



# Financial Results for the Second Quarter of Fiscal Year 2014(Consolidated)

October 29, 2014

Name of Listed Company: **SHIONOGI & CO., LTD.**

Listed Exchanges: Section I of Tokyo

Code: 4507

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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, 2014 to September 30, 2014

### (1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2014	129,842	(6.4)	22,719	(18.7)	31,415	15.0	9,710	(53.9)
Six months ended September 30, 2013	138,715	1.0	27,946	—	27,314	—	21,086	—

Note: Comprehensive income Six months ended September 30, 2014 9,805 million yen ((71.2)%)  
Six months ended September 30, 2013 34,064 million yen ( — %)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Six months ended September 30, 2014	29.00	28.98
Six months ended September 30, 2013	62.96	62.93

Note: The Company changed its accounting policy for research and development expenses effective April 1, 2014. Figures for the second quarter of the fiscal year ended March 31, 2014 have been restated to reflect this change, but percentage changes from the same period of the previous fiscal year are omitted as they have not been calculated.

### (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2014	570,345	467,664	81.3
As of March 31, 2014	580,566	467,836	79.9

Reference: Shareholders' equity As of September 30, 2014: 463,876million yen As of March 31, 2014: 463,865 million yen

Note: The Company changed its accounting policy for research and development expenses effective April 1, 2014. Figures for the year ended March 31, 2014 have been restated to reflect this change.

## 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, 2014	—	22.0	—	24.0	46.0
Year ending March 31, 2015	—	24.0			
Year ending March 31, 2015 (forecast)			—	24.0	48.0

Note: Revisions of the most recent dividend forecast: None

## 3. Consolidated financial forecast for the year ending March 31, 2015

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

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2015	273,500	(5.6)	49,500	(20.0)	58,000	(6.8)	30,000	(26.1)	89.58

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

Note: The Company changed its accounting policy for research and development expenses effective April 1, 2014. For the year ending March 31, 2015, percentage changes in operating income, ordinary income and net income from the previous fiscal year are calculated using the restated figures for the year ended March 31, 2014.

## ※ 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.: Yes
  - b) Changes in accounting policies other than a) above: Yes
  - c) Changes in accounting estimates: None
  - d) Restatements: None

*Note: For details, please see "2. Summary Data (Notes) (3) Changes in Accounting Policies, Changes/Restatements of Accounting Estimates" on page 4 of the supplemental materials for the Financial Results for the Second Quarter of Fiscal Year 2014 (Consolidated).*

### (4) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)	
As of September 30, 2014:	351,136,165 shares
As of March 31, 2014:	351,136,165 shares
b) Number of treasury stock	
As of September 30, 2014:	16,230,845 shares
As of March 31, 2014:	16,242,701 shares
c) Average number of shares issued during the period	
Six months ended September 30, 2014:	334,906,733 shares
Six months ended September 30, 2013:	334,897,986 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 Statements (3) Description of Consolidated Financial Forecast" on page 3 of the supplemental materials for the Financial Results for the Second Quarter of Fiscal Year 2014 (Consolidated).*

## CONTENTS

1. Qualitative Information on Quarterly Financial Statements .....	2
(1) Description of consolidated operating results.....	2
(2) Description of consolidated financial position .....	2
(3) Description of consolidated financial forecast .....	3
2. Summary Data (Notes)	
(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries involving changes in scope of consolidation) .....	4
(2) Adoption of accounting methods specific to the preparation of quarterly consolidated financial statements .....	4
(3) Changes in accounting policies, changes/restatements of accounting estimates.....	4
3. Consolidated Financial Statements.....	5
(1) Consolidated balance sheets.....	5
(2) Consolidated statements of income and Consolidated statements of comprehensive income .....	7
Consolidated statements of income .....	7
Consolidated statements of comprehensive income .....	8
(3) Consolidated statements of cash flows .....	9
(4) Notes .....	10
Going concern assumption .....	10
Significant changes in shareholders' equity .....	10

## 1. Qualitative Information on Quarterly Financial Results

### (1) Description of Consolidated Operating Results

For the six months ended September 30, 2014 (April 1, 2014 to September 30, 2014), net sales were ¥129,842 million, operating income was ¥22,719 million, ordinary income was ¥31,415 million and net income was ¥9,710 million.

Domestic sales of prescription drugs decreased 4.9 percent compared with the same period of the previous fiscal year as weak sales of existing products and the impact of the NHI drug price revisions in April 2014 on product prices outweighed the solid performance of strategic products centered on Crestor, Irbetan and Cymbalta. Outside Japan, sales of the post-menopausal vaginal atrophy treatment Osphena by U.S. subsidiary Shionogi Inc. gradually increased, but overseas sales and exports decreased 5.2 percent overall, partly due to the impact from the sale of rights to a product in the previous fiscal year. In addition, Crestor royalties decreased 21.8 percent because of a modification of the royalty agreement in 2013. As a result, total net sales decreased 6.4 percent compared with the previous fiscal year.

Regarding profit, selling, general and administrative (SG&A) expenses decreased 6.2 percent, reflecting group-wide efforts to efficiently utilize funds for marketing and development. For research and development expenses in particular, Shionogi promoted new initiatives such as the use of external funds. However, operating income decreased 18.7 percent, in part because of a 9.6 percent decline in gross profit due to the impact of the NHI drug price revisions and the decrease in Crestor royalties. Ordinary income increased 15.0 percent, mainly due to an increase in dividends received from ViiV Healthcare Ltd. and valuation gains on foreign denominated assets due to the weak yen. Net income decreased 53.9 percent as a result of a substantial increase in tax expenses because of the provision for income taxes for prior years based on a tax reassessment notice the Company received from the Osaka Regional Taxation Bureau in September.

### (2) Description of Consolidated Financial Position

#### 1) Assets, Liabilities and Net Assets

As of September 30, 2014, total assets were ¥570,345 million, a decrease of ¥10,220 million from the end of the previous fiscal year. Current assets decreased ¥10,301 million to ¥238,591 million, mainly due to a decrease in short-term investment securities. Non-current assets were ¥331,753 million, a slight increase from the end of the previous fiscal year.

Total liabilities decreased ¥10,048 million from the end of the previous fiscal year to ¥102,681 million. Current liabilities decreased ¥11,060 million to ¥67,948 million, reflecting factors including a ¥20,000 million decrease due to redemption of bonds and an ¥11,112 million increase in income taxes payable because Shionogi recorded income taxes for prior years. Non-current liabilities increased ¥1,011 million to ¥34,732 million.

Net assets totaled ¥467,664 million, a slight decrease of ¥171 million from the end of the previous fiscal year. Shareholders' equity decreased ¥328 million to ¥450,948 million as a result of factors including an increase from net income and a decrease due to cash dividends paid. Accumulated other comprehensive income increased ¥340 million to ¥12,927 million due to a decrease in valuation difference on available-for-sale securities and an increase in positive foreign currency translation adjustment resulting from exchange rate fluctuations. Subscription rights to shares increased ¥62 million to ¥270 million and minority interests decreased ¥245 million to ¥3,517 million.

#### 2) Cash Flow

Net cash provided by operating activities during the six months ended September 30, 2014 was ¥22,346 million. Principal factors providing cash included income before income taxes and minority interests of ¥31,661 million, depreciation and amortization of ¥6,294 million, and goodwill of ¥1,406 million. Uses of cash included income taxes paid of ¥11,685 million. As a result, net cash provided by operating activities decreased ¥18,361 million compared with the same period of the previous fiscal year.

Net cash used in investing activities was ¥27,794 million, an increase of ¥21,497 million compared with the same period of the previous fiscal year, mainly due to purchase of short-term investment securities and purchase of property, plant and equipment.

Net cash used in financing activities was ¥28,061 million due to factors including redemption of bonds totaling ¥20,000 million and cash dividends paid of ¥8,030 million. Net cash used increased ¥13,652 million compared with the same period of the previous fiscal year.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥75,540 million, a decrease of ¥32,797 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, 2015, released on May 9, 2014, as follows.

#### 1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2015

	Net sales	Operating income	Ordinary income	Net income	Earnings per share
	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Yen</i>
Previous forecast (A)	269,000	45,000	50,000	33,000	98.54
New forecast (B)	273,500	49,500	58,000	30,000	89.58
Change (B-A)	4,500	4,500	8,000	(3,000)	—
Percentage change (%)	1.7	10.0	16.0	(9.1)	—
(reference) For the year ended March 31, 2014	289,717	61,875	62,225	40,618	121.29

*Note: The Company changed its accounting policy for research and development expenses effective April 1, 2014. Figures for the year ended March 31, 2014 have been restated to reflect this change.*

#### 2) Reasons for Revision of Financial Forecast

Regarding net sales, royalty income is adjusted upward to reflect the revision of exchange rate assumptions, and net sales overall are also projected to increase. Regarding income, while royalty income is expected to increase, Shionogi will aggressively carry out marketing and research and development activities during the second half. However, operating income is forecast to increase for the full fiscal year. Ordinary income is expected to increase due to the factors above in addition to exchange rate gains reflecting the revision of exchange rate assumptions. The forecast for net income is revised downward because although Shionogi plans to sell assets in the second half of the fiscal year, net income will decrease due to the prior year income taxes recorded in the first half.

## 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

### Application of Accounting Standard for Retirement Benefits, etc.

Effective April 1, 2014, the Company has applied "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) to the provisions specified in the main text of paragraph 35 of the Accounting Standard for Retirement Benefit and paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits. Accordingly, the calculation methods for retirement benefit obligation and service cost have been amended as follows: The method of attributing expected benefit to periods has been changed from a straight-line basis to the benefit formula basis, and the method of determining the discount rate has been changed from a rate based on a period that approximates the average remaining years of service of the eligible employees to the use of a single weighted average discount rate reflecting the estimated timing and amount of benefit payments. In accordance with transitional accounting as stipulated in paragraph 37 of the Accounting Standard for Retirement Benefits, the effect of the change in the calculation methods of retirement benefit obligation and service cost is recognized as an adjustment to retained earnings at the beginning of the first quarter of the year ending March 31, 2015.

As a result, net defined benefit liability increased by ¥648 million, investments and other assets (Net defined benefit asset) decreased by ¥2,478 million, and retained earnings decreased by ¥2,014 million as of April 1, 2014. In addition, operating income, ordinary income and income before income taxes for the second quarter of the year ending March 31, 2015, each increased by ¥81 million.

### Change in Accounting Policy for R&D Expenses

Previously, the Shionogi Group generally recognized the portion of R&D expenses from contract research and development when project deliverables were obtained. Effective April 1, 2014, the Shionogi Group has adopted a policy of recognizing these expenses according to the progress of research and development activities.

The Shionogi Group formerly conducted research and development centered on pharmaceuticals for patients in Japan. However, with the globalization of new drug development and marketing, research and development work has gradually shifted from work done primarily with internal resources to work contracted out to other companies. This trend is expected to continue.

In addition, the focus areas of development have been shifting from drugs for infectious diseases, which have relatively short development times, to areas with longer development times such as cardiovascular disorders and pain.

Under these circumstances, contract research expenses account for an increasing share of overall R&D expenses, and development times are becoming longer. Consequently, with the previous method in which expenses were recognized when the final result was obtained, the gap between the timing of expense recognition and the progress of research and development had become increasingly evident. Shionogi therefore judged that expense recognition according to the progress of research and development would more accurately reflect the actual situation. In light of these circumstances, Shionogi and its overseas subsidiaries began operating a progress management system for contract research and development during the first quarter of the year ending March 31, 2015, and established a framework for measuring expenses according to the progress of research and development. With these systems in place, Shionogi changed the accounting policy from April 1, 2014.

This change in accounting policy has been applied retrospectively, and the quarterly financial statements present financial information for the second quarter of the previous fiscal year and for the previous fiscal year after retrospective application. As a result, for the second quarter of the previous fiscal year, selling, general and administrative expenses (R&D expenses) increased ¥513 million, and operating income, ordinary income and income before income taxes each decreased ¥513 million compared with the amounts prior to retrospective application. In addition, retained earnings at the beginning of the previous fiscal year after retrospective application decreased by ¥3,363 million, reflecting the cumulative impact on net assets at the beginning of that fiscal year.

### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheets

Millions of yen

	As of March 31, 2014	As of September 30, 2014
<b>Assets</b>		
Current assets		
Cash and deposits	34,238	43,264
Notes and accounts receivable-trade	64,290	64,289
Short-term investment securities	80,100	56,500
Merchandise and finished goods	24,005	22,092
Work in process	11,425	13,155
Raw materials and supplies	12,938	15,255
Other	21,917	24,059
Allowance for doubtful accounts	(24)	(25)
Total current assets	248,893	238,591
Non-current assets		
Property, plant and equipment	78,976	79,434
Intangible assets		
Goodwill	42,878	43,060
Other	29,945	30,060
Total intangible assets	72,824	73,120
Investments and other assets		
Investment securities	149,519	150,282
Other	30,442	28,977
Allowance for doubtful accounts	(90)	(60)
Total investments and other assets	179,871	179,198
Total non-current assets	331,673	331,753
<b>Total assets</b>	<b>580,566</b>	<b>570,345</b>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	9,627	10,895
Current portion of bonds	20,000	—
Income taxes payable	12,392	23,504
Provision for bonuses	7,071	6,664
Provision for sales returns	4,320	3,724
Other provision	21	—
Other	25,575	23,159
Total current liabilities	79,008	67,948
Non-current liabilities		
Long-term loans payable	10,034	10,032
Net defined benefit liability	9,967	10,624
Other	13,719	14,075
Total non-current liabilities	33,721	34,732
<b>Total liabilities</b>	<b>112,730</b>	<b>102,681</b>

*Millions of yen*

	As of March 31, 2014	As of September 30, 2014
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,227
Retained earnings	429,526	429,185
Treasury stock	(19,756)	(19,744)
Total shareholders' equity	451,277	450,948
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,289	21,633
Deferred gains or losses on hedges	—	(182)
Foreign currency translation adjustment	(6,113)	(2,573)
Remeasurements of defined benefit plans	(6,588)	(5,950)
Total accumulated other comprehensive income	12,587	12,927
Subscription rights to shares	207	270
Minority interests	3,762	3,517
Total net assets	467,836	467,664
Total liabilities and net assets	580,566	570,345



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

## Consolidated statements of income

*Millions of yen*

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net sales	138,715	129,842
Cost of sales	37,246	38,146
Gross profit	101,468	91,695
Selling, general and administrative expenses	73,522	68,976
Operating income	27,946	22,719
Non-operating income		
Interest income	171	241
Dividends income	1,102	7,061
Foreign exchange gains	115	3,021
Other	407	149
Total non-operating income	1,797	10,474
Non-operating expenses		
Interest expenses	469	180
Contribution	744	528
Litigation expenses	652	357
Other	561	711
Total non-operating expenses	2,428	1,778
Ordinary income	27,314	31,415
Extraordinary income		
Gain on transfer of business	—	179
Gain on sales of investment securities	554	67
Gain on sales of noncurrent assets	4,203	—
Total extraordinary income	4,757	246
Extraordinary loss		
Loss on valuation of inventories	451	—
Total extraordinary losses	451	—
Income before income taxes and minority interests	31,621	31,661
Income taxes-current	2,705	9,078
Income taxes for prior periods	—	13,842
Income taxes-deferred	7,791	(1,003)
Total income taxes	10,497	21,917
Income before minority interests	21,123	9,744
Minority interests in income	36	33
Net income	21,086	9,710

## Consolidated statements of comprehensive income

*Millions of yen*

	Six months ended September 30, 2013	Six months ended September 30, 2014
Income before minority interests	21,123	9,744
Other comprehensive income		
Valuation difference on available-for-sale securities	2,206	(3,655)
Deferred gains or losses on hedges	417	(182)
Foreign currency translation adjustment	10,317	3,260
Remeasurements of defined benefit plans	—	638
Total other comprehensive income	12,941	61
Comprehensive income	34,064	9,805
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	33,510	10,050
Comprehensive income attributable to minority interests	554	(245)

## (3) Consolidated statements of cash flows

*Millions of yen*

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	31,621	31,661
Depreciation and amortization	6,623	6,294
Amortization of goodwill	1,330	1,406
Loss (gain) on disposal of property, plant and equipment	(4,209)	2
Loss (gain) on transfer of business	—	(179)
Interest and dividends income	(1,273)	(7,303)
Interest expenses	469	180
Foreign exchange losses (gains)	168	(2,879)
Decrease (increase) in notes and accounts receivable-trade	3,472	45
Decrease (increase) in inventories	(4,858)	(1,927)
Increase (decrease) in notes and accounts payable-trade	993	1,232
Other, net	(4,224)	(1,535)
Subtotal	30,113	26,998
Interest and dividends income received	1,263	7,245
Interest expenses paid	(467)	(211)
Income taxes (paid) refund	9,799	(11,685)
Net cash provided by (used in) operating activities	40,707	22,346
Net cash provided by (used in) investing activities		
Payments into time deposits	(4,673)	(5,270)
Proceeds from withdrawal of time deposits	4,487	5,236
Purchase of short-term investment securities	—	(18,000)
Proceeds from redemption of short-term investment securities	2,021	—
Purchase of property, plant and equipment	(3,588)	(6,592)
Proceeds from sales of property, plant and equipment	4,746	0
Purchase of intangible assets	(6,952)	(1,482)
Purchase of investment securities	(2,018)	(1,924)
Proceeds from sales of investment securities	645	152
Purchase of investments in subsidiaries	(951)	(23)
Proceeds from transfer of business	—	221
Other, net	(12)	(110)
Net cash provided by (used in) investing activities	(6,296)	(27,794)
Net cash provided by (used in) financing activities		
Repayment of long-term loans payable	(7,000)	—
Redemption of bonds	—	(20,000)
Cash dividends paid	(7,366)	(8,030)
Other, net	(43)	(31)
Net cash provided by (used in) financing activities	(14,409)	(28,061)
Effect of exchange rate change on cash and cash equivalents	326	711
Net increase (decrease) in cash and cash equivalents	20,327	(32,797)
Cash and cash equivalents at beginning of period	101,543	108,338
Cash and cash equivalents at end of period	121,871	75,540

(4) Notes

Going concern assumption

None

Significant changes in shareholders' equity

None