



Financial Results for Fiscal Year 2019 (Consolidated)

May 11, 2020

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 23, 2020

Scheduled date of dividend payments: June 24, 2020

Scheduled date of annual securities report submission: June 24, 2020

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, 2019 to March 31, 2020

(1) Consolidated operating results

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

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|---------------------------|-----------------|-------|------------------|-------|-----------------|-------|---|-------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Year ended March 31, 2020 | 334,958 | (7.9) | 125,231 | (9.6) | 151,751 | (8.9) | 121,295 | (8.6) |
| Year ended March 31, 2019 | 363,721 | 5.5 | 138,537 | 20.2 | 166,575 | 20.1 | 132,759 | 21.9 |

Note: Comprehensive income: Year ended March 31, 2020: 94,497 million yen ((25.4)% Year ended March 31, 2019: 126,626 million yen ((3.0)%)

| | 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, 2020 | 392.80 | 392.38 | 18.0 | 19.6 | 37.4 |
| Year ended March 31, 2019 | 424.31 | 420.67 | 20.9 | 22.4 | 38.1 |

Reference: Equity in earnings (losses) of affiliates: Year ended March 31, 2020: — million yen Year ended March 31, 2019: — million yen

(2) Consolidated financial position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|----------------------|-----------------|-----------------|----------------------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| As of March 31, 2020 | 773,650 | 683,647 | 88.3 | 2,248.69 |
| As of March 31, 2019 | 778,741 | 672,429 | 85.7 | 2,144.33 |

Reference: Shareholders' equity: As of March 31, 2020: 683,116 million yen As of March 31, 2019: 667,502 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, 2020 | 129,138 | (29,484) | (85,063) | 208,861 |
| Year ended March 31, 2019 | 145,684 | (36,349) | (87,011) | 195,800 |

2. Dividends

| (Date of record) | Dividends per share | | | | | Total dividends (Annual) | Payout ratio (Consolidated) | Ratio of dividends to net assets |
|---------------------------------------|---------------------|--------------------|--------------------|----------|--------|--------------------------|-----------------------------|----------------------------------|
| | End of 1st quarter | End of 2nd quarter | End of 3rd quarter | Year-end | Annual | | | |
| Year ended March 31, 2019 | — | 44.00 | — | 50.00 | 94.00 | 29,402 | 22.2 | 4.6 |
| Year ended March 31, 2020 | — | 50.00 | — | 53.00 | 103.00 | 31,670 | 26.2 | 4.7 |
| Year ending March 31, 2021 (forecast) | — | 53.00 | — | 53.00 | 106.00 | | 31.1 | |

Note: The consolidated payout ratio for the year ending March 31, 2021 (forecast) is calculated based on basic earnings per share, which is calculated based on International Financial Reporting Standards (IFRS), as mentioned in the financial forecast for the year ending March 31, 2021 below.

3. Consolidated financial forecast for the year ending March 31, 2021

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

| | Revenue | | Operating profit | | Profit before tax | | Profit attributable to owners of parent | | Basic earnings per share |
|--------------------------------------|-----------------|---|------------------|---|-------------------|---|---|---|--------------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Six months ending September 30, 2020 | 155,600 | — | 53,800 | — | 61,600 | — | 44,900 | — | 147.80 |
| Year ending March 31, 2021 | 323,500 | — | 110,300 | — | 136,300 | — | 103,600 | — | 341.03 |

Note: Shionogi group will voluntarily adopt International Financial Reporting Standards (IFRS) starting with the consolidated financial statements in the annual Securities Report for the year ended March 31, 2020, and accordingly, the financial forecast for the year ending March 31, 2021 is based on IFRS. Therefore, forecast changes from the amounts reported in the year ended March 31, 2020, when Japanese generally accepted accounting principles (GAAP) were applied, are not shown.

※ 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.: None

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

c) Changes in accounting estimates: None

d) Restatements: None

(3) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of March 31, 2020: 316,786,165 shares

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

b) Number of treasury stock

As of March 31, 2020: 13,002,082 shares

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

c) Average number of shares issued during the period

As of March 31, 2020: 308,798,662 shares

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

(Reference) Non-consolidated financial results

Non-consolidated results for the period from April 1, 2019 to March 31, 2020

(1) Non-consolidated operating results

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

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---------------------------|-----------------|--------|------------------|--------|-----------------|--------|-----------------|--------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Year ended March 31, 2020 | 293,865 | (10.4) | 116,107 | (16.1) | 121,265 | (13.3) | 88,640 | (11.4) |
| Year ended March 31, 2019 | 327,991 | 3.8 | 138,366 | 18.4 | 139,836 | 19.0 | 100,037 | 12.2 |

| | Earnings per share | Earnings per share (diluted) |
|---------------------------|--------------------|------------------------------|
| | Yen | Yen |
| Year ended March 31, 2020 | 287.05 | 286.74 |
| Year ended March 31, 2019 | 319.73 | 316.98 |

(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, 2020 | 580,804 | 530,482 | 91.3 | 1,744.81 |
| As of March 31, 2019 | 612,336 | 533,261 | 87.0 | 1,711.39 |

Reference: Shareholders' equity: As of March 31, 2020: 530,044 million yen As of March 31, 2019: 532,733 million yen

※ This report of financial results is unaudited.

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

(Cautionary note concerning forward-looking statements)

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

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

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

Financial results supplementary materials are posted via TDnet on the date of disclosure. The Company plans to hold a results briefing meeting for analysts on Tuesday, May 12, 2020. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on May 12, 2020 on the Company's website in a timely manner after the results briefing.

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1. Overview of Operating Results and Financial Position

(1) Operating Results for the Fiscal Year Ended March 31, 2020

1) Sales and profit

Net sales were ¥335.0 billion, 7.9 percent decrease year on year. Among the main components of sales, exports and overseas subsidiary sales were ¥30.8 billion (4.5 percent increase), but domestic sales of prescription drug were ¥108.6 billion (15.6 percent decrease) and royalty and milestone income was ¥165.6 billion (8.2 percent decrease), resulting in the decrease in net sales.

Operating income decreased 9.6 percent to ¥125.2 billion. Selling, general and administrative expenses decreased 10.1 percent because Shionogi made strategic business investments in the previous fiscal year, but operating income declined due to the decrease in net sales.

Ordinary income decreased 8.9 percent to ¥151.8 billion. Shionogi continued to receive stable dividend income from UK-based ViiV Healthcare Ltd. ("ViiV"), but ordinary income declined due to the decrease in operating income and the effect of exchange rates.

Profit attributable to owners of parent decreased 8.6 percent to ¥121.3 billion as a result of the aforementioned decreases in operating income and ordinary income, as well as extraordinary income or losses from sales of investment securities and other items.

■ Domestic sales of prescription drugs

In domestic sales of prescription drugs, sales of Cymbalta and Intuniv expanded steadily, but sales of Xofluza and other influenza-related products fell significantly, reflecting the effects of the spread of COVID-19 and a flu season that was much milder than it has been in recent years. As a result, sales of strategic products decreased 33.3 percent to ¥39.3 billion. Sales of new products, including these strategic products, decreased 25.8 percent to ¥54.7 billion. Domestic sales of prescription drugs other than the three influenza-related products, which were the main factor in the sales decrease, totaled ¥106.1 billion, compared with the revised forecast of ¥106.3 billion announced on February 3, 2020. Excluding the special factors related to infectious diseases mentioned above, domestic business results in the fiscal year ended March 31, 2020 were largely in line with forecasts.

■ Exports/Overseas subsidiary sales

In overseas business, sales increased 4.5 percent to ¥30.8 billion. In the United States, Shionogi entered into a business partnership agreement for co-commercialization of Symproic with BioDelivery Systems International, and received a one-time payment. In addition, Shionogi began U.S. sales of Fetroja, which has been shown to be effective against multidrug-resistant gram-negative bacterial infections. In China, sales of rabeprazole expanded steadily.

■ Royalty income and dividend income from ViiV

Royalty income from ViiV increased 2.1 percent to ¥127.1 billion, reflecting the expansion of global sales of products that Shionogi has licensed to ViiV: the anti-HIV drug Tivicay, the combination drugs Triumeq and Juluca, and Dovato, which was launched in the year ended March 31, 2020. In addition, Shionogi received stable dividend income during the period based on the strong global performance of ViiV's HIV drugs.

As in the previous fiscal year, Shionogi received milestone payments from Switzerland-based Roche in connection with progress in global development of Xofluza, but the total amount of milestone payments decreased from the previous fiscal year, when Shionogi received multiple payments. In addition, royalty income on Crestor sales from UK-based Astra-Zeneca increased 0.3 percent to ¥22.0 billion.

As a result, total royalty and milestone income and dividend income decreased 8.0 percent to ¥191.9 billion.

2) Research and development

During the year ended March 31, 2020, Shionogi conducted research and development with a greater focus on sustainable growth in 2020 and beyond. In that context, Shionogi identified eight high-priority projects that have the potential to change the current treatment paradigms (preclinical stage: regulatory T-cell inhibitor, S-540956, S-874713; clinical development stage: S-812217, S-600918, BPN14770, S-005151, S-637880).

■ Research

Of the three preclinical projects, the regulatory T-cell inhibitor is a cancer-targeting antibody discovered in joint research with Osaka University. It is intended to address patient needs that are not met with current cancer therapies, and preclinical studies are under way with the goal of early entry into clinical development. S-540956, a nucleic acid adjuvant,*1 is in preclinical studies with the aim of applying it in the fields of oncology and infectious diseases, such as a functional cure for HIV. S-874713, discovered by Shionogi, is a compound with a potential effect on multiple psycho-neurological diseases, including attention deficit hyperactivity disorder (ADHD) and addiction.

To expand and strengthen its business, the Shionogi Group entered the vaccine business by making UMN Pharma, which has developed a vaccine manufacturing platform, a wholly owned subsidiary. Among its research progress in the year ended March 31, 2020, UMN Pharma created a development candidate for an influenza vaccine.

In peptide drug discovery, Shionogi has accumulated useful knowledge on delivery mechanisms for peptides, which are relatively large-molecule drugs, to intracellular targets, and on generation of small-molecule leads based on peptide structures by leveraging group strengths.

*1 Adjuvant: A substance that reinforces the effect of drugs by activating the immune system

■ Development

In the progress of clinical development of the eight high-priority projects, Shionogi started a Phase II study in Japan of S-812217 (zuranolone), which was licensed from Sage Therapeutics of the United States. For S-600918, a global Phase II study started for refractory chronic cough, and a Phase II study started in Japan for sleep apnea syndrome. For BPN14770, a candidate for the treatment of Alzheimer's disease that was licensed from Tetra Therapeutics, a Phase II study Tetra is conducting in the United States made steady progress. In the year ended March 31, 2020, Shionogi entered into a new agreement with Tetra, further strengthening the partnership. S-005151 (redasemtide), which was licensed from StemRIM, demonstrated efficacy in a Phase II study in Japan for epidermolysis bullosa, and a Phase II study started in Japan for acute ischemic stroke. For S-637880, a candidate for the treatment of neuropathic low back pain, a Phase I study in Japan is under way.

Looking at the progress of other development projects, cefiderocol (U.S. brand name: Fetroja; EU brand name: Fetcroja) has been shown to be effective against multidrug-resistant gram-negative bacterial infections. In the U.S., it was launched after obtaining regulatory approval as a treatment for complicated urinary tract infections, while it is also currently being developed for the additional indication of nosocomial pneumonia. In Europe, the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion of the drug (Approved in April 2020).

Shionogi obtained additional approval of Intuniv, a treatment for ADHD, for treatment of adult patients, and launched ADHD treatment Vyvanse for pediatric patients, which will enable more optimal treatment options according to the patient's symptoms. To further expand ADHD treatment options, Shionogi also began a Phase II study in Japan of SDT-001, a potential digital therapeutic product (therapeutic application) licensed from U.S.-based Akili Interactive.

■ Research and Development Efforts to Fight the novel coronavirus (COVID-19*2) (As of March 31, 2020)

Shionogi had been conducting basic research of treatments for coronaviruses with joint research partner Hokkaido University Research Center for Zoonosis Control, but in response to the emergence of the novel coronavirus (COVID-19), Shionogi has discovered compounds in its compound library that demonstrate in vitro efficacy against the novel coronavirus. In view of the social instability and economic impact caused by the novel coronavirus (COVID-19), Shionogi is accelerating discovery research with the aim of quickly starting clinical studies, and will continue to take steps to prepare for future pandemics as well.

As initiatives to develop a vaccine, UMN Pharma is participating in research on development of the novel coronavirus (COVID-19) vaccine, which is a project supported by the Japan Agency for Medical Research and Development (AMED), and is cooperating in development of a recombinant protein vaccine. In addition, Shionogi entered into a business partnership agreement with Micro Blood Science Inc. for the introduction of a COVID-19 antibody test kit, and is currently participating in performance testing for practical use of the kit in Japan and collecting clinical data for regulatory approval. Shionogi is conducting clinical research to accumulate further evidence for this test kit, and hopes to contribute to medical care as early as possible by confirming the clinical usefulness of the kit.

*2 COVID-19 is the infectious disease caused by the novel coronavirus (SARS-CoV-2).

(2) Financial Position for the Fiscal Year Ended March 31, 2020

As of March 31, 2020, total assets were ¥773,650 million, a decrease of ¥5,090 million from a year earlier.

Current assets increased ¥24,188 million, largely reflecting an increase in cash and deposits, an increase in derivatives (included in "Other" in current assets) due to fair market valuation and other factors, and a decrease in notes and accounts receivable-trade due to progress in collection of accounts receivable. Non-current assets decreased ¥29,279 million because of factors including an increase in goodwill from the acquisition of UMN Pharma and a decrease in investment securities reflecting lower stock prices and the sale of shares.

Total liabilities were ¥90,002 million, a decrease of ¥16,308 million.

Current liabilities decreased ¥16,453 million, mainly because income taxes payable decreased. Non-current liabilities increased ¥145 million due to an increase in deferred tax liabilities and other factors.

Net assets were ¥683,647 million, an increase of ¥11,217 million from a year earlier.

Shareholders' equity increased ¥42,117 million, largely due to recording profit attributable to owners of parent, a decrease due to cash dividends paid, and changes due to purchase of treasury stock. Accumulated other comprehensive income decreased ¥26,503 million, reflecting a decrease in valuation difference on available-for-sale securities, mainly due to lower stock prices and the sale of shares held, and a decrease in foreign currency translation adjustment due to exchange rate fluctuations. Subscription rights to shares decreased ¥88 million to ¥438 million and non-controlling interests decreased ¥4,307 million to ¥92 million.

Note that a provisional accounting treatment is used for UMN Pharma, which became a consolidated subsidiary during the year ended March 31, 2020, as the purchase price allocation has not yet been completed.

(3) Cash Flows for the Fiscal Year Ended March 31, 2020

Net cash provided by operating activities during the fiscal year ended March 31, 2020 was ¥129,138 million, a decrease of ¥16,546 million from the previous fiscal year. Factors included an increase in cash due to a decrease in notes and accounts receivable-trade, a decrease in income before income taxes and an increase in income taxes paid.

Net cash used in investing activities was ¥29,484 million, a decrease of ¥6,865 million from the previous fiscal year due to factors including proceeds from sales and redemption of securities related to management of surplus funds.

Net cash used in financing activities was ¥85,063 million due to factors including purchase of treasury stock and cash dividends paid. As a result, cash and cash equivalents at the end of the period increased ¥13,060 million to ¥208,861 million.

Cash flow indicators

| | Year ended March 31, 2016 | Year ended March 31, 2017 | Year ended March 31, 2018 | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Net worth ratio | 80.7% | 79.0% | 84.5% | 85.7% | 88.3% |
| Net worth ratio on market value basis | 273.0% | 277.0% | 242.6% | 273.9% | 208.8% |
| Interest-bearing liabilities/Cash flow ratio | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Interest coverage ratio (times) | 533.6 | 538.5 | 238.0 | 234.1 | 437.9 |

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

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

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

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

1. All indicators are calculated on a consolidated basis.

2. Total market value of stock is calculated based on the total number of shares outstanding excluding treasury stock.

3. Net cash provided by operating activities is as reported in the consolidated statements of cash flows.

4. Interest-bearing liabilities are liabilities stated on the consolidated balance sheets on which interest is paid.

5. Shionogi has been applying the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) since the fiscal year ended March 31, 2019. This accounting standard has been retrospectively applied to figures for the fiscal years ended March 31, 2016 through March 31, 2018.

(4) Outlook

The financial forecast for the year ending March 31, 2021 is as follows.

Millions of yen

| | Revenue | Operating profit | Profit before tax | Profit attributable to owners of parent |
|----------------------------|---------|------------------|-------------------|---|
| Year ending March 31, 2021 | 323,500 | 110,300 | 136,300 | 103,600 |

In the next fiscal year, while there are various uncertainties due to the effects of COVID-19, Shionogi will strive to fulfill its social responsibility as a manufacturer of infectious disease products.

Shionogi is projecting a decrease in revenue overall because although sales of infectious disease products, the ADHD family and Cymbalta are expected to increase, royalty income is projected to decrease due to a decrease in one-time payments and the expected strengthening of the Japanese yen.

Shionogi also projects that operating profit and profit before tax and profit attributable to owners of parent will each decrease due to increases in selling, general and administrative expenses in Japan and overseas and research and development expenses, and decreases in gain on sale of non-current assets and gain on revaluation of stock, which occurred in the year ended March 31, 2020, as well as the decrease in sales.

It is difficult to accurately estimate the timing of convergence of the effects of COVID-19 at the present time, the above forecasts do not reflect the impact of COVID-19 infections.

The Shionogi Group will voluntarily apply International Financial Reporting Standards (IFRS) starting from the annual Securities Report for the year ended March 31, 2020. Accordingly, the financial forecast for the year ending March 31, 2021 has been prepared based on IFRS.

2. Accounting Standards

The Shionogi Group will voluntarily adopt International Financial Reporting Standards (IFRS) starting with the consolidated financial statements in the annual Securities Report for the year ended March 31, 2020 to enhance the international comparability of financial statements and to improve business operations by unifying accounting standards within the Group.

3. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

| | <i>Millions of yen</i> | |
|--|------------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Assets | | |
| Current assets | | |
| Cash and deposits | 193,549 | 228,908 |
| Notes and accounts receivable-trade | 65,918 | 46,191 |
| Short-term investment securities | 133,264 | 125,986 |
| Merchandise and finished goods | 18,741 | 14,831 |
| Work in process | 7,272 | 9,935 |
| Raw materials and supplies | 14,097 | 14,726 |
| Other | 28,942 | 45,423 |
| Allowance for doubtful accounts | (43) | (71) |
| Total current assets | 461,743 | 485,932 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 115,162 | 120,124 |
| Accumulated depreciation | (70,012) | (72,345) |
| Buildings and structures, net | 45,149 | 47,779 |
| Machinery, equipment and vehicles | 85,178 | 85,913 |
| Accumulated depreciation | (73,999) | (75,570) |
| Machinery, equipment and vehicles, net | 11,178 | 10,343 |
| Land | 8,437 | 8,295 |
| Construction in progress | 3,908 | 2,025 |
| Other | 39,979 | 40,447 |
| Accumulated depreciation | (33,999) | (33,993) |
| Other, net | 5,979 | 6,454 |
| Total property, plant and equipment | 74,653 | 74,897 |
| Intangible assets | | |
| Goodwill | 19,258 | 24,705 |
| Sales rights | 30,319 | 23,037 |
| Other | 5,191 | 6,735 |
| Total intangible assets | 54,769 | 54,479 |
| Investments and other assets | | |
| Investment securities | 151,851 | 117,676 |
| Net defined benefit asset | 30,721 | 32,142 |
| Deferred tax assets | 1,792 | 5,258 |
| Other | 3,250 | 3,305 |
| Allowance for doubtful accounts | (42) | (42) |
| Total investments and other assets | 187,574 | 158,340 |
| Total non-current assets | 316,997 | 287,717 |
| Total assets | 778,741 | 773,650 |

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 9,442 | 10,763 |
| Current portion of bonds | 920 | — |
| Income taxes payable | 35,870 | 22,510 |
| Provision | | |
| Provision for bonuses | 9,058 | 8,418 |
| Provision for sales returns | 1,428 | 924 |
| Other provision | 166 | 60 |
| Total provisions | 10,654 | 9,403 |
| Other | 32,219 | 29,976 |
| Total current liabilities | 89,107 | 72,653 |
| Non-current liabilities | | |
| Deferred tax liabilities | 124 | 319 |
| Net defined benefit liability | 11,930 | 11,904 |
| Other | 5,147 | 5,124 |
| Total non-current liabilities | 17,203 | 17,349 |
| Total liabilities | 106,311 | 90,002 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 21,279 | 21,279 |
| Capital surplus | 20,512 | 21,298 |
| Retained earnings | 639,461 | 729,202 |
| Treasury stock | (28,882) | (77,292) |
| Total shareholders' equity | 652,371 | 694,489 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 28,927 | 14,022 |
| Deferred gains or losses on hedges | 747 | 4,287 |
| Foreign currency translation adjustment | (18,370) | (32,220) |
| Remeasurements of defined benefit plans | 3,826 | 2,537 |
| Total accumulated other comprehensive income | 15,130 | (11,372) |
| Subscription rights to shares | 527 | 438 |
| Non-controlling interests | 4,400 | 92 |
| Total net assets | 672,429 | 683,647 |
| Total liabilities and net assets | 778,741 | 773,650 |

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

| | <i>Millions of yen</i> | |
|---|---------------------------|---------------------------|
| | Year ended March 31, 2019 | Year ended March 31, 2020 |
| Net sales | 363,721 | 334,958 |
| Cost of sales | 54,880 | 56,685 |
| Gross profit | 308,841 | 278,273 |
| Selling, general and administrative expenses | 170,303 | 153,041 |
| Operating income | 138,537 | 125,231 |
| Non-operating income | | |
| Interest income | 2,393 | 2,784 |
| Dividends income | 29,934 | 27,634 |
| Other | 928 | 600 |
| Total non-operating income | 33,256 | 31,018 |
| Non-operating expenses | | |
| Interest expenses | 581 | 294 |
| Contribution | 949 | 1,065 |
| Foreign exchange losses | 692 | 868 |
| Litigation expenses | 790 | 453 |
| Other | 2,205 | 1,816 |
| Total non-operating expenses | 5,218 | 4,499 |
| Ordinary income | 166,575 | 151,751 |
| Extraordinary income | | |
| Gain on sales of investment securities | 17,946 | 5,281 |
| Gain on sales of non-current assets | 2,907 | 2,435 |
| Gain on step acquisitions | — | 1,331 |
| Total extraordinary income | 20,854 | 9,048 |
| Extraordinary losses | | |
| Loss on valuation of investment securities | — | 1,549 |
| Compensation expenses | — | 684 |
| Impairment loss | 13,148 | — |
| Special retirement expenses | 2,848 | — |
| Loss on disaster | 823 | — |
| Loss on disposal of non-current assets | 265 | — |
| Total extraordinary losses | 17,086 | 2,234 |
| Income before income taxes | 170,343 | 158,564 |
| Income taxes-current | 39,988 | 36,583 |
| Income taxes-deferred | (2,951) | 771 |
| Total income taxes | 37,037 | 37,354 |
| Profit | 133,306 | 121,210 |
| Profit (loss) attributable to non-controlling interests | 547 | (85) |
| Profit attributable to owners of parent | 132,759 | 121,295 |

Consolidated statements of comprehensive income

Millions of yen

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--|---------------------------|---------------------------|
| Profit | 133,306 | 121,210 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (6,929) | (14,905) |
| Deferred gains or losses on hedges | (427) | 3,540 |
| Foreign currency translation adjustment | (3,260) | (14,059) |
| Remeasurements of defined benefit plans | 3,937 | (1,288) |
| Total other comprehensive income | (6,679) | (26,712) |
| Comprehensive income | 126,626 | 94,497 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 126,300 | 94,792 |
| Comprehensive income attributable to non-controlling interests | 326 | (294) |

(3) Consolidated statements of changes in net assets

Year ended March 31, 2019

Millions of yen

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

Millions of yen

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

Year ended March 31, 2020

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 | 20,512 | 639,461 | (28,882) | 652,371 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (31,134) | | (31,134) |
| Profit attributable to owners of parent | | | 121,295 | | 121,295 |
| Purchase of treasury stock | | | | (50,012) | (50,012) |
| Disposal of treasury stock | | (420) | | 1,602 | 1,182 |
| Retirement of treasury stock | | | | | — |
| Purchase of shares of consolidated subsidiaries | | 786 | | | 786 |
| Other | | 420 | (420) | | — |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | — | 786 | 89,741 | (48,409) | 42,117 |
| Balance at the end of current period | 21,279 | 21,298 | 729,202 | (77,292) | 694,489 |

Millions of yen

| | Accumulated other comprehensive income | | | | | | | Total net assets |
|--|---|------------------------------------|---|---|--|-------------------------------|---------------------------|------------------|
| | Valuation difference on available -for -sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Subscription rights to shares | Non-controlling interests | |
| Balance at the beginning of the period | 28,927 | 747 | (18,370) | 3,826 | 15,130 | 527 | 4,400 | 672,429 |
| Changes of items during period | | | | | | | | |
| Dividends of surplus | | | | | | | | (31,134) |
| Profit attributable to owners of parent | | | | | | | | 121,295 |
| Purchase of treasury stock | | | | | | | | (50,012) |
| Disposal of treasury stock | | | | | | | | 1,182 |
| Retirement of treasury stock | | | | | | | | — |
| Purchase of shares of consolidated subsidiaries | | | | | | | | 786 |
| Other | | | | | | | | — |
| Net changes of items other than shareholders' equity | (14,905) | 3,540 | (13,850) | (1,288) | (26,503) | (88) | (4,307) | (30,900) |
| Total changes of items during period | (14,905) | 3,540 | (13,850) | (1,288) | (26,503) | (88) | (4,307) | 11,217 |
| Balance at the end of current period | 14,022 | 4,287 | (32,220) | 2,537 | (11,372) | 438 | 92 | 683,647 |

(4) Consolidated statements of cash flows

Millions of yen

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--|---------------------------|---------------------------|
| Net cash provided by (used in) operating activities | | |
| Income before income taxes | 170,343 | 158,564 |
| Depreciation and amortization | 16,479 | 16,675 |
| Impairment loss | 13,148 | — |
| Amortization of goodwill | 2,720 | 1,776 |
| Loss (gain) on disposal of property, plant and equipment | (1,570) | (2,029) |
| Loss (gain) on sales of investment securities | (17,946) | (5,281) |
| Loss (gain) on valuation of investment securities | — | 1,549 |
| Increase (decrease) in net defined benefit liability | 521 | (3,303) |
| Interest and dividends income | (32,327) | (30,418) |
| Interest expenses | 581 | 294 |
| Foreign exchange losses (gains) | (2,066) | 744 |
| Decrease (increase) in notes and accounts receivable-trade | (12,430) | 19,230 |
| Decrease (increase) in inventories | (4,832) | 592 |
| Increase (decrease) in notes and accounts payable-trade | 1,220 | 1,160 |
| Increase (decrease) in accrued expenses | (890) | (2,402) |
| Increase (decrease) in accounts payable-other | 4,639 | (1,192) |
| Other, net | 2,346 | (7,519) |
| Subtotal | 139,937 | 148,442 |
| Interest and dividends income received | 30,086 | 29,565 |
| Interest expenses paid | (622) | (294) |
| Income taxes (paid) refund | (23,716) | (48,574) |
| Net cash provided by (used in) operating activities | 145,684 | 129,138 |
| Net cash provided by (used in) investing activities | | |
| Payments into time deposits | (123,651) | (200,827) |
| Proceeds from withdrawal of time deposits | 91,064 | 174,672 |
| Purchase of short-term investment securities | (8,078) | (97,293) |
| Proceeds from sales and redemption of securities | 2,000 | 105,297 |
| Purchase of investment securities | (3,885) | (2,337) |
| Proceeds from sales of investment securities | 18,725 | 14,187 |
| Purchase of property, plant and equipment | (6,548) | (9,014) |
| Proceeds from sales of property, plant and equipment | 4,260 | 2,725 |
| Purchase of intangible assets | (2,576) | (2,523) |
| Purchase of shares of subsidiaries and associates | (5,742) | (4,252) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | — | (4,525) |
| Payments for transfer of business | (937) | — |
| Other, net | (979) | (5,594) |
| Net cash provided by (used in) investing activities | (36,349) | (29,484) |

Millions of yen

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|---|---------------------------|---------------------------|
| Net cash provided by (used in) financing activities | | |
| Purchase of treasury stock | (50,270) | (50,159) |
| Cash dividends paid | (27,639) | (31,122) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | — | (3,367) |
| Repayments of long-term loans payable | (10,000) | — |
| Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | 1,020 | — |
| Other, net | (121) | (414) |
| Net cash provided by (used in) financing activities | (87,011) | (85,063) |
| Effect of exchange rate change on cash and cash equivalents | 1,076 | (1,530) |
| Net increase (decrease) in cash and cash equivalents | 23,399 | 13,060 |
| Cash and cash equivalents at beginning of period | 172,400 | 195,800 |
| Cash and cash equivalents at end of period | 195,800 | 208,861 |

(5) Notes

Going concern assumption

None

Change in presentation method

(Consolidated statements of income)

“Loss on retirement of non-current 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, 2020, since it is no longer important. In order to reflect this change of presentation, the consolidated statements of income for the previous fiscal year have been reclassified.

As a result, ¥1,098 million presented as “Loss on retirement of non-current assets” under Non-operating expenses in the consolidated statements of income for the previous fiscal year have been reclassified as “Other”.

Notes to segment information

Year ended March 31, 2019 (April 1, 2018 to March 31, 2019) and Year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

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, 2019 | Year ended March 31, 2020 |
|------------------------------|---------------------------|---------------------------|
| Net assets per share | 2,144.33 yen | 2,248.69 yen |
| Earnings per share | 424.31 yen | 392.80 yen |
| Earnings per share (diluted) | 420.67 yen | 392.38 yen |

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

| Item | Year ended March 31, 2019 | Year ended March 31, 2020 |
|---|-----------------------------|-----------------------------|
| <i>Earnings per share</i> | | |
| <i>Profit attributable to owners of parent</i> | 132,759 million yen | 121,295 million yen |
| <i>The amount which is not attributable to ordinary shareholders</i> | — | — |
| <i>Profit attributable to owners of parent related to common stocks</i> | 132,759 million yen | 121,295 million yen |
| <i>Average number of shares outstanding during the period</i> | 312,883 thousands of stocks | 308,798 thousands of stocks |
| <i>Earnings per share (diluted)</i> | | |
| <i>Adjustments to profit attributable to owners of parent</i> | (7) million yen | (0) million yen |
| <i>[Interest income, net tax]</i> | [(7) million yen] | [(0) million yen] |
| <i>Increase of common stock</i> | 2,692 thousands of stocks | 329 thousands of stocks |
| <i>[Bonds payable]</i> | [2,465 thousands of stocks] | [143 thousands of stocks] |
| <i>[Subscription rights to shares]</i> | [226 thousands of stocks] | [186 thousands of stocks] |

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

| Item | As of March 31, 2019 | As of March 31, 2020 |
|--|-----------------------------|-----------------------------|
| <i>Total net assets</i> | 672,429 million yen | 683,647 million yen |
| <i>Amount deducted from total net assets</i> | 4,927 million yen | 530 million yen |
| <i>[Amounts attributed to subscription rights to shares in total net assets]</i> | [527 million yen] | [438 million yen] |
| <i>[Amounts attributed to non-controlling interests in total net assets]</i> | [4,400 million yen] | [92 million yen] |
| <i>Net assets at year end available to common stocks</i> | 667,502 million yen | 683,116 million yen |
| <i>Shares outstanding as of the period end</i> | 311,287 thousands of stocks | 303,784 thousands of stocks |

Important subsequent events

(Cancellation of treasury shares)

The Company cancelled treasury shares on April 6, 2020 based on a resolution at the meeting of the Board of Directors held on September 30, 2019 and March 30, 2020, to cancel its treasury shares in accordance with the Companies Act Article 178.

1. Reason for the cancellation of treasury shares

To promote shareholder's interests by reducing the total number of issued shares

2. Type of shares

Common shares of the Company

3. Total number of shares to be cancelled

5,200,000 shares

4. Date of cancellation

April 6, 2020

Additional information

(Disposal of treasury shares)

At a meeting held on March 30, 2020, Board of Directors passed resolutions to form a capital and business alliance with Ping An Insurance (Group) Company of China Ltd. (hereinafter "Ping An Insurance"). As part of this alliance, it is planned to implement disposal of treasury shares by way of third-party allotment to Ping An Life Insurance of China, Ltd. (hereinafter, "Ping An Life"), which is a subsidiary of Ping An Insurance, as a planned allottee.

1. Outline of Disposal

(1) Period of Share Disposal : From July 1, 2020 to July 31, 2020 (Plan)

(2) Number of Shares to Be Disposed of : 6,356,000 shares of Shionogi's common stock

(3) Disposal Price : JPY 5,276 per Share

(4) Amount of Capital to Be Raised : JPY 33,534,256,000

(5) Planned Allottee : Ping An Life

(6) Other : Each of the foregoing items is conditional upon the Securities Registration Statement filed in accordance with the Financial Instruments and Exchange Act becoming effective.

(Note)

The prerequisites for execution of the Third-Party Allotment include the following: 1). The joint venture agreement for the establishment of the Joint Venture has been executed between Shionogi and Ping An Insurance or its group company; and 2). The allottee has obtained the various licenses required to undertake the Third-Party Allotment.

2. Purposes and Reasons for the Disposal

The Third-Party Allotment of shares to Ping An Life will be implemented as part of the Capital and Business Alliance with Ping An Insurance, which is the parent company of Ping An Life, and is intended to support a strong long-term strategic partnership with Ping An Insurance.