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

February 5, 2018

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
Contact responsibility: Hiroki Takagi, Vice President , Corporate Communications Department Tel.: (06)6202-2161
Scheduled date of quarterly securities report submission: February 9, 2018
Scheduled date of dividend payments: ―
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 December 31, 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*	*%*
Nine months ended December 31, 2017	263,362	2.7	90,124	2.7	105,471	15.9	79,727	18.0
Nine months ended December 31, 2016	256,533	13.5	87,719	34.0	90,970	36.7	67,541	62.1

Note: Comprehensive income Nine months ended December 31, 2017: 99,603 million yen (66.5%)
Nine months ended December 31, 2016: 59,835 million yen (20.7%)

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Nine months ended December 31, 2017	250.20	246.30
Nine months ended December 31, 2016	208.40	205.20

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	*Millions of yen*	*%*
As of December 31, 2017	704,588	592,162	83.5
As of March 31, 2017	670,271	526,211	77.9

Reference: Shareholders' equity As of December 31, 2017: 588,170 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	316.96

Note: Revisions of the most recent consolidated financial forecast: None

Pursuant to a resolution at a meeting of the Board of Directors held on November 27, 2017, the Company is acquiring its own shares in a period from December to February. “Earnings per share” in the consolidated financial forecast takes into account the impact of the share acquisition in December 31, 2017.

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

b) Number of treasury stock

As of December 31, 2017:	11,810,821 shares
As of March 31, 2017:	10,347,876 shares

c) Average number of shares issued during the period

Nine months ended December 31, 2017:	318,656,754 shares
Nine months ended December 31, 2016:	324,093,255 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 2 of the supplemental materials for the Financial Results for the Third 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 Monday, February 5, 2018. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on February 5, 2018 on the Company's website in a timely manner after the results briefing.

CONTENTS

1. Qualitative Information on Quarterly Financial Results…… 2
(1) Description of consolidated operating results…… 2
(2) Description of consolidated financial position…… 2
(3) Description of consolidated financial forecast…… 2
2. Consolidated Financial Statements and Notes…… 3
(1) Consolidated balance sheets…… 3
(2) Consolidated statements of income and Consolidated statements of comprehensive income 5
Consolidated statements of income…… 5
Consolidated statements of comprehensive income…… 6
(3) Notes…… 7
Going concern assumption…… 7
Significant changes in shareholders' equity…… 7

1. Qualitative Information on Quarterly Financial Results

(1) Description of Consolidated Operating Results

For the nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017), net sales were ¥263,362 million, operating income was ¥90,124 million, ordinary income was ¥105,471 million, and profit attributable to owners of parent was ¥79,727 million.

Domestic sales of prescription drugs decreased 10.6 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, including early market penetration of a generic version of Crestor, and a transfer of marketing rights to some products. Sales of strategic product Cymbalta expanded steadily and sales of newly launched products Intuniv and Symproic were solid. Overseas subsidiary sales and exports decreased 23.8 percent as a result of a decrease in royalties due to a drop in sales of authorized generics at U.S. subsidiary Shionogi Inc. Contract manufacturing sales increased 33.8 percent with the expansion in contract manufacturing of the dolutegravir active pharmaceutical ingredient (API). Royalty income increased 44.6 percent as global sales of anti-HIV drugs Tivicay and Triumeq expanded steadily, and we received milestone payments from alliance partner Roche for baloxavir marboxil, an anti-influenza virus infection drug candidate discovered by Shionogi. As a result, overall net sales increased 2.7 percent compared with the same period of the previous fiscal year.

Gross profit increased 5.0 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 6.7 percent because of an increase in marketing expenses for Cymbalta and other new products and an increase in research and development expenses due to expansion of investment in baloxavir marboxil. However, operating income increased 2.7 percent due to the increase in gross profit. Ordinary income increased 15.9 percent due to the increase in dividends received from ViiV Healthcare. Profit attributable to owners of parent increased 18.0 percent. In the third quarter, Shionogi recorded impairment losses on sales rights of GlashVista due to the end of the joint sales agreement with Allergan, and on land and buildings due to the closure of the Kanegasaki employee dormitory.

(2) Description of Consolidated Financial Position

As of December 31, 2017, total assets were ¥704,588 million, an increase of ¥34,317 million from the end of the previous fiscal year. Current assets increased ¥23,292 million to ¥366,677 million, mainly because of an increase in cash and deposits, a decrease in short-term investment securities for surplus fund management and an increase in deposits (included in “Other” in current assets) for the repurchase of shares. Non-current assets increased ¥11,024 million to ¥337,911 million as a result of an increase in the value of investment securities.

Total liabilities decreased ¥31,632 million from the end of the previous fiscal year to ¥112,426 million. Current liabilities decreased ¥28,556 million to ¥62,038 million, primarily due to payment of income taxes and a decrease in accounts payable (included in “Other” in current liabilities). Non-current liabilities decreased ¥3,075 million to ¥50,388 million.

Net assets increased ¥65,950 million from the end of the previous fiscal year to ¥592,162 million. Shareholders’ equity increased ¥45,963 million to ¥568,409 million as the result of an increase from profit attributable to owners of parent and a decrease due to cash dividends paid and the repurchase of shares. Accumulated other comprehensive income increased ¥19,886 million to ¥19,761 million. This increase was the result of 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 ¥10 million to ¥3,463 million.

(3) Description of Consolidated Financial Forecast

There are no revisions to the consolidated financial forecast announced on October 30, 2017.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	107,847	126,017
Notes and accounts receivable-trade	59,336	64,668
Short-term investment securities	98,800	87,000
Merchandise and finished goods	19,152	18,722
Work in process	8,294	6,594
Raw materials and supplies	13,940	15,582
Other	36,047	48,127
Allowance for doubtful accounts	(34)	(35)
Total current assets	343,384	366,677
Non-current assets		
Property, plant and equipment	78,788	76,642
Intangible assets		
Goodwill	37,630	35,141
Other	53,494	48,022
Total intangible assets	91,125	83,163
Investments and other assets		
Investment securities	135,970	156,216
Other	21,045	21,931
Allowance for doubtful accounts	(42)	(42)
Total investments and other assets	156,972	178,105
Total non-current assets	326,886	337,911
Total assets	670,271	704,588
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,943	9,654
Current portion of long-term loans payable	—	5,000
Income taxes payable	28,746	14,619
Provision for bonuses	9,182	5,112
Provision for sales returns	1,565	1,576
Other provision	110	—
Other	39,046	26,074
Total current liabilities	90,595	62,038
Non-current liabilities		
Bonds payable	20,054	19,057
Long-term loans payable	10,000	5,000
Net defined benefit liability	9,581	9,317
Other	13,828	17,013
Total non-current liabilities	53,464	50,388
Total liabilities	144,059	112,426

Millions of yen

	As of March 31, 2017	As of December 31, 2017
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,590
Retained earnings	508,049	563,547
Treasury stock	(27,110)	(37,008)
Total shareholders' equity	522,445	568,409
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,041	35,966
Deferred gains or losses on hedges	122	(1,579)
Foreign currency translation adjustment	(20,026)	(11,641)
Remeasurements of defined benefit plans	(5,262)	(2,985)
Total accumulated other comprehensive income	(125)	19,761
Subscription rights to shares	416	527
Non-controlling interests	3,474	3,463
Total net assets	526,211	592,162
Total liabilities and net assets	670,271	704,588

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

Consolidated statements of income

Millions of yen

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	256,533	263,362
Cost of sales	59,656	56,723
Gross profit	196,876	206,638
Selling, general and administrative expenses	109,156	116,514
Operating income	87,719	90,124
Non-operating income		
Interest income	557	805
Dividends income	4,802	16,934
Other	293	401
Total non-operating income	5,652	18,141
Non-operating expenses		
Interest expenses	161	292
Contribution	618	835
Other	1,621	1,666
Total non-operating expenses	2,401	2,794
Ordinary income	90,970	105,471
Extraordinary loss		
Loss on valuation of investment securities	—	733
Impairment loss	—	333
Total extraordinary losses	—	1,067
Income before income taxes	90,970	104,404
Income taxes-current	25,276	25,613
Income taxes-deferred	(1,725)	(907)
Total income taxes	23,550	24,706
Profit	67,419	79,698
Loss attributable to non-controlling interests	(122)	(28)
Profit attributable to owners of parent	67,541	79,727

Consolidated statements of comprehensive income

Millions of yen

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Profit	67,419	79,698
Other comprehensive income		
Valuation difference on available-for-sale securities	2,523	10,925
Deferred gains or losses on hedges	218	(1,701)
Foreign currency translation adjustment	(12,322)	8,403
Remeasurements of defined benefit plans	1,996	2,277
Total other comprehensive income	(7,583)	19,904
Comprehensive income	59,835	99,603
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	60,650	99,613
Comprehensive income attributable to non-controlling interests	(814)	(10)

(3) Notes

Going concern assumption

None

Significant changes in shareholders' equity

Repurchase of Shares

By resolution of the Board of Directors on November 27, 2017, Shionogi is repurchasing up to 4,800,000 shares of common stock, at a cost up to ¥30,000 million in total, during the period from December 1, 2017 through February 28, 2018. Based on this resolution, Shionogi repurchased 1,696,400 shares during the third quarter at a cost of ¥10,500 million.

In addition, treasury stock increased by ¥9,898 million in the third quarter, partly due to the conversion of convertible bonds. The amount of treasury stock held as of December 31, 2017 was ¥37,008 million.