



Financial Results for the Second Quarter of Fiscal Year 2012(Consolidated)

November 2, 2012

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

Listed Exchanges: Section I of Tokyo and Osaka

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

Representative: Isao Teshirogi, President

Contact responsibility: Hiroki Takagi, General Manager of Corporate Communications Department

Tel.: (06)6202-2161

Scheduled date of quarterly securities report submission: November 9, 2012

Scheduled date of dividend payments: December 3, 2012

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, 2012 to September 30, 2012

(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, 2012	137,322	10.7	26,106	43.1	25,095	36.2	14,863	81.2
Six months ended September 30, 2011	124,000	(13.5)	18,239	(5.1)	18,429	4.1	8,203	19.5

Note: Comprehensive income Six months ended September 30, 2012 10,577 million yen (- %) Six months ended September 30, 2011 (52) million yen (- %)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Six months ended September 30, 2012	44.38	44.36
Six months ended September 30, 2011	24.50	24.49

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2012	512,684	351,149	67.9
As of March 31, 2012	522,161	347,198	65.9

Reference: Shareholders' equity As of September 30, 2012: 348,042 million yen As of March 31, 2012: 344,216 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
Year ended March 31, 2012	Yen —	Yen 20.00	Yen —	Yen 20.00	Yen 40.00
Year ending March 31, 2013	—	20.00			
Year ending March 31, 2013 (forecast)			—	20.00	40.00

Note: Revisions of the most recent dividend forecast: None

3. Consolidated financial forecast for the year ending March 31, 2013

(% 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, 2013	283,000	5.9	56,000	19.1	54,000	17.2	32,000	18.1	95.55

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

※ 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: Yes

c) Changes in accounting estimates: Yes

d) Restatements: None

Note: Falls under Article 10, paragraph 5 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements. 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 2012 (Consolidated)

(4) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of September 30, 2012: 351,136,165 shares

As of March 31, 2012: 351,136,165 shares

b) Number of treasury stock

As of September 30, 2012: 16,234,094 shares

As of March 31, 2012: 16,240,245 shares

c) Average number of shares issued during the period

Six months ended September 30, 2012: 334,900,195 shares

Six months ended September 30, 2011: 334,897,709 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, Financial Statements (3) Qualitative information regarding consolidated financial forecast" on page 3 of the supplemental materials for the Financial Results for the Second Quarter of Fiscal Year 2012 (Consolidated)

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1. Qualitative Information on Quarterly Financial Results

(1) Qualitative Information on Consolidated Operating Results

During the six months ended September 30, 2012, the market environment of Japan's pharmaceutical industry grew increasingly challenging following the implementation in April 2012 of National Health Insurance (NHI) drug price revisions with an industry average reduction of 6%. Overseas, companies must create innovative new drugs to survive.

Regarding net sales for the six months ended September 30, 2012, sales of prescription drugs increased 1.2 percent, compensating for the decrease in sales due to NHI drug price revisions for strategic products. In addition, U.S. subsidiary Shionogi Inc. was able to maintain stable sales, significantly improving from the same period of the previous fiscal year, when it recorded sales deductions. Chinese subsidiary C&O Pharmaceutical Technology (Holdings) Limited (C&O) also contributed to consolidated net sales. On the other hand, royalty income decreased. As a result, overall net sales were ¥137,322 million, an increase of 10.7 percent compared with the same period of the previous fiscal year.

Regarding profit, gross profit increased 12.3 percent compared with the same period of the previous fiscal year. Negative factors included the reduced profitability of prescription drugs due to the NHI drug price revisions and the decrease in royalty income, while a change in the depreciation method was a positive factor in lowering costs, together with the substantial improvement in results of Shionogi Inc. from the same period of the previous fiscal year. Because the increase in selling, general and administrative expenses was limited to 4.1 percent, operating income for the six months ended September 30, 2012 increased 43.1 percent compared with the same period of the previous fiscal year to ¥26,106 million, and ordinary income increased 36.2 percent to ¥25,095 million. Net income was ¥14,863 million, a substantial 81.2 percent increase due in part to an extraordinary loss incurred by Shionogi Inc. in the same period of the previous fiscal year.

(2) Qualitative Information on Consolidated Financial Position

1) Assets, Liabilities and Net Assets

As of September 30, 2012, total assets were ¥512,684 million, a decrease of ¥9,477 million compared with the end of the previous fiscal year. Current assets decreased ¥3,577 million from the end of the previous fiscal year to ¥237,354 million due to factors including decreases in notes and accounts receivable—trade and raw materials and supplies. Non-current assets decreased ¥5,900 million to ¥275,330 million.

Total liabilities decreased ¥13,428 million compared with the end of the previous fiscal year to ¥161,534 million. Current liabilities decreased ¥3,367 million to ¥78,696 million due to factors including an increase in notes and accounts payable—trade, although the Shionogi Group redeemed ¥10,000 million in straight bonds. Non-current liabilities decreased ¥10,061 million to ¥82,838 million due to a decrease in long-term loans payable, among other factors.

Net assets increased ¥3,951 million compared with the end of the previous fiscal year to ¥351,149 million. Shareholders' equity increased ¥8,172 million to ¥383,608 million due to factors including an increase from net income and a decrease due to cash dividends paid. Accumulated other comprehensive income was negative ¥35,566 million, ¥4,345 million less than at the end of the previous fiscal year, primarily due to a decrease in foreign currency translation adjustment resulting from changes in exchange rates. Subscription rights to shares increased ¥64 million and minority interests increased ¥60 million.

2) Cash Flow

Net cash provided by operating activities during the six months ended September 30, 2012 was ¥32,975 million. Principal factors providing cash included income before income taxes and minority interests of ¥24,783 million, depreciation and amortization of ¥5,962 million and a ¥4,200 million increase in notes and accounts payable–trade, while principal factors using cash included income taxes paid of ¥9,222 million. As a result, net cash provided by operating activities increased ¥9,661 million compared with the same period of the previous fiscal year.

Net cash used in investing activities was ¥8,853 million due to purchase of property, plant and equipment and other factors. Net cash used decreased ¥16,488 million compared with the same period of the previous fiscal year when the Group purchased shares of C&O.

Net cash used in financing activities was ¥23,829 million due to factors including repayment of long-term loans payable totaling ¥7,000 million, cash dividends paid of ¥6,688 million and redemption of bonds totaling ¥10,000 million. Net cash used increased ¥9,994 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 ¥98,322 million, a decrease of ¥364 million from the end of the previous fiscal year.

(3) Qualitative Information on Consolidated Financial Forecast

Based on recent performance trends, the Shionogi Group has revised its consolidated financial forecast released on May 9, 2012, as follows.

1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2013

	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)	289,000		56,000		54,000		32,000		95.55
New forecast (B)	283,000		56,000		54,000		32,000		95.55
Change (B-A)	(6,000)		—		—		—		—
Percentage change (%)	(2.1)		—		—		—		—
(reference) For the year ended March 31, 2012	267,275		47,003		46,093		27,101		80.93

2) Reasons for Revision of Financial Forecast

In the second half of the fiscal year ending March 31, 2013, exports of doripenem, contract manufacturing of Cymbalta, royalty income and other items are expected to be less than initially projected, reducing the net sales forecast by about ¥6 billion for the fiscal year. Regarding profits, due to projections of an improvement in costs and a decrease in research and development expenses due to a change in the structure of its joint venture with GlaxoSmithKline of the U.K. and ViiV Healthcare Ltd. of the U.K. for its integrase inhibitor portfolio, there is no change to the forecasts of operating income and ordinary income for the fiscal year. Although the Shionogi Group expects to record extraordinary income in connection with the structural change mentioned above, at the same time it expects to record a certain amount of extraordinary loss in connection with the revised valuation of goodwill and intangible assets-other (marketing rights). Because that amount had not been determined at the time this forecast was prepared, the forecast of net income remains unchanged from the initial forecast.

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

Change in Method of Depreciation

The Shionogi Group have changed their method of depreciation for property, plant and equipment to the straight-line method as of the year ending March 31, 2013 from the declining balance method mainly used in the past.

Under the third medium-term business plan from fiscal 2010, the Shionogi Group is implementing a fundamental strategy of generating steady growth by transitioning its organization away from its former focus on products that grew rapidly soon after launch to a focus on eight strategic products that are expected to generate stable, long-term earnings. In addition, the Shionogi Group is developing globally by establishing bases in North America, Europe and Asia with the objective of globalizing new drug development.

Aiming to expand sales of the eight strategic products mentioned above, the Shionogi Group has nearly completed programs to consolidate and strengthen production facilities that included constructing a plant for solid preparations and strengthening tablet and granulation facilities. In addition, the Shionogi Group expects the eight strategic products to exceed 50 percent of prescription drug sales in Japan for the first time during fiscal 2012, and to account for a higher percentage in the future. A consolidated subsidiary established in the United Kingdom, Shionogi Ltd., began operations in fiscal 2012, giving the Shionogi Group bases in North America, Europe and Asia. The Shionogi Group took this opportunity to review and change its method of depreciation for property, plant and equipment to the straight-line method for the reasons below because the Shionogi Group decided this would present its financial position more appropriately.

1. The Shionogi Group formerly focused on products that grew rapidly soon after launch, which enabled comparatively faster facility investment cost recovery. With the transition to a focus on eight strategic products that are expected to generate stable, long-term earnings, facility utilization should be more level and stable.
2. Consolidated overseas subsidiaries have conventionally mainly used the straight-line method. The Shionogi Group therefore needed to standardize its accounting policies with the use of the straight-line method to effectively and efficiently allocate resources among its unified network of bases in Japan, North America, Europe and Asia, and to support the construction, maintenance and operation of its global R&D, production and sales organization.

For the second quarter of fiscal 2012, the effect of this change compared with the former method increased Gross profit by ¥225 million, operating income by ¥1,399 million, and ordinary income and income before income taxes and minority interests by ¥1,428 million, respectively.

Additional Information

Change in closing date of consolidated subsidiary

As of the current fiscal year, the fiscal year end date of Taiwan Shionogi & Co., Ltd. has been changed from December 31 to March 31, the closing date of the consolidated financial statements. As a result of this change, the financial statements of Taiwan Shionogi & Co., Ltd. for the current fiscal year cover the 15 months from January 1, 2012 to March 31, 2013. Accordingly, its results for the nine-month period from January 1, 2012 to September 30, 2012 are consolidated in these second-quarter financial results. For the period from January 1, 2012 to March 31, 2012, after eliminating intercompany transactions, Taiwan Shionogi & Co., Ltd.'s net sales, operating income, ordinary income and income before income taxes and minority interests are ¥382 million, ¥144 million, ¥148 million and ¥148 million, respectively.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2012	As of September 30, 2012
Assets		
Current assets		
Cash and deposits	18,427	15,668
Notes and accounts receivable-trade	65,568	63,602
Short-term investment securities	86,556	88,763
Merchandise and finished goods	26,040	25,811
Work in process	12,662	13,041
Raw materials and supplies	11,418	9,936
Other	20,275	20,540
Allowance for doubtful accounts	(17)	(10)
Total current assets	240,931	237,354
Non-current assets		
Property, plant and equipment	74,282	77,392
Intangible assets		
Goodwill	63,572	59,880
Other	43,121	39,351
Total intangible assets	106,694	99,231
Investments and other assets		
Investment securities	63,568	62,348
Other	36,783	36,439
Allowance for doubtful accounts	(97)	(81)
Total investments and other assets	100,253	98,706
Total non-current assets	281,230	275,330
Total assets	522,161	512,684
Liabilities		
Current liabilities		
Notes and accounts payable-trade	8,613	12,800
Current portion of long-term loans payable	14,000	14,000
Current portion of bonds	10,000	—
Income taxes payable	9,891	10,885
Provision for bonuses	6,745	6,999
Provision for sales returns	5,356	5,778
Other provision	25	—
Other	27,430	28,232
Total current liabilities	82,063	78,696
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term loans payable	49,000	42,024
Provision for retirement benefits	8,793	8,891
Other	15,106	11,921
Total non-current liabilities	92,899	82,838
Total liabilities	174,963	161,534

Millions of yen

	As of March 31, 2012	As of September 30, 2012
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,227
Retained earnings	353,676	361,840
Treasury stock	(19,746)	(19,738)
Total shareholders' equity	375,436	383,608
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,729	7,922
Deferred gains or losses on hedges	(141)	429
Foreign currency translation adjustment	(38,809)	(43,917)
Total accumulated other comprehensive income	(31,220)	(35,566)
Subscription rights to shares	58	123
Minority interests	2,923	2,983
Total net assets	347,198	351,149
Total liabilities and net assets	522,161	512,684

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

Consolidated statements of income

Millions of yen

	Six months ended September 30, 2011	Six months ended September 30, 2012
Net sales	124,000	137,322
Cost of sales	37,523	40,213
Gross profit	86,476	97,109
Selling, general and administrative expenses	68,237	71,003
Operating income	18,239	26,106
Non-operating income		
Interest income	213	185
Dividends income	663	622
Other	1,207	304
Total non-operating income	2,085	1,112
Non-operating expenses		
Interest expenses	667	605
Contribution	669	664
Other	558	853
Total non-operating expenses	1,894	2,123
Ordinary income	18,429	25,095
Extraordinary income		
Gain on sales of noncurrent assets	509	228
Gain on sales of investment securities	152	551
Total extraordinary income	661	779
Extraordinary loss		
Loss on valuation of investment securities	142	1,091
Impairment loss	1,570	—
Loss on penalty	1,187	—
Loss on disaster	1,089	—
Business structure improvement expenses	546	—
Total extraordinary losses	4,536	1,091
Income before income taxes and minority interests	14,554	24,783
Income taxes-current	9,216	10,278
Income taxes-deferred	(2,865)	(382)
Total income taxes	6,350	9,896
Income before minority interests	8,203	14,887
Minority interests in income	—	24
Net income	8,203	14,863

Consolidated statements of comprehensive income

Millions of yen

	Six months ended September 30, 2011	Six months ended September 30, 2012
Income before minority interests	8,203	14,887
Other comprehensive income		
Valuation difference on available-for-sale securities	(846)	192
Deferred gains or losses on hedges	509	570
Foreign currency translation adjustment	(7,919)	(5,072)
Total other comprehensive income	(8,256)	(4,309)
Comprehensive income	(52)	10,577
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(52)	10,517
Comprehensive income attributable to minority interests	—	60

(3) Consolidated statements of cash flows*Millions of yen*

	Six months ended September 30, 2011	Six months ended September 30, 2012
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	14,554	24,783
Depreciation and amortization	7,183	5,962
Impairment loss	1,570	—
Amortization of goodwill	1,610	1,874
Increase (decrease) in Provision for loss on disaster	(1,117)	—
Interest and dividends income	(877)	(807)
Interest expenses	667	605
Foreign exchange losses (gains)	29	359
Decrease (increase) in notes and accounts receivable-trade	5,283	1,860
Decrease (increase) in inventories	(2,941)	1,229
Increase (decrease) in notes and accounts payable-trade	1,230	4,200
Other, net	7,596	1,898
Subtotal	34,790	41,967
Interest and dividends income received	890	810
Interest expenses paid	(622)	(579)
Income taxes paid	(11,743)	(9,222)
Net cash provided by (used in) operating activities	23,314	32,975
Net cash provided by (used in) investing activities		
Payments into time deposits	(2,499)	(4,157)
Proceeds from withdrawal of time deposits	1,653	4,425
Purchase of short-term investment securities	(19)	(19)
Proceeds from sales and redemption of short-term investment securities	2,085	2,020
Purchase of property, plant and equipment	(9,379)	(5,726)
Proceeds from sales of property, plant and equipment	3,740	460
Purchase of intangible assets	(10,363)	(2,896)
Purchase of investment securities	(4,178)	(4,949)
Proceeds from sales of investment securities	4,177	2,191
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(10,584)	—
Other, net	25	(201)
Net cash provided by (used in) investing activities	(25,342)	(8,853)
Net cash provided by (used in) financing activities		
Repayment of long-term loans payable	(7,000)	(7,000)
Redemption of bonds	—	(10,000)
Cash dividends paid	(6,687)	(6,688)
Other, net	(147)	(140)
Net cash provided by (used in) financing activities	(13,835)	(23,829)
Effect of exchange rate change on cash and cash equivalents	(927)	(657)
Net increase (decrease) in cash and cash equivalents	(16,790)	(364)
Cash and cash equivalents at beginning of period	110,691	98,687
Cash and cash equivalents at end of period	93,900	98,322

(4) Going concern assumption

None

(5) Significant changes in shareholders' equity

None