Financial Results for the Second Quarter of Fiscal Year 2013(Consolidated)

October 31, 2013

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

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Scheduled date of quarterly securities report submission: November 11, 2013

Scheduled date of dividend payments: December 2, 2013

Preparation of supplemental material for the quarterly financial results: Yes

Holding of presentation for the quarterly 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 September 30, 2013

(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*	*%*
Six months ended September 30, 2013	138,715	1.0	28,460	7.7	27,828	10.9	21,405	44.0
Six months ended September 30, 2012	137,322	10.7	26,421	—	25,095	36.2	14,863	81.2

Note: Comprehensive income Six months ended September 30, 2013 34,383 million yen (225.1 %)
Six months ended September 30, 2012 10,577 million yen (- %)

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Six months ended September 30, 2013	63.92	63.88
Six months ended September 30, 2012	44.38	44.36

Note: The Company has changed its presentation method for litigation expenses from the first quarter of the fiscal year ending March 31, 2014. Operating income for the Second quarter of 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) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	*Millions of yen*	*%*
As of September 30, 2013	589,328	450,181	75.8
As of March 31, 2013	574,882	423,633	73.1

Reference: Shareholders' equity As of September 30, 2013: 446,564 million yen As of March 31, 2013: 420,110 million yen

2. Dividends

	Dividends per share				
(Date of record)	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
Year ended March 31, 2013	—	20.0	—	22.0	42.0
Year ending March 31, 2014	—	22.0			
Year ending March 31, 2014 (forecast)			—	22.0	44.0

Note: Revisions of the most recent dividend forecast: None

3. Consolidated financial forecast for the year ending March 31, 2014

(% 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*
Year ending March 31, 2014	284,800	0.7	62,000	4.1	61,000	3.5	43,000	(35.6)	128.40

Note: Revisions of the most recent consolidated financial forecast: Yes

Note: The Company has changed its presentation method for litigation expenses from the first quarter of the fiscal year ending March 31, 2014. 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 has been calculated using restated figure for the fiscal year ended March 31, 2013 that reflects this change.

※ Notes

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

(2) Adoption of accounting methods specific to the preparation of quarterly consolidated financial statements: None

(3) 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

(4) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of September 30, 2013:	351,136,165 shares
As of March 31, 2013:	351,136,165 shares

b) Number of treasury stock

As of September 30, 2013:	16,239,572 shares
As of March 31, 2013:	16,236,003 shares

c) Average number of shares issued during the period

Six months ended September 30, 2013:	334,897,986 shares
Six months ended September 30, 2012:	334,900,195 shares

※ *Implementation status of quarterly review procedures*

This summary of quarterly results is exempt from the quarterly review procedures based on the Financial Instruments and Exchange Act. Review procedures for the quarterly financial statements based on the Financial Instruments and Exchange Act had not been completed at the time of disclosure of this summary of quarterly results.

※ *Notes to consolidated financial forecasts and other items*

The forecasts and other forward-looking statements contained in this document are based on the information currently available and certain assumptions that it judges to be reasonable. Actual results may differ materially due to a variety of factors.

For the assumptions used in forecasts and precautionary statements regarding the use of the forecasts, please refer to "1. Qualitative Information on Quarterly Financial Reslts (3) Description of Consolidated Financial Forecast" on page 3 of the supplemental materials for the Financial Results for the Second Quarter of Fiscal Year 2013 (Consolidated).

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Consolidated Operating Results

For the six months ended September 30, 2013 (April 1, 2013 to September 30, 2013), net sales were ¥138,715 million, operating income was ¥28,460 million, ordinary income was ¥27,828 million and net income was ¥21,405 million.

Regarding net sales, domestic sales of prescription drugs rose 1.5 percent compared with the same period of the previous fiscal year as the solid performance of strategic products, centered on Crestor, Irbetan and Cymbalta, compensated for the decrease in sales of existing products. Outside Japan, overseas sales and exports increased 3.7 percent as results at U.S. subsidiary Shionogi Inc. have stabilized. Consequently, overall net sales increased 1.0 percent.

Regarding profit, gross profit increased 4.5 percent due to efforts to reduce manufacturing costs and improvement in the cost of sales ratio with the recovery of sales of Shionogi Inc. Selling, general and administrative (SG&A) expenses were limited to a 3.3 percent increase compared with the same period of the previous fiscal year as successful efforts to reduce domestic operating expenses partially offset increases in marketing-related costs and in R&D expenses for post-menopausal vaginal atrophy treatment Osphena™, a future core product of Shionogi Inc. As a result, operating income increased 7.7 percent to ¥28,460 million. Ordinary income increased 10.9 percent to ¥27,828 million, partly due to the effect of foreign currency exchange rates. Net income rose a substantial 44.0 percent, reflecting a decrease in income tax due to changes to the allowable limit of deductible expenses for the write-down of Shionogi Inc. stock, in addition to the increases in income mentioned above and extraordinary income related to the sale of non-current assets.

(2) Description of Consolidated Financial Position

1) Assets, Liabilities and Net Assets

As of September 30, 2013, total assets were ¥589,328 million, an increase of ¥14,446 million from the end of the previous fiscal year. Current assets increased ¥6,164 million from the end of the previous fiscal year to ¥273,010 million due to factors including increases in both short-term investment securities and merchandise and finished goods. Non-current assets increased ¥8,281 million to ¥316,318 million, partly because of an increase in investment securities reflecting stock market prices.

Total liabilities decreased ¥12,102 million from the end of the previous fiscal year to ¥139,147 million. Current liabilities increased ¥5,899 million from the end of the previous fiscal year to ¥104,107 million, due to factors including the transfer of ¥20,000 million from non-current liabilities to the current portion of bonds, which was partially offset by a decrease of ¥7,000 million in the current portion of long-term loans payable. Non-current liabilities decreased ¥18,001 million to ¥35,040 million, mainly because of the aforementioned transfer of bonds that will mature within one year to current liabilities.

Net assets increased ¥26,548 million from the end of the previous fiscal year to ¥450,181 million. Shareholders' equity increased ¥14,029 million to ¥442,802 million, due to factors including an increase from net income and a decrease due to cash dividends paid. Accumulated other comprehensive income was ¥3,761 million compared with accumulated other comprehensive loss of ¥8,662 million at the end of the previous fiscal year, due to an increase in positive foreign currency translation adjustment resulting from exchange rate fluctuations. Subscription rights to shares increased ¥84 million and minority interests increased ¥9 million compared with the end of the previous fiscal year to ¥207 million and ¥3,408 million, respectively.

2) Cash Flow

Net cash provided by operating activities during the six months ended September 30, 2013 was ¥40,707 million. Principal factors providing cash included income before income taxes and minority interests of ¥32,134 million, depreciation and amortization of ¥6,623 million, goodwill of ¥1,330 million, and income tax refund. As a result, net cash provided by operating activities increased ¥7,732 million compared with the same period of the previous fiscal year.

Net cash used in investing activities was ¥6,296 million due to acquisition of intangible assets and other factors. Net cash used decreased ¥2,557 million compared with the same period of the previous fiscal year.

Net cash used in financing activities was ¥14,409 million due to factors including repayment of long-term loans payable totaling ¥7,000 million and cash dividends paid of ¥7,366 million. Net cash used decreased ¥9,419 million compared with the same period of the previous fiscal year.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥121,871 million, an increase of ¥20,327 million from the end of the previous fiscal year.

(3) Description of Consolidated Financial Forecast

Based on recent performance trends, the Shionogi Group has revised its financial forecast for the fiscal year ending March 31, 2014, released on May 9, 2013, as follows.

1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2014

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Yen*
Previous forecast (A)	287,000		60,000		59,000		37,000		110.48
New forecast (B)	284,800		62,000		61,000		43,000		128.40
Change (B-A)	(2,200)		2,000		2,000		6,000		—
Percentage change (%)	(0.8)		3.3		3.4		16.2		—
(reference) For the year ended March 31, 2013	282,903		59,565		58,922		66,727		199.25

Note: The Company has changed its presentation method for litigation expenses from the first quarter of the fiscal year ending March 31, 2014. Operating income for the fiscal year ended March 31, 2013 has been restated to reflect this change.

2) Reasons for Revision of Financial Forecast

Regarding net sales, revisions were made to the most recent sales projections, primarily for prescription pharmaceuticals and contract manufacturing. The forecasts for operating income and ordinary income are revised to reflect an expected increase in royalty income and further reductions in cost of sales and selling, general and administrative expenses. The forecast for net income is revised due to a decrease in income tax resulting from a change to the allowable limit of deductible expenses related to the write-down of stock of U.S. subsidiary Shionogi Inc. in the first quarter, in addition to the projected increase in operating income.

2. Summary Data (Notes)

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries involving changes in scope of consolidation)

None

(2) Adoption of accounting methods specific to the preparation of quarterly consolidated financial statements

None

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

None

Additional Information

Change in Classification of Litigation Expenses

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 first quarter of the fiscal year ending 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 second quarter of the previous fiscal year to reflect this change.

As a result, ¥314 million of the ¥71,003 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 second quarter of the previous fiscal year. As a result of this change, operating income for second quarter of the previous fiscal year increased from ¥26,106 million to ¥26,421 million.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2013	As of September 30, 2013
Assets		
Current assets		
Cash and deposits	21,575	23,713
Notes and accounts receivable-trade	67,908	64,867
Short-term investment securities	84,432	100,900
Merchandise and finished goods	26,531	29,251
Work in process	14,024	14,746
Raw materials and supplies	8,771	10,204
Other	43,612	29,348
Allowance for doubtful accounts	(12)	(21)
Total current assets	266,845	273,010
Non-current assets		
Property, plant and equipment	78,473	76,944
Intangible assets		
Goodwill	40,293	41,901
Other	30,171	27,905
Total intangible assets	70,464	69,807
Investments and other assets		
Investment securities	122,628	133,614
Other	36,560	36,042
Allowance for doubtful accounts	(90)	(90)
Total investments and other assets	159,098	169,566
Total non-current assets	308,036	316,318
Total assets	574,882	589,328
Liabilities		
Current liabilities		
Notes and accounts payable-trade	10,734	11,805
Short-term loans payable	7,500	7,500
Current portion of long-term loans payable	31,500	24,500
Current portion of bonds	—	20,000
Income taxes payable	1,146	3,528
Provision for bonuses	7,134	7,193
Provision for sales returns	6,459	5,199
Other provision	26	—
Other	33,706	24,380
Total current liabilities	98,207	104,107
Non-current liabilities		
Bonds payable	20,000	—
Long-term loans payable	10,027	10,032
Provision for retirement benefits	8,995	9,016
Other	14,018	15,991
Total non-current liabilities	53,041	35,040
Total liabilities	151,249	139,147

Millions of yen

	As of March 31, 2013	As of September 30, 2013
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,227
Retained earnings	407,007	421,045
Treasury stock	(19,741)	(19,749)
Total shareholders' equity	428,772	442,802
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	16,055	18,261
Deferred gains or losses on hedges	(450)	(32)
Foreign currency translation adjustment	(24,267)	(14,467)
Total accumulated other comprehensive income	(8,662)	3,761
Subscription rights to shares	123	207
Minority interests	3,399	3,408
Total net assets	423,633	450,181
Total liabilities and net assets	574,882	589,328

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

Consolidated statements of income

Millions of yen

	Six month ended September 30, 2012	Six month ended September 30, 2013
Net sales	137,322	138,715
Cost of sales	40,213	37,246
Gross profit	97,109	101,468
Selling, general and administrative expenses	70,688	73,008
Operating income	26,421	28,460
Non-operating income		
Interest income	185	171
Dividends income	622	1,102
Other	304	523
Total non-operating income	1,112	1,797
Non-operating expenses		
Interest expenses	605	469
Contribution	664	744
Litigation expenses	314	652
Other	853	561
Total non-operating expenses	2,438	2,428
Ordinary income	25,095	27,828
Extraordinary income		
Gain on sales of noncurrent assets	228	4,203
Gain on sales of investment securities	551	554
Total extraordinary income	779	4,757
Extraordinary loss		
Loss on valuation of inventories	—	451
Loss on valuation of investment securities	1,091	—
Total extraordinary losses	1,091	451
Income before income taxes and minority interests	24,783	32,134
Income taxes-current	10,278	2,705
Income taxes-deferred	(382)	7,987
Total income taxes	9,896	10,693
Income before minority interests	14,887	21,441
Minority interests in income	24	36
Net income	14,863	21,405

Consolidated statements of comprehensive income

Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
Income before minority interests	14,887	21,441
Other comprehensive income		
Valuation difference on available-for-sale securities	192	2,206
Deferred gains or losses on hedges	570	417
Foreign currency translation adjustment	(5,072)	10,317
Total other comprehensive income	(4,309)	12,941
Comprehensive income	10,577	34,383
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	10,517	33,829
Comprehensive income attributable to minority interests	60	554

(3) Consolidated statements of cash flows

Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	24,783	32,134
Depreciation and amortization	5,962	6,623
Amortization of goodwill	1,874	1,330
Loss (gain) on disposal of property, plant and equipment	(228)	(4,209)
Interest and dividends income	(807)	(1,273)
Interest expenses	605	469
Foreign exchange losses (gains)	359	168
Decrease (increase) in notes and accounts receivable-trade	1,860	3,472
Decrease (increase) in inventories	1,229	(4,858)
Increase (decrease) in notes and accounts payable-trade	4,200	993
Other, net	2,126	(4,738)
Subtotal	41,967	30,113
Interest and dividends income received	810	1,263
Interest expenses paid	(579)	(467)
Income taxes (paid) refund	(9,222)	9,799
Net cash provided by (used in) operating activities	32,975	40,707
Net cash provided by (used in) investing activities		
Payments into time deposits	(4,157)	(4,673)
Proceeds from withdrawal of time deposits	4,425	4,487
Purchase of short-term investment securities	(19)	—
Proceeds from redemption of short-term investment securities	2,020	2,021
Purchase of property, plant and equipment	(5,726)	(3,588)
Proceeds from sales of property, plant and equipment	460	4,746
Purchase of intangible assets	(2,896)	(6,952)
Purchase of investment securities	(4,949)	(2,018)
Proceeds from sales of investment securities	2,191	645
Purchase of investments in subsidiaries	—	(951)
Other, net	(201)	(12)
Net cash provided by (used in) investing activities	(8,853)	(6,296)
Net cash provided by (used in) financing activities		
Repayment of long-term loans payable	(7,000)	(7,000)
Redemption of bonds	(10,000)	—
Cash dividends paid	(6,688)	(7,366)
Other, net	(140)	(43)
Net cash provided by (used in) financing activities	(23,829)	(14,409)
Effect of exchange rate change on cash and cash equivalents	(657)	326
Net increase (decrease) in cash and cash equivalents	(364)	20,327
Cash and cash equivalents at beginning of period	98,687	101,543
Cash and cash equivalents at end of period	98,322	121,871

(4) Notes

Going concern assumption

None

Significant changes in shareholders' equity

None