Financial Results for the First Quarter of Fiscal Year 2018(Consolidated)

July 30, 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

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Scheduled date of quarterly securities report submission: August 8, 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, 2018 to June 30, 2018

(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*	*%*
Three months ended June 30, 2018	88,524	18.0	27,646	72.9	37,941	80.1	31,892	99.2
Three months ended June 30, 2017	75,023	2.5	15,988	(11.4)	21,071	26.3	16,010	27.7

Note: Comprehensive income Three months ended June 30, 2018: 35,562 million yen (66.5%)
Three months ended June 30, 2017: 21,354 million yen (－%)

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Three months ended June 30, 2018	101.45	99.95
Three months ended June 30, 2017	50.22	49.43

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	*Millions of yen*	*%*
As of June 30, 2018	738,654	627,462	84.3
As of March 31, 2018	711,463	604,840	84.5

Reference: Shareholders' equity As of June 30, 2018: 622,418 million yen As of March 31, 2018: 600,847 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, 2018	－	38.00	－	44.00	82.00
Year ending March 31, 2019	－				
Year ending March 31, 2019 (forecast)		44.00	－	44.00	88.00

Note: Revisions of the most recent dividend forecast: None

3. Consolidated financial forecast for the year ending March 31, 2019

(% 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*
Six months ending September 30, 2018	168,000	(2.4)	48,000	(13.9)	61,000	(7.0)	48,600	(3.4)	154.60
Year ending March 31, 2019	348,000	1.0	120,000	4.1	144,000	3.8	114,500	5.2	364.24

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

※ 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 June 30, 2018:	324,136,165 shares
As of March 31, 2018:	324,136,165 shares

b) Number of treasury stock

As of June 30, 2018:	9,780,617 shares
As of March 31, 2018:	9,780,027 shares

c) Average number of shares issued during the period

Three months ended June 30, 2018:	314,355,784 shares
Three months ended June 30, 2017:	318,787,772 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. Overview of Operating Results and Financial Position (3) Outlook" on page 2 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 Monday, July 30, 2018. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on July 30, 2018 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 First Quarter of the Fiscal Year Ending March 31, 2019

In the first quarter ended June 30, 2018 (April 1, 2018 to June 30, 2018), net sales were ¥88,524 million, operating income was ¥27,646 million, ordinary income was ¥37,941 million, and profit attributable to owners of parent was ¥31,892 million.

Domestic sales of prescription drugs decreased 31.9 percent compared with the same period of the previous fiscal year. In the domestic prescription drug market, sales of strategic products Cymbalta, Intuniv and Symproic expanded steadily, but sales of Crestor and Irbetan were significantly impacted by generic competition. Despite a decrease in royalty income associated with the drop in sales of authorized generics in the United States, overseas subsidiary sales and exports increased 49.3 percent because Shionogi received a one-time payment due to the termination of the alliance with Purdue Pharma L.P. for Symproic. Royalty income increased 89.7 percent compared with the same period of the previous fiscal year as global sales of anti-HIV drugs Tivicay and Triumeq expanded steadily, and Shionogi received milestone payments from Roche, its alliance partner, in connection with the smooth progress in global development of anti-flu drug Xofluza.

Gross profit increased 39.0 percent compared with the same period of the previous fiscal year, mainly due to the aforementioned increase in royalty income. Selling, general and administrative expenses increased 25.2 percent due to an increase in general and administrative expenses as a result of IT-related investments and an increase in research and development expenses in connection with strategic business investments. However, operating income increased 72.9 percent because of the increase in gross profit. Ordinary income increased 80.1 percent due to the increase in dividends received from UK-based ViiV Healthcare Ltd. Profit attributable to owners of parent increased 99.2 percent. During the first quarter ended June 30, 2018, Shionogi recorded an extraordinary gain on the sale of the Nanjing Plant of C&O Pharmaceutical Technology (Holdings) Limited.

(2) Financial Position for the First Quarter of the Fiscal Year Ending March 31, 2019

As of June 30, 2018, total assets were ¥738,654 million, an increase of ¥27,191 million from the end of the previous fiscal year. Current assets increased ¥20,862 million to ¥400,367 million as a result of factors including an increase in cash and deposits and accounts receivable associated with milestone payments from Roche. Non-current assets increased ¥6,328 million to ¥338,287 million, largely because of an increase in investment securities reflecting higher stock prices.

Total liabilities increased ¥4,569 million from the end of the previous fiscal year to ¥111,192 million. Current liabilities increased ¥5,912 million to ¥78,478 million. Non-current liabilities decreased ¥1,343 million to ¥32,713 million.

Net assets increased ¥22,621 million from the end of the previous fiscal year to ¥627,462 million. Shareholders' equity increased ¥18,342 million to ¥597,599 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 ¥3,228 million to ¥24,818 million, mainly due to an increase in valuation difference on available-for-sale securities reflecting higher stock prices and a decrease in foreign currency translation adjustment due to the effect of currency translation. Non-controlling interests increased ¥1,050 million to ¥4,517 million, partly because of an increase due to an equity alliance between Shionogi Healthcare Co., Ltd. and Rohto Pharmaceutical Co., Ltd.

(3) Outlook

There are no revisions to the consolidated financial forecast announced on July 23, 2018.

2. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	140,106	147,660
Notes and accounts receivable-trade	53,240	63,730
Short-term investment securities	124,300	124,500
Merchandise and finished goods	14,716	16,365
Work in process	6,993	6,491
Raw materials and supplies	12,926	13,847
Other	27,257	27,807
Allowance for doubtful accounts	(36)	(35)
Total current assets	379,504	400,367
Non-current assets		
Property, plant and equipment	75,956	74,848
Intangible assets		
Goodwill	32,852	32,498
Other	42,207	41,326
Total intangible assets	75,060	73,825
Investments and other assets		
Investment securities	155,675	163,180
Other	25,309	26,475
Allowance for doubtful accounts	(42)	(42)
Total investments and other assets	180,942	189,613
Total non-current assets	331,959	338,287
Total assets	711,463	738,654
Liabilities		
Current liabilities		
Notes and accounts payable-trade	8,016	6,824
Current portion of long-term loans payable	10,000	10,000
Income taxes payable	19,513	20,229
Provision for bonuses	8,741	10,821
Provision for sales returns	1,360	1,407
Other provision	105	—
Other	24,829	29,196
Total current liabilities	72,565	78,478
Non-current liabilities		
Bonds payable	18,491	18,486
Net defined benefit liability	8,096	8,200
Other	7,468	6,025
Total non-current liabilities	34,056	32,713
Total liabilities	106,622	111,192

Millions of yen

	As of March 31, 2018	As of June 30, 2018
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,512
Retained earnings	574,392	592,452
Treasury stock	(36,641)	(36,645)
Total shareholders' equity	579,257	597,599
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,856	41,127
Deferred gains or losses on hedges	1,174	2,557
Foreign currency translation adjustment	(15,330)	(19,161)
Remeasurements of defined benefit plans	(111)	294
Total accumulated other comprehensive income	21,589	24,818
Subscription rights to shares	527	527
Non-controlling interests	3,466	4,517
Total net assets	604,840	627,462
Total liabilities and net assets	711,463	738,654

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

Consolidated statements of income

Millions of yen

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	75,023	88,524
Cost of sales	19,918	11,913
Gross profit	55,105	76,610
Selling, general and administrative expenses	39,116	48,964
Operating income	15,988	27,646
Non-operating income		
Interest income	234	445
Dividends income	5,716	9,756
Other	190	684
Total non-operating income	6,141	10,887
Non-operating expenses		
Interest expenses	160	89
Contribution	253	254
Foreign exchange losses	257	—
Other	387	247
Total non-operating expenses	1,059	591
Ordinary income	21,071	37,941
Extraordinary lincome		
Gain on sales of non-current assets	—	2,462
Total extraordinary income	—	2,462
Extraordinary loss		
Loss on disaster	—	331
Loss on valuation of investment securities	523	—
Total extraordinary losses	523	331
Income before income taxes	20,547	40,072
Income taxes-current	6,920	12,573
Income taxes-deferred	(2,400)	(4,980)
Total income taxes	4,519	7,593
Profit	16,027	32,478
Profit attributable to non-controlling interests	17	586
Profit attributable to owners of parent	16,010	31,892

Consolidated statements of comprehensive income

Millions of yen

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit	16,027	32,478
Other comprehensive income		
Valuation difference on available-for-sale securities	2,534	5,270
Deferred gains or losses on hedges	(1,143)	1,383
Foreign currency translation adjustment	3,177	(3,975)
Remeasurements of defined benefit plans	759	405
Total other comprehensive income	5,326	3,084
Comprehensive income	21,354	35,562
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	21,429	35,120
Comprehensive income attributable to non-controlling interests	(74)	441

(3) Notes

Going concern assumption

None

Significant changes in shareholders' equity

None

Additional information

Application of Partial Amendments to Accounting Standard for Tax-Effect Accounting, Etc.

Shionogi has adopted the "Partial Amendments to Accounting Standard for Tax-Effect Accounting" (Accounting Standards Board of Japan Statement No. 28, February 16, 2018), etc. as of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets are classified under investments and other assets, and deferred tax liabilities are classified under non-current liabilities.