



1st Half of Fiscal 2013 Financial Results

November 1, 2013

**Isao Teshirogi, Ph.D.
President & CEO**



Overview of 1st Half FY2013 Financial Results

Financial Results (Consolidated)

(Units: B yen)

	FY2013 forecasts	FY2013		Achievement (%)	FY2012 1H results	Y on Y	
		1H forecasts*	1H results			change (%)	change
Sales	287.0	138.0	138.7	100.5	137.3	1.0	1.4
Operating income	60.0	24.0	28.5	118.6	26.4	7.7	2.1
Ordinary income	59.0	24.0	27.8	116.0	25.1	10.9	2.7
Net income	37.0	14.5	21.4	147.6	14.9	44.0	6.5

- All income levels from Apr. to Sep. 2013 are higher than the levels achieved in the 1H of any prior fiscal year.

Note: All numerical values are rounded to the nearest unit.

The litigation expenses has been recognized under non-operating expenses since FY2013. We have restated its consolidated statements of income for the previous fiscal year to reflect this change.

Exchange rate (average)	FY2013 forecasts	FY2013 1H results
USD(\$)	95	98.85
EUR(€)	120	129.98



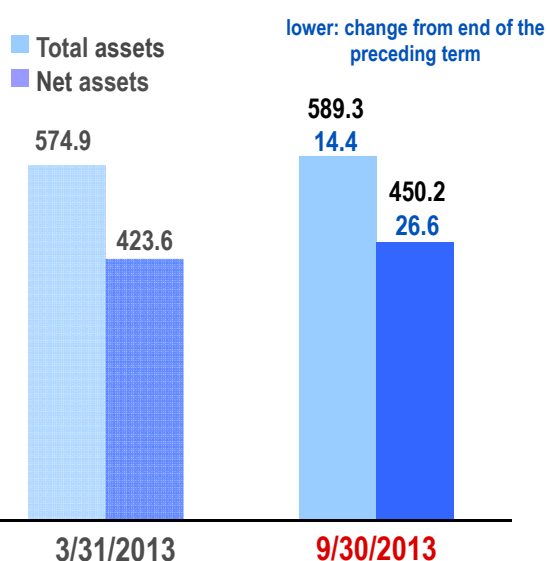
* The consolidated earnings forecasts announced on May 9, 2013 were written here, and the revisions to the forecasts were announced on Oct. 28, 2013

3

Financial Position and Cash Flow (Consolidated)

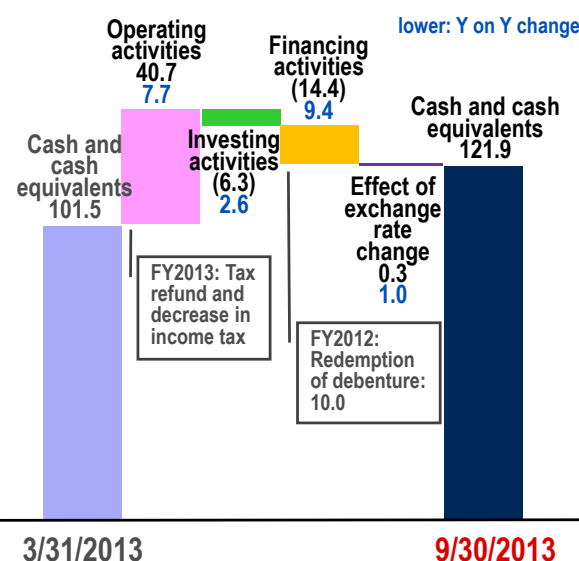
(Units: B yen)

◆ Financial Position



	3/31/2013	9/30/2013
Equity ratio	73.1%	75.8%

◆ Cash Flow



4

Statements of Income (Consolidated)

(Units: B yen)

	FY2013		Achievement (%)	FY2012 1H results	Y on Y	
	1H forecasts	1H results			change (%)	change
Prescription drugs	83.1	80.9	97.4	79.7	1.5	1.2
Total of 3 key products	32.5	32.5	99.9	28.0	16.1	4.5
Total of 8 strategic products	45.0	44.4	98.8	39.8	11.7	4.6
Overseas subsidiaries/export	14.4	15.4	106.7	a) 14.8	3.7	0.6
Shionogi Inc.	9.0	9.5	105.8	7.5	27.5	2.0
<i>Osphena</i>	0.8	b) 0.1	12.4	-	-	0.1
C&O	2.9	2.9	100.2	2.9	(0.7)	(0.0)
Contract manufacturing	5.2	5.0	96.3	4.5	12.4	0.5
OTC and quasi-drugs	2.7	2.3	85.9	2.8	(17.0)	(0.5)
Diagnostics	0.6	0.8	131.5	1.1	(28.4)	(0.3)
Royalty income	31.0	33.4	107.8	33.4	0.0	0.0
<i>Crestor</i>	29.5	31.2	105.7	30.7	1.6	0.5
Others	1.0	0.9	92.7	1.0	(11.7)	(0.1)
Total	138.0	138.7	100.5	137.3	1.0	1.4

Eight strategic products: *Crestor*, *Irbetan*, *Cymbalta* franchise (3 key products), and *OxyContin* franchise, *Finibax*, *Differin*, *Pirespa*, *Rapiacta*

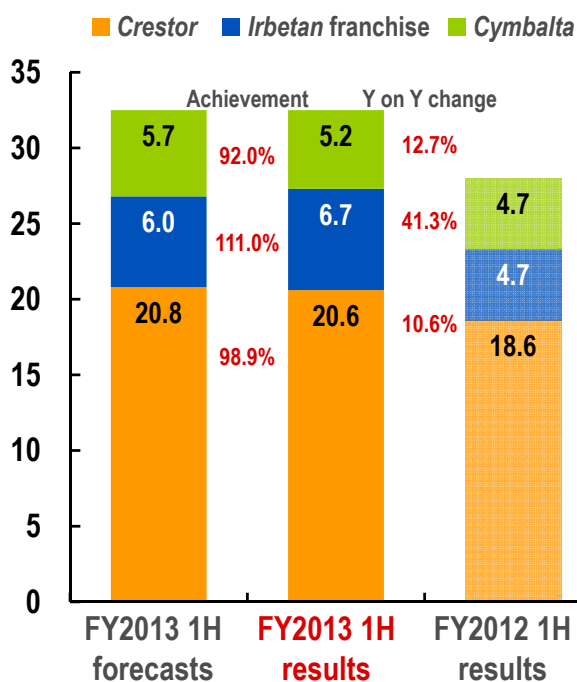
- a) Taiwan Shionogi has changed its accounting period since Jan 2012, and FY2012 1H results include 9 months from Jan to Sep 2012
- b) *Osphena* revenue recognition is based on the number of prescriptions

5

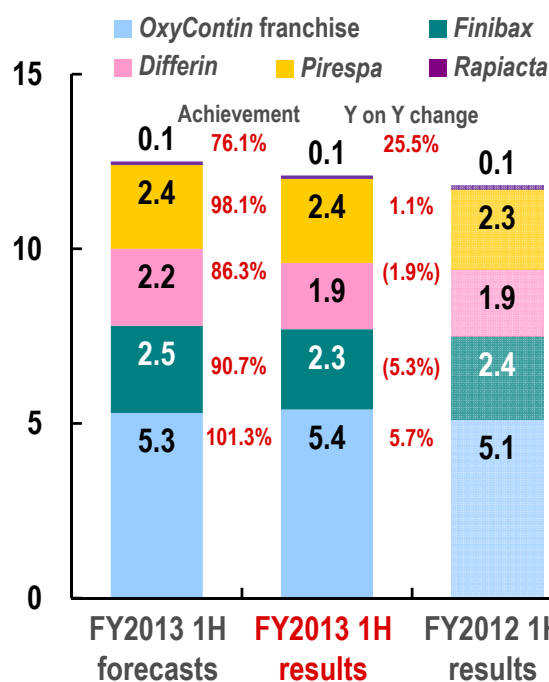
Domestic: Sales of 8 Strategic Products

(Units: B yen)

◆ 3 Key Products



◆ 5 Strategic Products



6

Statements of Income (Consolidated)

(Units: B yen)

	FY2013		Achievement (%)	FY2012 1H results	Y on Y	
	1H forecasts	1H results			change (%)	change
Sales	138.0	138.7	100.5	137.3	1.0	1.4
【Royalty income】	31.0	33.4	107.8	33.4	0.0	0.0
	28.3 [36.4]	26.9 [35.4]		29.3 [38.7]		
Cost of sales	39.0	37.2	95.5	40.2	(7.4)	(3.0)
Gross profit	99.0	101.5	102.5	97.1	4.5	4.4
SG&A expenses	75.0	73.0	97.3	70.7	3.3	2.3
Selling & general expenses	48.0	47.4	98.8	45.7	3.8	1.7
R&D expenses	27.0	25.6	94.8	25.0	2.4	0.6
Operating income	24.0	28.5	118.6	26.4	7.7	2.1
【Excluding royalty income】	(7.0)	(4.9)	-	(7.0)	-	2.1



Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties

7

Review of 1st Half FY2013 (1)

◆ Japanese Domestic Sales

- Increase in sales of eight strategic products of 11.7% Y on Y
- Total sales increased 1.5% Y on Y by maintaining sales of long listed products
- Substantially improved profitability through zero-based review of fixed cost base

◆ Shionogi Inc.

- **Osphena**: Launched on June 3, 2013
 - Steady increase in healthcare provider awareness
 - Good access for sales professionals, high level of interest from healthcare providers
 - Managed care access for > 80% of covered lives
 - TRx growth more gradual than anticipated
- Positive operating income in underlying business (excluding launch investment in *Osphena*)
 - Increased OPI over 2H FY2012, without *Osphena*



8

Review of 1st Half FY2013 (2)

◆ Crestor Royalty

- Exceeded the forecast due to strong global sales of *Crestor* by AstraZeneca in 1H 2013 and yen depreciation

◆ Cost Control

- Improve COGS to sales ratio excluding royalties by 1% compared to 1H forecast due to stable sales of Shionogi Inc. and continuous reduction of cost of sales
- Invest on *Osphena*'s early success while maintaining cost control

◆ R&D

- Accelerate the development programs within the budget while effectively leveraging internal resources
- Dolutegravir (*Tivicay*)
 - Approved by US FDA on Aug. 12, 2013
 - Indication: Combination with other antiretroviral agents for the treatment of human immunodeficiency virus type 1 (HIV-1) infection
 - FLAMINGO study results (Sep. 2013, presented at ICAAC 2013):
Once-daily dolutegravir is superior to darunavir/ritonavir in ART-naïve adults

FY2013 Financial Forecasts

Revision of FY2013 Financial Forecasts (Consolidated)

(Units: B yen)

	FY2013							FY2012	Y on Y change (%)
	full year			1H	2H				
	original	revised	change	results	original	revised	change		
Sales	287.0	284.8	(2.2)	138.7	149.0	146.1	(2.9)	282.9	0.7
Operating income	60.0	62.0	2.0	28.5	36.0	33.5	(2.5)	59.6	4.1
Ordinary income	59.0	61.0	2.0	27.8	35.0	33.2	(1.8)	58.9	3.5
Net income	37.0	43.0	6.0	21.4	22.5	21.6	(0.9)	66.7	(35.6)

Note: Decrease in tax-related expenses due to deductible losses on valuation of stocks of subsidiaries and affiliates included as extraordinary losses in non-consolidated financial results

Revision of Sales by Segments (Consolidated)

(Units: B yen)

	FY2013							FY2012	Y on Y change (%)
	full year			1H	2H				
	original	revised	change	results	original	revised	change		
Prescription drugs	170.6	168.4	(2.2)	80.9	87.5	87.5	-	165.7	1.6
Crestor	42.4	42.4	-	20.6	21.6	21.8	0.2	38.1	11.3
Irbetan franchise	12.0	13.0	1.0	6.7	6.0	6.3	0.3	10.7	21.3
Cymbalta	11.5	11.0	(0.5)	5.2	5.8	5.8	-	9.7	13.7
Total of 3 key products	65.9	66.4	0.5	32.5	33.4	33.9	0.5	58.5	13.5
OxyContin franchise	10.4	10.4	-	5.4	5.1	5.0	(0.1)	10.2	2.3
Finibax	5.2	4.8	(0.4)	2.3	2.7	2.5	(0.2)	5.0	(4.5)
Differin	4.5	4.2	(0.3)	1.9	2.3	2.3	-	4.0	4.6
Pirespa	4.6	4.6	-	2.4	2.2	2.2	-	4.5	2.0
Rapiacta	2.5	2.5	-	0.1	2.4	2.4	-	2.0	24.3
Total of 8 strategic products	93.1	92.9	(0.2)	44.4	48.1	48.5	0.4	84.2	10.3
Overseas subsidiaries/export	31.8	33.1	1.3	15.4	17.4	17.7	0.3	30.6	8.1
Shionogi Inc.	20.2	20.7	0.5	9.5	11.2	11.2	-	17.0	22.0
Osphena	5.5	5.5	-	0.1	4.7	5.4	0.7	-	-
C&O	6.0	6.0	-	2.9	3.1	3.1	-	5.8	3.2
Contract manufacturing	10.8	8.7	(2.1)	5.0	5.6	3.7	(1.9)	7.3	20.0
OTC and quasi-drugs	5.1	4.7	(0.4)	2.3	2.4	2.4	-	5.2	(9.0)
Diagnostics	1.7	1.9	0.2	0.8	1.1	1.1	-	2.2	(14.0)
Royalty income	65.0	66.0	1.0	33.4	34.0	32.6	(1.4)	69.8	(5.5)
Crestor	62.0	63.0	1.0	31.2	32.5	31.8	(0.7)	63.0	0.1
Others	2.0	2.0	-	0.9	1.0	1.1	0.1	2.1	(3.3)
Total	287.0	284.8	(2.2)	138.7	149.0	146.1	(2.9)	282.9	0.7

Revision of Statement of Income (Consolidated)

(Units: B yen)

	FY2013							FY2012	Y on Y change (%)
	full year			1H	2H				
	original	revised	change	results	original	revised	change	results	
Sales	287.0	284.8	(2.2)	138.7	149.0	146.1	(2.9)	282.9	0.7
【Royalty income】	65.0	66.0	1.0	33.4	34.0	32.6	(1.4)	69.8	(5.5)
Cost of sales	28.2 [36.5]	27.3 [35.6]		26.9 [35.4]	28.2 [36.5]	27.8 [35.7]		27.8 [36.9]	
	81.0	77.8	(3.2)	37.2	42.0	40.6	(1.4)	78.6	(1.0)
Gross profit	206.0	207.0	1.0	101.5	107.0	105.5	(1.5)	204.3	1.3
SG&A expenses	50.9	50.9		52.6	47.7	49.3		51.2	
	146.0	145.0	(1.0)	73.0	71.0	72.0	1.0	144.8	0.2
Selling & general expenses	93.0	92.0	(1.0)	47.4	45.0	44.6	(0.4)	91.7	0.3
R&D expenses	53.0	53.0	-	25.6	26.0	27.4	1.4	53.0	(0.0)
Operating income	20.9	21.8		20.5	24.2	23.0		21.1	
	60.0	62.0	2.0	28.5	36.0	33.5	(2.5)	59.6	4.1
【Excluding royalty income】	(5.0)	(4.0)	1.0	(4.9)	2.0	0.9	(1.1)	(10.3)	-



Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties

13

Forward-Looking Statements



- This presentation contains forward-looking statements. These statements are based on expectations in light of the information currently available, assumptions that are subject to risks and uncertainties which could cause actual results to differ materially from these statements.
- Risks and uncertainties include general domestic and international economic conditions such as general industry and market conditions, and changes of interest rate and currency exchange rate. These risks and uncertainties particularly apply with respect to product-related forward-looking statements. Product risks and uncertainties include, but are not limited to, completion and discontinuation of clinical trials; obtaining regulatory approvals; claims and concerns about product safety and efficacy; technological advances; adverse outcome of important litigation; domestic and foreign healthcare reforms and changes of laws and regulations. Also for existing products, there are manufacturing and marketing risks, which include, but are not limited to, inability to build production capacity to meet demand, unavailability of raw materials and entry of competitive products.
- The company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.
- This material contains information on pharmaceuticals (including compounds under development), but this information is not intended to make any representations or advertisements regarding the efficacy or effectiveness of these preparations nor provide medical advice of any kinds.



14