growth rate of Osphena in the US**
  - Reach a broader range of physicians with interest in treating dyspareunia
  - Increase effectiveness of our communications to physicians and patients

# Key Actions for 2H FY2014

**Undertake activities for our longer-term growth after FY2015 while meeting our revised ordinary income target in FY2014**

- ◆ **Continued improvement of business operations**
  - **Follow the PDCA cycle throughout the Shionogi group to check the results of our activities and investments while building a business structure capable of sustainably generating a good return on investment**
- ◆ **Strategic resource allocation in the domestic and US businesses, and construction of a business base capable of realizing the full value of our mid- to long-term product portfolio**
- ◆ **Accelerating the development and launch of our late-stage pipeline products through investment of increased royalty income in FY2014 into R&D activities**



# Revision of FY2014 Financial Forecasts (Consolidated)

(Units: B yen)

|                  | FY2014    |         |        |         |          |         |        | FY2013 results | Y on Y change (%) |
|------------------|-----------|---------|--------|---------|----------|---------|--------|----------------|-------------------|
|                  | full year |         |        | 1H      | 2H       |         |        |                |                   |
|                  | original  | revised | change | results | Original | revised | change |                |                   |
| Sales            | 269.0     | 273.5   | 4.5    | 129.8   | 139.0    | 143.7   | 4.7    | 289.7          | (5.6)             |
| Operating income | 45.0      | 49.5    | 4.5    | 22.7    | 26.5     | 26.8    | 0.3    | 61.9           | (20.0)            |
| Ordinary income  | 50.0      | 58.0    | 8.0    | 31.4    | 26.0     | 26.6    | 0.6    | 62.2           | (6.8)             |
| Net income       | 33.0      | 30.0    | (3.0)  | 9.7     | 17.0     | 20.3    | 3.3    | 40.6           | (26.1)            |

| Exchange rate (average) | FY2014 forecasts (original) | FY2014 forecasts (revised) | change |
|-------------------------|-----------------------------|----------------------------|--------|
| USD(\$)-JPY(¥)          | 100                         | 105                        | 5      |
| EUR(€)-JPY(¥)           | 140                         | 140                        | -      |
| GBP(£)-JPY(¥)           | 165                         | 170                        | 5      |



# Revision of Sales by Segments (Consolidated)

(Units: B yen)

|                               | FY2014       |              |            |              |              |              |            | FY2013 results | Y on Y change (%) |
|-------------------------------|--------------|--------------|------------|--------------|--------------|--------------|------------|----------------|-------------------|
|                               | full year    |              |            | 1H           | 2H           |              |            |                |                   |
|                               | original     | revised      | change     | results      | original     | revised      | change     |                |                   |
| Prescription drugs            | 167.0        | 163.5        | (3.5)      | 77.0         | 86.5         | 86.5         | -          | 168.3          | (2.8)             |
| <i>Crestor</i>                | 42.5         | 42.6         | 0.1        | 21.1         | 21.5         | 21.5         | -          | 41.1           | 3.7               |
| <i>Irbetan</i> franchise      | 15.9         | 16.5         | 0.6        | 7.5          | 8.6          | 9.0          | 0.4        | 13.9           | 19.0              |
| <i>Cymbalta</i>               | 13.6         | 12.9         | (0.7)      | 5.5          | 7.4          | 7.4          | -          | 11.4           | 13.2              |
| Total of 3 key products       | 72.0         | 72.0         | -          | 34.0         | 37.5         | 38.0         | 0.5        | 66.3           | 8.5               |
| <i>OxyContin</i> franchise    | 10.7         | 10.7         | -          | 5.3          | 5.2          | 5.4          | 0.2        | 10.6           | 0.7               |
| <i>Finibax</i>                | 4.6          | 4.2          | (0.4)      | 1.9          | 2.3          | 2.3          | -          | 4.7            | (10.5)            |
| <i>Differin</i>               | 4.6          | 4.4          | (0.2)      | 1.8          | 2.5          | 2.6          | 0.1        | 4.4            | 0.1               |
| <i>Pirespa</i>                | 5.6          | 5.5          | (0.1)      | 2.6          | 2.9          | 2.9          | -          | 4.8            | 14.4              |
| <i>Rapiacta</i>               | 2.5          | 2.5          | -          | 0.1          | 2.3          | 2.4          | 0.1        | 2.0            | 23.3              |
| Total of 8 strategic products | 100.0        | 99.3         | (0.7)      | 45.7         | 52.7         | 53.6         | 0.9        | 92.9           | 6.9               |
| Overseas subsidiaries/export  | 31.3         | 31.3         | -          | 14.6         | 16.3         | 16.7         | 0.4        | 34.0           | (8.0)             |
| Shionogi Inc.                 | 17.7         | 17.7         | -          | 7.4          | 9.8          | 10.3         | 0.5        | 21.4           | (17.2)            |
| <i>Osphena</i>                | 7.0          | 7.0          | -          | 1.7          | 4.5          | 5.3          | 0.8        | 1.1            | 536.6             |
| C&O                           | 7.5          | 7.5          | -          | 3.3          | 4.1          | 4.2          | 0.1        | 5.9            | 27.7              |
| Contract manufacturing        | 11.4         | 11.4         | -          | 6.1          | 6.6          | 5.3          | (1.3)      | 8.4            | 36.1              |
| OTC and quasi-drugs           | 4.6          | 4.6          | -          | 2.5          | 2.2          | 2.1          | (0.1)      | 4.5            | 1.9               |
| Royalty income                | 52.0         | 60.0         | 8.0        | 28.3         | 26.0         | 31.7         | 5.7        | 70.7           | (15.1)            |
| <i>Crestor</i>                | 47.5         | 49.0         | 1.5        | 24.4         | 23.3         | 24.6         | 1.3        | 65.7           | (25.4)            |
| Others                        | 2.7          | 2.7          | -          | 1.5          | 1.4          | 1.2          | (0.2)      | 3.8            | (29.2)            |
| <b>Total</b>                  | <b>269.0</b> | <b>273.5</b> | <b>4.5</b> | <b>129.8</b> | <b>139.0</b> | <b>143.7</b> | <b>4.7</b> | <b>289.7</b>   | <b>(5.6)</b>      |

# Revision of Statement of Income (Consolidated)

(Units: B yen)

|                                   | FY2014         |                |        |                |                |                | FY2013<br>results | Y on Y<br>change<br>(%) |        |
|-----------------------------------|----------------|----------------|--------|----------------|----------------|----------------|-------------------|-------------------------|--------|
|                                   | full year      |                |        | 1H             | 2H             |                |                   |                         |        |
|                                   | original       | revised        | change | results        | original       | revised        |                   |                         | change |
| Sales                             | 269.0          | 273.5          | 4.5    | 129.8          | 139.0          | 143.7          | 4.7               | 289.7                   | (5.6)  |
| 【Royalty income】                  | 52.0           | 60.0           | 8.0    | 28.3           | 26.0           | 31.7           | 5.7               | 70.7                    | (15.1) |
| Cost of sales                     | 29.4<br>[36.4] | 28.7<br>[36.8] |        | 29.4<br>[37.6] | 29.5<br>[36.3] | 28.1<br>[36.0] |                   | 26.9<br>[35.6]          |        |
|                                   | 79.0           | 78.5           | (0.5)  | 38.1           | 41.0           | 40.4           | (0.6)             | 78.0                    | 0.7    |
| Gross profit                      | 190.0          | 195.0          | 5.0    | 91.7           | 98.0           | 103.3          | 5.3               | 211.7                   | (7.9)  |
| SG&A expenses                     | 53.9           | 53.2           |        | 53.1           | 51.4           | 53.3           |                   | 51.7                    |        |
|                                   | 145.0          | 145.5          | 0.5    | 69.0           | 71.5           | 76.5           | 5.0               | 149.8                   | (2.9)  |
| Selling & general expenses        | 93.0           | 93.5           | 0.5    | 45.8           | 46.5           | 47.7           | 1.2               | 96.2                    | (2.9)  |
| R&D expenses                      | 52.0           | 52.0           | -      | 23.2           | 25.0           | 28.8           | 3.8               | 53.6                    | (3.0)  |
| Operating income                  | 16.7           | 18.1           |        | 17.5           | 19.1           | 18.6           |                   | 21.4                    |        |
|                                   | 45.0           | 49.5           | 4.5    | 22.7           | 26.5           | 26.8           | 0.3               | 61.9                    | (20.0) |
| 【Excluding royalty income】        | (7.0)          | (10.5)         | (3.5)  | (5.6)          | 0.5            | (4.9)          | (5.4)             | (8.8)                   | -      |
| Non-operating income and expenses | P5.0           | P8.5           | 3.5    | P8.7           | L0.5           | L0.2           | 0.3               | P0.4                    | -      |
| Ordinary income                   | 18.6           | 21.2           |        | 24.2           | 18.7           | 18.5           |                   | 21.5                    |        |
|                                   | 50.0           | 58.0           | 8.0    | 31.4           | 26.0           | 26.6           | 0.6               | 62.2                    | (6.8)  |

# Parallel Actions to Drive Mid- to Long-Term Growth

## R&D

- Focus resources on innovative development programs to meet needs of patients and society,
- Maximize the value of products through innovative alliances
- Implement truly global development plans ( JPN, US, EU and Asia)

## Japanese Domestic business

- Strengthen customer-facing activities that are responsive in real-time to changes in the market environment
- Maintain continuous ROI improvement for profit growth
- Establish the business base to support the mid- to long-term product portfolio

## US business

- US business to contribute to group profit by expanding Osphena sales
- Strengthen the women's health area and prepare for entry into the pain and infectious disease areas (including via alliances)

**Maximize profitability by strengthening business operations**

**Grow as a drug discovery-based Pharmaceutical company**

2014

2016

2020

**FY2014 focus on steady operations while preparing for mid- to long-term Growth in the first year of SGS2020**

## Dividend Forecasts



|               | Dividends per Share |                   |                   |
|---------------|---------------------|-------------------|-------------------|
|               | half-year           | year-end          | annual            |
|               | Yen                 | Yen<br>(forecast) | Yen<br>(forecast) |
| <b>FY2014</b> | <b>24 . 00</b>      | <b>24 . 00</b>    | <b>48 . 00</b>    |
| <b>FY2013</b> | <b>22 . 00</b>      | <b>24 . 00</b>    | <b>46 . 00</b>    |

# Forward-Looking Statements



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