



Financial Results for the Second Quarter of Fiscal Year 2010

November 1, 2010

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

Listed Exchanges: Section I of Tokyo and Osaka

Code: 4507 URL: <http://www.shionogi.co.jp>

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Scheduled date of quarterly securities report submission: November 10, 2010

Scheduled date of dividend payments: December 1, 2010

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, 2010 to September 30, 2010

(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, 2010	143,366	8.1	19,228	7.8	17,696	7.9	6,862	(40.8)
Six months ended September 30, 2009	132,639	26.3	17,838	(3.4)	16,397	(13.6)	11,591	(2.1)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Six months ended September 30, 2010	20.49	—
Six months ended September 30, 2009	34.61	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2010	516,775	326,309	63.1	973.19
As of March 31, 2010	540,761	341,976	63.2	1,019.71

Reference: Shareholders' equity As of September 30, 2010: 325,923 million yen As of March 31, 2010: 341,504 million yen

2. Dividends

(Date of record)	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2010	—	18.00	—	18.00	36.00
Year ending March 31, 2011	—	20.00			
Year ending March 31, 2011 (forecast)			—	20.00	40.00

Note: Revisions to dividend forecast during this period: None

3. Consolidated financial forecast for the year ending March 31, 2011

(% shows changes from 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, 2011	283,000	1.6	54,000	3.0	51,500	1.9	30,000	(22.3)	89.58

Note: Revisions to consolidated financial forecast during this period: None

4. Others

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries involving changes in scope of consolidation): None

(2) Adoption of simplified accounting methods and accounting methods specific to quarterly consolidated financial statements: Yes

Note: For details, please see page 4 "(2) Adoption of simplified accounting methods and accounting methods specific to quarterly consolidated financial statements" of "2. Others".

(3) Changes in accounting principles, procedures and presentation methods for quarterly consolidated financial statements

a) Changes and amendments of accounting standards: Yes

b) Other changes: Yes

Note: For details, please see page 4 "(3) Changes in accounting principles, procedures and presentation methods for quarterly consolidated financial statements" of "2. Others".

(4) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of September 30, 2010: 351,136,165 shares

As of March 31, 2010: 351,136,165 shares

b) Number of treasury stock

As of September 30, 2010: 16,232,848 shares

As of March 31, 2010: 16,231,245 shares

c) Average number of shares issued during the period

Six months ended September 30, 2010: 334,903,958 shares

Six months ended September 30, 2009: 334,924,355 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 "Qualitative information regarding consolidated financial forecast" on page 3 of the supplemental materials for the "Financial Results for the Second Quarter of Fiscal Year 2010"

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1. Qualitative Information, Financial Statements

(1) Qualitative information regarding consolidated operating results

During the second quarter ended September 30, 2010, market competition in Japan's pharmaceutical industry further intensified due to factors including the implementation of National Health Insurance (NHI) drug price revisions in April 2010 that averaged 6.5 percent through the industry and the problem of patent expirations for global products. Healthcare costs faced strengthening headwinds in the United States as well, as the recovery in economic conditions was sluggish.

Under these conditions, in March 2010 the Shionogi Group announced its third medium-term business plan, which sets out initiatives for the next five years. In prescription drugs in Japan, the Shionogi Group increased its focus on initiatives for three key strategic products, the hyperlipidemia treatment Crestor, the hypertension treatment Irbetan and the antidepressant Cymbalta, which was launched in April 2010, and expanded their market shares. Moreover, declining first-quarter results for U.S. operations, the Group's first step toward globalization, emphasized the need to rebuild the business. In order to increase the efficiency of U.S. operations, the Group will implement cost reductions, including personnel reductions, and review the product lineup and drug candidates in working to shift to a business structure that secures stable sales and profits. The extraordinary losses incurred during the fiscal year ending March 31, 2011, including business structure improvement expenses and impairment loss, are results of these initiatives.

For the six months ended September 30, 2010, consolidated net sales were ¥143,366 million, operating income was ¥19,228 million, ordinary income was ¥17,696 million and net income was ¥6,862 million. Overall sales of prescription drugs in Japan increased 0.6 percent. Substantial increases in sales of Crestor, Irbetan and Cymbalta, as well as growth in sales of OxyContin/OxyNorm cancer pain analgesic, Differin topical treatment for acne vulgaris, Pirespa treatment for idiopathic pulmonary fibrosis and other additional strategic products offset decreases in other areas, particularly antibiotics, with the effects of NHI drug price revisions and market contraction. Further, royalty income increased significantly due to growth in overseas sales of Crestor by AstraZeneca. In U.S. operations, April-September 2010 sales decreased substantially compared with the same period a year earlier, but increased on a nine-month accounting basis with the addition of January-March 2010 sales as a result of a change in the accounting period. On the other hand, results for the previous fiscal year included Bushu Pharmaceuticals Ltd., and the sale of that company on March 31, 2010 was a factor decreasing sales. As a result of the above factors, consolidated net sales increased 8.1 percent from the same period of the previous fiscal year.

In terms of profit, losses from U.S. operations increased compared with the same period of the previous fiscal year, but operations outside the U.S. generally achieved profits as planned. Consequently, operating income for the six months ended September 30, 2010 increased 7.8 percent compared with the same period of the previous fiscal year and ordinary income increased 7.9 percent. Net income decreased a substantial 40.8 percent as a result of recording an extraordinary loss of ¥6,468 million related to U.S. operations. Excluding the effect of the change in the accounting period for U.S. operations to nine months, on a consolidated basis net sales increased 0.6 percent, operating income increased 11.3 percent, ordinary income increased 11.5 percent and net income decreased 35.2 percent.

(2) Qualitative information regarding consolidated financial position

(1) Assets, Liabilities and Net Assets

As of September 30, 2010, total assets were ¥516,775 million, a decrease of ¥23,986 million compared with the end of the previous fiscal year. Current assets decreased ¥9,077 million to ¥241,586 million. Non-current assets decreased ¥14,908 million to ¥275,188 million due to decreases caused by amortization of intangible assets, fluctuation in exchange rates and a decline in the fair value of investment securities.

Total liabilities decreased ¥8,319 million compared with the end of the previous fiscal year to ¥190,465 million. Current liabilities were essentially unchanged at ¥66,669 million. Non-current liabilities decreased ¥8,159 million to ¥123,796 million due to factors including a decrease in deferred tax liabilities resulting from a decline in the fair value of available-for-sale securities.

Net assets decreased ¥15,666 million compared with the end of the previous fiscal year to ¥326,309 million. Shareholders' equity increased ¥831 million to ¥355,275 million, reflecting factors including an increase from net income and a decrease due to cash dividends paid. Valuation and translation adjustments were negative 29,352 million, a decrease of ¥16,413 million, due to a decrease in unrealized holding gain on the decline in the fair value of available-for-sale securities and a more negative foreign currency translation adjustment resulting from the strong yen. As a result, the shareholders' equity ratio decreased from 63.2 percent to 63.1 percent.

(2) Cash Flow

Net cash provided by operating activities during the six months ended September 30, 2010 was ¥30,947 million, an increase of ¥10,317 million from the same period of the previous fiscal year. Principal factors providing cash included income before income taxes and minority interests of ¥11,507 million, depreciation and amortization of ¥9,980 million and a ¥12,858 million decrease in notes and accounts receivable-trade. Principal factors using cash included an increase in inventories of ¥1,394 million and income taxes paid of ¥13,684 million.

Net cash used in investing activities was ¥16,372 million, an increase in cash used of ¥11,084 million compared with the same period of the previous fiscal year. This was mainly due to purchase of property, plant and equipment totaling ¥8,150 million.

Net cash used in financing activities was ¥13,173 million, an increase in cash used of ¥21,224 million compared with the same period of the previous fiscal year. This was mainly due to repayment of loans totaling ¥7,000 million and cash dividends paid of ¥6,018 million.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥96,754 million, a decrease of ¥909 million from the end of the previous fiscal year.

(3) Qualitative information regarding consolidated financial forecast

There are no revisions to the consolidated financial forecast announced on October 22, 2010.

2. Others

(1) Significant changes in subsidiaries during the period: None

(2) Adoption of simplified accounting methods and accounting methods specific to quarterly consolidated financial statements: There are no significant matters to report.

(3) Changes in accounting principles, procedures and presentation methods for quarterly consolidated financial statements

a) Closing date of consolidated subsidiaries

Ten of Shionogi's consolidated subsidiaries are overseas subsidiaries. One overseas consolidated subsidiary closes its accounts on December 31. The consolidated financial statements have been prepared using that subsidiary's financial statements as of December 31. Necessary adjustments have been made to reflect any significant transactions occurring from January 1 to March 31.

Moreover, from the fiscal year ending March 31, 2011, Shionogi Inc. (name changed from Shionogi USA Holdings, Inc. in July 2010) and 8 other companies have changed their fiscal year-end dates to March 31.

As a result, these 9 consolidated subsidiaries will have 15-month fiscal years from January 1, 2010 to March 31, 2011.

Due to this change in fiscal years, the consolidated statements of income for the second quarter ended September 30, 2010 include the results for these companies for the nine months beginning January 1, 2010. Compared with the previous standard, net sales increased ¥9,869 million, operating income decreased ¥621 million, ordinary income decreased ¥585 million, income before income taxes and minority interests decreased ¥1,033 million, and net income decreased ¥644 million.

b) Changes in method of presentation

Due to the application of a Cabinet Office Ordinance partially revising regulations concerning financial statements (Cabinet Office Ordinance No. 5, March 24, 2009) based on "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), from the first quarter ended June 30, 2010 the Company presents "Income before minority interests."

(4) Going concern assumption: None

3. Consolidated Financial Statements**(1) Consolidated balance sheets***Millions of yen*

	As of September 30, 2010	As of March 31, 2010
Assets		
Current assets		
Cash and deposits	34,904	33,532
Notes and accounts receivable-trade	65,938	79,414
Short-term investment securities	72,000	70,677
Merchandise and finished goods	25,691	26,931
Work in process	14,607	14,058
Raw materials and supplies	10,165	8,350
Other	18,291	17,710
Allowance for doubtful accounts	(11)	(11)
Total current assets	241,586	250,664
Non-current assets		
Property, plant and equipment	65,793	62,447
Intangible assets		
Goodwill	60,982	69,874
Other	47,409	49,190
Total intangible assets	108,392	119,065
Investments and other assets		
Investment securities	65,840	71,870
Other	35,283	36,835
Allowance for doubtful accounts	(121)	(121)
Total investments and other assets	101,002	108,584
Total non-current assets	275,188	290,097
Total assets	516,775	540,761
Liabilities		
Current liabilities		
Notes and accounts payable-trade	13,796	13,400
Current portion of long-term loans payable	14,000	14,000
Income taxes payable	10,023	13,479
Provision for bonuses	6,554	6,473
Other provision	1,199	1,316
Other	21,095	18,159
Total current liabilities	66,669	66,829
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	70,000	77,000
Provision for retirement benefits	8,353	8,077
Other	15,442	16,878
Total noncurrent liabilities	123,796	131,955
Total liabilities	190,465	198,785

Millions of yen

	As of September 30, 2010	As of March 31, 2010
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,227
Retained earnings	333,504	332,669
Treasury stock	(19,735)	(19,733)
Total shareholders' equity	355,275	354,443
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	6,761	10,362
Foreign currency translation adjustment	(36,114)	(23,301)
Total valuation and translation adjustments	(29,352)	(12,939)
Minority interests	386	471
Total net assets	326,309	341,976
Total liabilities and net assets	516,775	540,761

(2) Consolidated statements of income

Millions of yen

	Six months ended September 30, 2009	Six months ended September 30, 2010
Net sales	132,639	143,366
Cost of sales	36,861	39,057
Gross profit	95,778	104,308
Selling, general and administrative expenses	77,939	85,080
Operating income	17,838	19,228
Non-operating income		
Interest income	219	237
Dividends income	648	696
Other	278	272
Total non-operating income	1,145	1,205
Non-operating expenses		
Interest expenses	897	767
Contribution	703	568
Foreign exchange losses	—	889
Other	985	512
Total non-operating expenses	2,586	2,737
Ordinary income	16,397	17,696
Extraordinary income		
Gain on forgiveness of debts	—	279
Total extraordinary income	—	279
Extraordinary loss		
Business structure improvement expenses	—	3,323
Impairment loss	—	3,145
Loss on valuation of investment securities	47	—
Total extraordinary losses	47	6,468
Income before income taxes and minority interests	16,350	11,507
Income taxes-current	6,499	8,981
Income taxes-deferred	(1,747)	(4,359)
Total income taxes	4,752	4,622
Income before minority interests	—	6,884
Minority interests in income (loss)	7	22
Net income	11,591	6,862

(3) Consolidated statements of cash flows

Millions of yen

	Six months ended September 30, 2009	Six months ended September 30, 2010
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	16,350	11,507
Depreciation and amortization	8,656	9,980
Impairment loss	—	3,145
Amortization of goodwill	1,904	2,722
Increase (decrease) in allowance for doubtful accounts	(0)	—
Interest and dividends income	(867)	(933)
Interest expenses	897	767
Foreign exchange losses (gains)	259	670
Decrease (increase) in notes and accounts receivable-trade	2,488	12,858
Decrease (increase) in inventories	(4,556)	(1,394)
Increase (decrease) in notes and accounts payable-trade	(778)	502
Other, net	5,032	4,651
Subtotal	29,385	44,477
Interest and dividends income received	881	931
Interest expenses paid	(730)	(776)
Income taxes paid	(8,907)	(13,684)
Net cash provided by (used in) operating activities	20,630	30,947
Net cash provided by (used in) investing activities		
Payments into time deposits	(2,487)	(2,158)
Proceeds from withdrawal of time deposits	2,177	2,217
Purchase of short-term investment securities	(464)	(10,031)
Proceeds from sales of short-term investment securities	2,342	8,042
Purchase of property, plant and equipment	(4,260)	(8,150)
Proceeds from sales of property, plant and equipment	5	11
Purchase of investment securities	(3,711)	(2,934)
Proceeds from redemption of investment securities	5,000	—
Collection of loans receivable	97	1
Other, net	(3,987)	(3,370)
Net cash provided by (used in) investing activities	(5,288)	(16,372)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(10,000)	—
Proceeds from long-term loans payable	337	—
Repayment of long-term loans payable	(7,000)	(7,000)
Proceeds from issuance of bonds	30,000	—
Cash dividends paid	(4,688)	(6,018)
Cash dividends paid to minority shareholders	(2)	(2)
Other, net	(594)	(152)
Net cash provided by (used in) financing activities	8,051	(13,173)
Effect of exchange rate change on cash and cash equivalents	383	(2,310)
Net increase (decrease) in cash and cash equivalents	23,776	(909)
Cash and cash equivalents at beginning of period	51,536	97,663
Cash and cash equivalents at end of period	75,312	96,754

(4) Going concern assumption

None

(5) Segment information**Business segment information**

Six months ended September 30, 2009 (April 1, 2009 to September 30, 2009)

Business segment information has been omitted because pharmaceuticals and related businesses operations account for more than 90% of net sales and operating income in all segments.

Geographical segment information

Six months ended September 30, 2009 (April 1, 2009 to September 30, 2009)

Millions of yen

	Japan	North America	Other	Total	Eliminations and corporate	Consolidated
Net sales						
(1) Sales to third parties	113,405	18,370	863	132,639	—	132,639
(2) Inter-group sales and transfers	146	1,638	27	1,812	(1,812)	—
Total	113,552	20,009	890	134,452	(1,812)	132,639
Operating income (loss)	18,867	669	205	19,743	(1,904)	17,838

Overseas sales

Six months ended September 30, 2009 (April 1, 2009 to September 30, 2009)

Millions of yen

	Europe	North America	Other	Total
I. Overseas sales	23,037	22,505	2,102	47,644
II. Consolidated net sales	—	—	—	132,639
III. Overseas sales as a percentage of consolidated net sales	17.3%	17.0%	1.6%	35.9%

Segment information

Shionogi group has a single business segment related to prescription drugs. The group operates research, development, purchase, manufacturing, and distributing prescription drugs and related businesses. While analysis of each product sales and profits or expenses of each subsidiary are made, decision of business strategy and allocation of the management resources, especially allocation of R&D expenses, are made on a company-wide basis. Therefore disclosure of segment information is omitted.

(6) Significant changes in shareholders' equity

None