Financial Results for the Second Quarter of Fiscal Year 2017(Consolidated)

October 30, 2017

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 9, 2017
Scheduled date of dividend payments: December 1, 2017
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, 2017 to September 30, 2017

(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, 2017	172,172	11.0	55,756	25.9	65,592	55.6	50,336	61.3
Six months ended September 30, 2016	155,101	12.2	44,288	30.5	42,147	21.1	31,198	45.9

Note: Comprehensive income Six months ended September 30, 2017: 61,249 million yen (702.1%)
Six months ended September 30, 2016: 7,635 million yen ((71.7)%)

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Six months ended September 30, 2017	157.90	155.42
Six months ended September 30, 2016	95.82	94.35

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	*Millions of yen*	*%*
As of September 30, 2017	697,313	575,558	82.0
As of March 31, 2017	670,271	526,211	77.9

Reference: Shareholders' equity As of September 30, 2017: 571,672 million yen As of March 31, 2017: 522,320 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, 2017	—	34.00	—	38.00	72.00
Year ending March 31, 2018	—	38.00			
Year ending March 31, 2018 (forecast)			—	38.00	76.00

Note: Revisions of the most recent dividend forecast: None

3. Consolidated financial forecast for the year ending March 31, 2018

(% 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, 2018	345,000	1.8	113,500	4.9	132,000	7.3	101,000	20.4	316.82

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, 2017:	329,136,165 shares
As of March 31, 2017:	329,136,165 shares

b) Number of treasury stock

As of September 30, 2017:	10,322,924 shares
As of March 31, 2017:	10,347,876 shares

c) Average number of shares issued during the period

Six months ended September 30, 2017:	318,791,785 shares
Six months ended September 30, 2016:	325,592,391 shares

※ *This report of financial results is unaudited.*

※ *Notes to consolidated financial forecasts and other items*

(Cautionary note concerning forward-looking statements)

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 2017 (Consolidated).

(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, October 31, 2017. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on October 31, 2017 on the Company's website in a timely manner after the results briefing.

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Consolidated Operating Results

For the six months ended September 30, 2017 (April 1, 2017 to September 30, 2017), net sales were ¥172,172 million, operating income was ¥55,756 million, ordinary income was ¥65,592 million, and profit attributable to owners of parent was ¥50,336 million.

Domestic sales of prescription drugs decreased 7.6 percent compared with the same period of the previous fiscal year, due in part to a decline in sales of existing products in the domestic prescription drug market and a transfer of marketing rights to some products, although sales of strategic product Cymbalta expanded steadily and sales of newly launched products Intuniv and Symproic were solid. Overseas subsidiary sales and exports decreased 20.2 percent as a result of a decrease in royalties reflecting a drop in sales of authorized generics at U.S. subsidiary Shionogi Inc. Contract manufacturing sales increased 56.1 percent with the expansion in contract manufacturing of the dolutegravir active pharmaceutical ingredient (API). Royalty income increased 45.7 percent as global sales of anti-HIV drugs Tivicay and Triumeq expanded steadily, and we received milestone payments from alliance partner Roche for S-033188 (baloxavir marboxil), an anti-influenza virus infection drug candidate discovered by Shionogi. As a result, overall net sales increased 11.0 percent compared with the same period of the previous fiscal year.

Gross profit increased 13.8 percent compared with the same period of the previous fiscal year due to the expansion of royalty income mentioned above. Selling, general and administrative expenses increased 6.4 percent because of an increase in marketing expenses for Cymbalta and other new products and research and development expenses due to expansion of investment in S-033188 (baloxavir marboxil). However, operating income increased 25.9 percent due to the increase in gross profit. Ordinary income increased 55.6 percent due to the increase in dividends received from ViiV Healthcare. Profit attributable to owners of parent increased 61.3 percent.

(2) Description of Consolidated Financial Position

1) Assets,Liabilities and Net Assets

As of September 30, 2017, total assets were ¥697,313 million, an increase of ¥27,042 million from the end of the previous fiscal year. Current assets increased ¥22,744 million to ¥366,128 million, mainly because of an increase in cash and deposits and short-term investment securities for surplus fund management and an increase in accounts receivable due to royalty income related to S-033188 (baloxavir marboxil). Non-current assets increased ¥4,298 million to ¥331,184 million as a result of the amortization of intangible assets and an increase in investment securities reflecting higher stock prices and the effect of currency translation.

Total liabilities decreased ¥22,304 million from the end of the previous fiscal year to ¥121,754 million. Current liabilities decreased ¥23,141 million to¥67,453 million, primarily due to payment of income taxes and accounts payable (included in “Other” in current liabilities). Non-current liabilities increased ¥837 million to ¥54,301 million.

Net assets increased ¥49,346 million from the end of the previous fiscal year to ¥575,558 million. Shareholders’ equity increased ¥38,323 million to ¥560,768 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 increased ¥11,028 million to ¥10,903 million. Factors in this increase included a positive valuation difference on available-for-sale securities due to higher stock prices and an increase in foreign currency translation adjustment due to exchange rate movements. Subscription rights to shares increased ¥110 million to ¥527 million and non-controlling interests decreased ¥116 million to ¥3,358 million.

2) Cash Flows

Net cash provided by operating activities during the six months ended September 30, 2017 was ¥42,817 million. Principal factors providing cash included income before income taxes of ¥64,907 million, depreciation and amortization of ¥7,827 million, amortization of goodwill of ¥1,521 million, and dividend income received. Uses of cash included income taxes paid. As a result, net cash provided by operating activities decreased ¥1,959 million compared with the same period of the previous fiscal year.

Net cash used in investing activities was ¥42,341 million, an increase of ¥33,582 million compared with the same period of the previous fiscal year, mainly due to payments into time deposits with terms of more than three months and purchase of property, plant and equipment and intangible assets.

Net cash used in financing activities was ¥12,270 million, an increase of ¥1,056 million from the same period of the previous fiscal year, due to factors including cash dividends paid of ¥12,116 million.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥138,384 million, a decrease of ¥10,940 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, 2018, released on May 10, 2017, as follows.

1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2018

	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)	340,000	112,500	123,500	92,000	288.59
New forecast (B)	345,000	113,500	132,000	101,000	316.82
Change (B-A)	5,000	1,000	8,500	9,000	—
Percentage change (%)	1.5	0.9	6.9	9.8	—
(reference) For the year ended March 31, 2017	338,890	108,178	123,031	83,879	259.88

2) Reasons for Revision of Financial Forecast

Net sales are expected to exceed the previous forecast because solid expansion in ViiV Healthcare's global sales of Tivicay and Triumeq is boosting royalty income, and other royalty income is also expected to increase. As for profits, although research and development expenses are projected to increase with the progress of development activities, operating income is expected to exceed the previous forecast, reflecting the increase in net sales. Ordinary income and profit attributable to owners of parent for the fiscal year are also projected to exceed the previous forecast because of an expected increase in dividends received from ViiV Healthcare in addition to the increase in operating income.

2. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	107,847	122,408
Notes and accounts receivable-trade	59,336	69,257
Short-term investment securities	98,800	105,800
Merchandise and finished goods	19,152	19,474
Work in process	8,294	6,532
Raw materials and supplies	13,940	14,314
Other	36,047	28,376
Allowance for doubtful accounts	(34)	(34)
Total current assets	343,384	366,128
Non-current assets		
Property, plant and equipment	78,788	77,941
Intangible assets		
Goodwill	37,630	35,793
Other	53,494	50,147
Total intangible assets	91,125	85,941
Investments and other assets		
Investment securities	135,970	145,787
Other	21,045	21,556
Allowance for doubtful accounts	(42)	(42)
Total investments and other assets	156,972	167,302
Total non-current assets	326,886	331,184
Total assets	670,271	697,313
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,943	9,814
Income taxes payable	28,746	22,662
Provision for bonuses	9,182	7,856
Provision for sales returns	1,565	1,546
Other provision	110	—
Other	39,046	25,573
Total current liabilities	90,595	67,453
Non-current liabilities		
Bonds payable	20,054	19,933
Long-term loans payable	10,000	10,000
Net defined benefit liability	9,581	9,198
Other	13,828	15,168
Total non-current liabilities	53,464	54,301
Total liabilities	144,059	121,754

Millions of yen

	As of March 31, 2017	As of September 30, 2017
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,268
Retained earnings	508,049	546,271
Treasury stock	(27,110)	(27,050)
Total shareholders' equity	522,445	560,768
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,041	29,400
Deferred gains or losses on hedges	122	(2,204)
Foreign currency translation adjustment	(20,026)	(12,547)
Remeasurements of defined benefit plans	(5,262)	(3,744)
Total accumulated other comprehensive income	(125)	10,903
Subscription rights to shares	416	527
Non-controlling interests	3,474	3,358
Total net assets	526,211	575,558
Total liabilities and net assets	670,271	697,313

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

Consolidated statements of income

Millions of yen

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	155,101	172,172
Cost of sales	38,707	39,671
Gross profit	116,394	132,500
Selling, general and administrative expenses	72,106	76,744
Operating income	44,288	55,756
Non-operating income		
Interest income	377	499
Dividends income	729	10,867
Other	219	335
Total non-operating income	1,326	11,703
Non-operating expenses		
Interest expenses	105	204
Contribution	418	425
Other	2,942	1,236
Total non-operating expenses	3,467	1,867
Ordinary income	42,147	65,592
Extraordinary loss		
Loss on valuation of investment securities	—	685
Total extraordinary losses	—	685
Income before income taxes	42,147	64,907
Income taxes-current	11,194	15,930
Income taxes-deferred	(152)	(1,313)
Total income taxes	11,042	14,617
Profit	31,105	50,289
Loss attributable to non-controlling interests	(93)	(46)
Profit attributable to owners of parent	31,198	50,336

Consolidated statements of comprehensive income

Millions of yen

	Six months ended September 30, 2016	Six months ended September 30, 2017
Profit	31,105	50,289
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,413)	4,358
Deferred gains or losses on hedges	2,311	(2,327)
Foreign currency translation adjustment	(22,699)	7,409
Remeasurements of defined benefit plans	1,331	1,518
Total other comprehensive income	(23,469)	10,959
Comprehensive income	7,635	61,249
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,333	61,365
Comprehensive income attributable to non-controlling interests	(698)	(116)

(3) Consolidated statements of cash flows

Millions of yen

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net cash provided by (used in) operating activities		
Income before income taxes	42,147	64,907
Depreciation and amortization	6,409	7,827
Amortization of goodwill	1,469	1,521
Loss (gain) on disposal of property, plant and equipment	148	232
Loss (gain) on valuation of investment securities	—	685
Interest and dividends income	(1,107)	(11,367)
Interest expenses	105	204
Foreign exchange losses (gains)	5,957	46
Decrease (increase) in notes and accounts receivable-trade	2,131	(9,985)
Decrease (increase) in inventories	(2,237)	997
Increase (decrease) in notes and accounts payable-trade	2,954	(2,118)
Other, net	(2,805)	(7,548)
Subtotal	55,174	45,402
Interest and dividends income received	8,865	19,547
Interest expenses paid	(98)	(92)
Income taxes (paid) refund	(19,164)	(22,039)
Net cash provided by (used in) operating activities	44,776	42,817
Net cash provided by (used in) investing activities		
Payments into time deposits	(17,344)	(42,503)
Proceeds from withdrawal of time deposits	17,651	17,367
Purchase of short-term investment securities	(987)	(5,000)
Proceeds from redemption of short-term investment securities	487	—
Purchase of property, plant and equipment	(6,014)	(3,533)
Proceeds from sales of property, plant and equipment	20	84
Purchase of intangible assets	(2,522)	(10,094)
Purchase of investment securities	—	(600)
Proceeds from sales of investment securities	1	2,296
Other, net	(52)	(359)
Net cash provided by (used in) investing activities	(8,759)	(42,341)
Net cash provided by (used in) financing activities		
Cash dividends paid	(11,051)	(12,116)
Other, net	(161)	(154)
Net cash provided by (used in) financing activities	(11,213)	(12,270)
Effect of exchange rate change on cash and cash equivalents	(3,984)	855
Net increase (decrease) in cash and cash equivalents	20,818	(10,940)
Cash and cash equivalents at beginning of period	127,743	149,324
Cash and cash equivalents at end of period	148,562	138,384

(4) Notes

Going concern assumption

None

Significant changes in shareholders' equity

None