Financial Results for the Second Quarter of Fiscal Year 2016(Consolidated)

October 31, 2016

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

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

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Scheduled date of quarterly securities report submission: November 10, 2016

Scheduled date of dividend payments: December 1, 2016

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, 2016 to September 30, 2016

(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*	*%*
Six months ended September 30, 2016	155,101	12.2	44,288	30.5	42,147	21.1	31,198	45.9
Six months ended September 30, 2015	138,279	6.5	33,933	49.4	34,791	10.7	21,386	120.2

Note: Comprehensive income Six months ended September 30, 2016: 7,635 million yen ((71.7)%)
Six months ended September 30, 2015: 26,995 million yen (175.3%)

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Six months ended September 30, 2016	95.82	94.35
Six months ended September 30, 2015	65.69	64.68

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	*Millions of yen*	*%*
As of September 30, 2016	622,505	510,528	81.4
As of March 31, 2016	639,638	513,877	79.6

Reference: Shareholders' equity As of September 30, 2016: 506,723 million yen As of March 31, 2016: 509,439 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, 2016	—	28.00	—	34.00	62.00
Year ending March 31, 2017	—	34.00			
Year ending March 31, 2017 (forecast)			—	34.00	68.00

Note: Revisions of the most recent dividend forecast: None

3. Consolidated financial forecast for the year ending March 31, 2017

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Yen*
Year ending March 31, 2017	334,000	7.8	97,500	6.7	105,500	4.6	76,000	14.0	233.43

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

※ 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, 2016:	351,136,165 shares
As of March 31, 2016:	351,136,165 shares

b) Number of treasury stock

As of September 30, 2016:	25,544,171 shares
As of March 31, 2016:	25,559,022 shares

c) Average number of shares issued during the period

Six months ended September 30, 2016:	325,592,391 shares
Six months ended September 30, 2015:	325,580,071 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 Results (3) Description of Consolidated Financial Forecast" on page 3 of the supplemental materials for the Financial Results for the Second Quarter of Fiscal Year 2016 (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, 2016 (April 1, 2016 to September 30, 2016), net sales were ¥155,101 million, operating income was ¥44,288 million, ordinary income was ¥42,147 million, and profit attributable to owners of parent was ¥31,198 million.

Overall domestic sales of prescription drugs increased 0.9 percent compared with the same period of the previous fiscal year, as sales of strategic products, led by the three strategic products Crestor, Cymbalta and Irbetan, remained solid in the domestic prescription drug market, more than offsetting the decline in sales of existing products. Exports and overseas subsidiary sales increased 3.7 percent due to solid performance at U.S. subsidiary Shionogi Inc. Contract manufacturing sales increased 46.4 percent with the expansion in contract manufacturing of the dolutegravir active pharmaceutical ingredient (API), and royalty income increased 35.2 percent due to steady growth in global sales of anti-HIV drugs Tivicay and Triumeq. As a result, overall net sales increased 12.2 percent compared with the same period of the previous fiscal year.

Selling, general and administrative expenses increased 6.2 percent compared with the same period of the previous fiscal year, but operating income increased 30.5 percent due to a 14.3 percent increase in gross profit. Despite the increase in operating income, ordinary income only increased 21.1 percent due to the effect of foreign exchange losses. Profit attributable to owners of parent grew, increasing 45.9 percent.

(2) Description of Consolidated Financial Position

1) Assets, Liabilities and Net Assets

As of September 30, 2016, total assets were ¥622,505 million, a decrease of ¥17,132 million from the end of the previous fiscal year. Current assets increased ¥8,991 million to ¥324,602 million, mainly due to an increase in short-term investment securities for surplus fund management. Non-current assets decreased ¥26,123 million to ¥297,903 million, largely because of a decrease in investment securities reflecting lower stock prices and the effect of currency translation and a decrease in foreign currency-denominated intangible assets due to the effect of currency translation.

Total liabilities decreased ¥13,783 million from the end of the previous fiscal year to ¥111,977 million. Current liabilities decreased ¥12,505 million to ¥59,476 million, mainly because of a decrease in income taxes payable. Non-current liabilities decreased ¥1,277 million to ¥52,500 million.

Net assets decreased ¥3,349 million from the end of the previous fiscal year to ¥510,528 million. Shareholders' equity increased ¥20,149 million to ¥515,843 million as a result of factors including an increase from profit attributable to owners of parent and a decrease due to cash dividends paid. Accumulated other comprehensive income decreased ¥22,864 million to a loss of ¥9,119 million, mainly reflecting a decrease in valuation difference on available-for-sale securities due to lower stock prices and a decrease in foreign currency translation adjustment due to the effect of currency translation. Subscription rights to shares increased ¥64 million to ¥416 million and non-controlling interests decreased ¥698 million to ¥3,387 million.

2) Cash Flow

Net cash provided by operating activities during the six months ended September 30, 2016 was ¥44,776 million. Principal factors providing cash included income before income taxes of ¥42,147 million, depreciation and amortization of ¥6,409 million, amortization of goodwill of ¥1,469 million, and dividends. Uses of cash included income taxes paid. As a result, net cash provided by operating activities increased ¥3,625 million compared with the same period of the previous fiscal year.

Net cash used in investing activities was ¥8,759 million, a decrease of ¥10,390 million compared with the same period of the previous fiscal year, mainly due to purchase of property, plant and equipment and intangible assets.

Net cash used in financing activities was ¥11,213 million, an increase of ¥1,900 million from the same period of the previous fiscal year, due to factors including cash dividends paid of ¥11,051 million.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥148,562 million, an increase of ¥20,818 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, 2017, released on May 11, 2016, as follows.

1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2017

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*	*Yen*
Previous forecast (A)	318,000	91,500	101,500	71,000	218.07
New forecast (B)	334,000	97,500	105,500	76,000	233.43
Change (B-A)	16,000	6,000	4,000	5,000	—
Percentage change (%)	5.0	6.6	3.9	7.0	—
(reference) For the year ended March 31, 2016	309,973	91,406	100,869	66,687	204.83

2) Reasons for Revision of Financial Forecast

Regarding net sales, overall sales are expected to exceed the previous forecast, largely because solid expansion in global sales of Tivicay and Triumeq is boosting royalty income. As for profits, although research and development expenses are projected to be higher than expected due to the progress of development activities, operating income, ordinary income and profit attributable to owners of parent for the fiscal year are each expected to exceed the previous forecast due to the aforementioned increase in net sales.

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

(4) Additional Information

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company is applying the Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan, Guidance No. 26, issued on March 28, 2016) from the start of the fiscal year beginning on April 1, 2016.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	80,230	84,660
Notes and accounts receivable-trade	65,207	62,563
Short-term investment securities	97,200	110,200
Merchandise and finished goods	21,263	23,937
Work in process	8,839	7,665
Raw materials and supplies	12,080	12,092
Other	30,834	23,521
Allowance for doubtful accounts	(45)	(39)
Total current assets	315,611	324,602
Non-current assets		
Property, plant and equipment	78,673	78,509
Intangible assets		
Goodwill	41,208	35,119
Other	30,417	27,749
Total intangible assets	71,626	62,868
Investments and other assets		
Investment securities	146,451	129,070
Other	27,319	27,497
Allowance for doubtful accounts	(44)	(42)
Total investments and other assets	173,727	156,525
Total non-current assets	324,027	297,903
Total assets	639,638	622,505
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,050	13,861
Income taxes payable	20,294	12,257
Provision for bonuses	10,118	7,808
Provision for sales returns	2,414	1,817
Other provision	88	–
Other	28,016	23,731
Total current liabilities	71,982	59,476
Non-current liabilities		
Bonds payable	20,074	20,064
Long-term loans payable	10,000	10,000
Net defined benefit liability	9,447	9,328
Other	14,256	13,107
Total non-current liabilities	53,778	52,500
Total liabilities	125,761	111,977

Millions of yen

	As of March 31, 2016	As of September 30, 2016
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,227
Retained earnings	503,946	524,070
Treasury stock	(49,759)	(49,734)
Total shareholders' equity	495,693	515,843
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	26,748	22,334
Deferred gains or losses on hedges	—	2,311
Foreign currency translation adjustment	(7,333)	(29,427)
Remeasurements of defined benefit plans	(5,669)	(4,338)
Total accumulated other comprehensive income	13,745	(9,119)
Subscription rights to shares	352	416
Non-controlling interests	4,085	3,387
Total net assets	513,877	510,528
Total liabilities and net assets	639,638	622,505

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

Consolidated statements of income

Millions of yen

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	138,279	155,101
Cost of sales	36,451	38,707
Gross profit	101,828	116,394
Selling, general and administrative expenses	67,894	72,106
Operating income	33,933	44,288
Non-operating income		
Interest income	338	377
Dividends income	718	729
Other	746	219
Total non-operating income	1,803	1,326
Non-operating expenses		
Interest expenses	107	105
Contribution	407	418
Foreign exchange losses	–	2,236
Other	431	706
Total non-operating expenses	945	3,467
Ordinary income	34,791	42,147
Extraordinary income		
Gain on sales of investment securities	1,757	–
Total extraordinary income	1,757	–
Extraordinary loss		
Settlement package	1,900	–
Total extraordinary losses	1,900	–
Income before income taxes	34,648	42,147
Income taxes-current	10,728	11,194
Income taxes-deferred	2,538	(152)
Total income taxes	13,266	11,042
Profit	21,381	31,105
Loss attributable to non-controlling interests	(4)	(93)
Profit attributable to owners of parent	21,386	31,198

Consolidated statements of comprehensive income

Millions of yen

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit	21,381	31,105
Other comprehensive income		
Valuation difference on available-for-sale securities	2,480	(4,413)
Deferred gains or losses on hedges	(146)	2,311
Foreign currency translation adjustment	1,995	(22,699)
Remeasurements of defined benefit plans	1,283	1,331
Total other comprehensive income	5,613	(23,469)
Comprehensive income	26,995	7,635
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	26,917	8,333
Comprehensive income attributable to non-controlling interests	77	(698)

(3) Consolidated statements of cash flows

Millions of yen

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	34,648	42,147
Depreciation and amortization	5,970	6,409
Amortization of goodwill	1,661	1,469
Loss (gain) on disposal of property, plant and equipment	57	148
Loss (gain) on sales of investment securities	(1,757)	—
Interest and dividends income	(1,056)	(1,107)
Interest expenses	107	105
Foreign exchange losses (gains)	101	5,957
Decrease (increase) in notes and accounts receivable-trade	6,595	2,131
Decrease (increase) in inventories	1,800	(2,237)
Increase (decrease) in notes and accounts payable-trade	661	2,954
Other, net	(6,171)	(2,805)
Subtotal	42,619	55,174
Interest and dividends income received	14,357	8,865
Interest expenses paid	(99)	(98)
Income taxes (paid) refund	(15,726)	(19,164)
Net cash provided by (used in) operating activities	41,151	44,776
Net cash provided by (used in) investing activities		
Payments into time deposits	(17,119)	(17,344)
Proceeds from withdrawal of time deposits	5,748	17,651
Purchase of short-term investment securities	(7,500)	(987)
Proceeds from redemption of short-term investment securities	5,000	487
Purchase of property, plant and equipment	(3,416)	(6,014)
Proceeds from sales of property, plant and equipment	1	20
Purchase of intangible assets	(3,021)	(2,522)
Purchase of investment securities	(46)	—
Proceeds from sales of investment securities	2,128	1
Payments of short-term loans receivable	(370)	—
Payments for investments in capital of subsidiaries and associates	(543)	—
Other, net	(11)	(52)
Net cash provided by (used in) investing activities	(19,150)	(8,759)
Net cash provided by (used in) financing activities		
Repayment of long-term loans payable	(38)	—
Cash dividends paid	(9,107)	(11,051)
Other, net	(167)	(161)
Net cash provided by (used in) financing activities	(9,313)	(11,213)
Effect of exchange rate change on cash and cash equivalents	242	(3,984)
Net increase (decrease) in cash and cash equivalents	12,929	20,818
Cash and cash equivalents at beginning of period	78,722	127,743
Cash and cash equivalents at end of period	91,651	148,562

(4) Notes

Going concern assumption

None

Significant changes in shareholders' equity

None