



1st Half of Fiscal 2016 Financial Results

October 31, 2016



Agenda

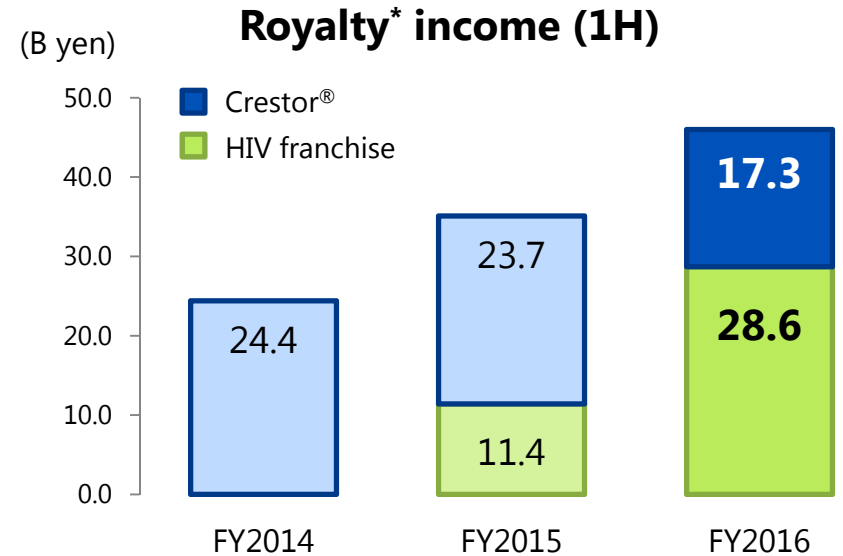
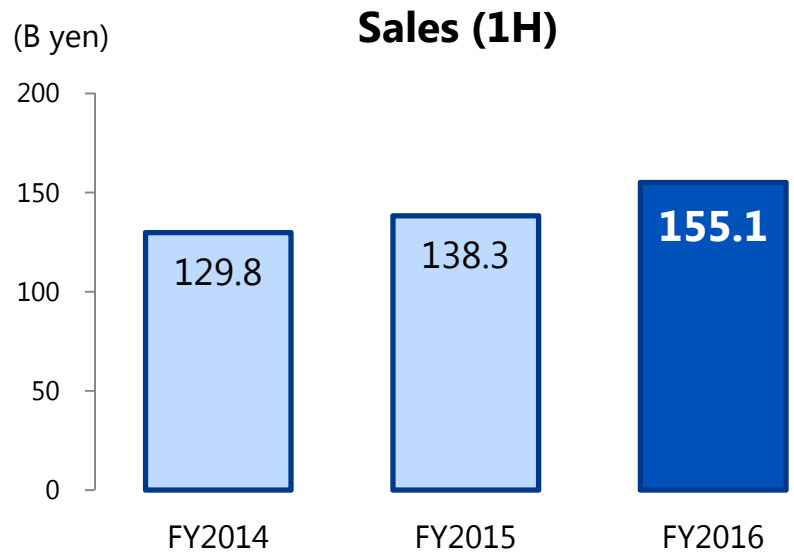


- **1st Half FY2016 Financial Results**
- FY2016 Financial Forecasts
- Dividend Forecasts

Summary of 1H FY2016: Strong Top-line Growth



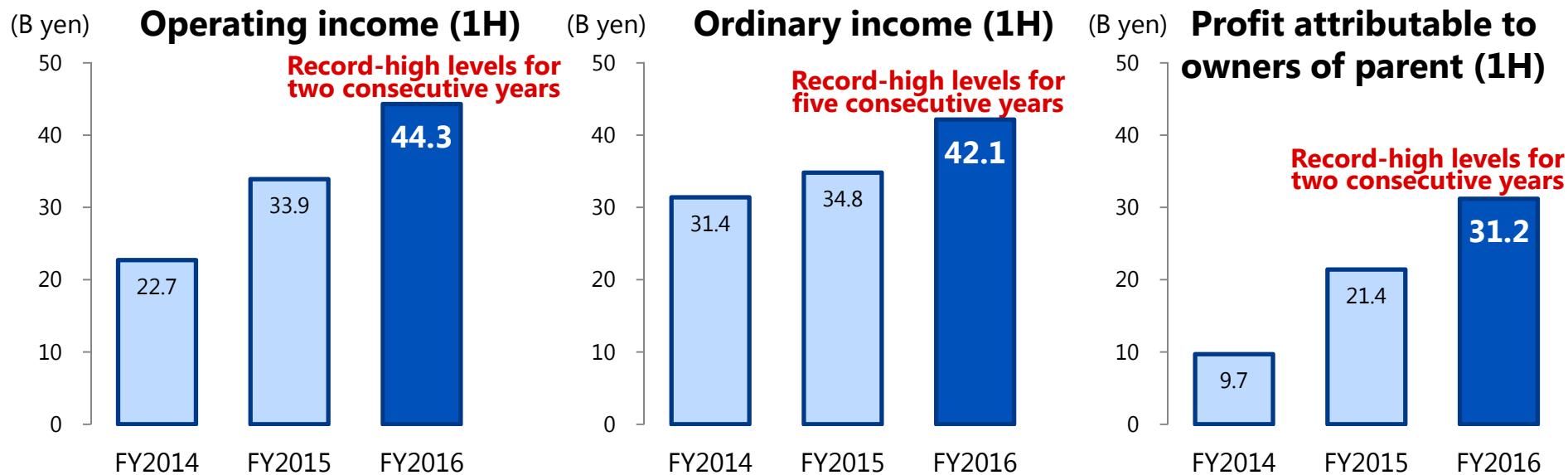
- Net sales: **155.1 B yen** vs 1H forecasts (107.0%)
- Royalty* income: **46.0 B yen** vs 1H forecasts (108.2%)



Summary of 1H FY2016: Profits Higher Than the Levels Achieved in 1H of Prior Fiscal Year



- Operating income: **44.3 B yen** (134.2%) vs 1H forecasts
- Ordinary income: **42.1 B yen** (127.7%) vs 1H forecasts
- Profit attributable to owners of parent: **31.2 B yen** (148.6%) vs 1H forecasts



Financial Results (Consolidated)



(Unit B yen)

	FY2016			FY2015 results	YoY change (%)
	1H Forecasts*	1H results	Progress vs forecasts		
Sales	145.0	155.1	107.0%	138.3	12.2%
Operating income	33.0	44.3	134.2%	33.9	30.5%
Ordinary income	33.0	42.1	127.7%	34.8	21.1%
Profit attributable to owners of parent	21.0	31.2	148.6%	21.4	45.9%

Exchange rate (average)	FY2016 forecasts	FY2016 1H results
USD (\$) – JPY (¥)	110	105.26
GBP (£) – JPY (¥)	155	144.81
EUR (€) – JPY (¥)	130	118.13

Agenda



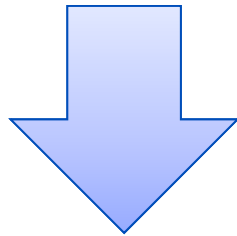
- 1st Half FY2016 Financial Results
- **FY2016 Financial Forecasts**
- Dividend Forecasts

Key Points of Revision of FY2016 Financial Forecasts



Increased from original forecasts

- **Royalty income from HIV franchise**
- **Investments for growth drivers: S-033188 and cefiderocol**



- **Strengthen and enhance Japanese/overseas business**
- **Total cost management**

Exceed original FY2016 profit targets while expanding investment in growth drivers

Revision of FY2015 Financial Forecasts (Consolidated)



(Unit B yen)

	FY2016			FY2015 results	YoY change (%)
	original	revised	change		
Sales	318.0	334.0	16.0	310.0	7.8%
Operating income	91.5	97.5	6.0	91.4	6.7%
Ordinary income	101.5	105.5	4.0	100.9	4.6%
Profit attributable to owners of parent	71.0	76.0	5.0	66.7	14.0%

Exchange rate (average)	FY2016 forecasts (original)	FY2016 forecasts (revised)	change
USD (\$) – JPY (¥)	110	105	5
GBP (£) – JPY (¥)	155	140	15
EUR (€) – JPY (¥)	130	120	10

Agenda



- 1st Half FY2016 Financial Results
- FY2016 Financial Forecasts
- **Dividend Forecasts**

Dividend Forecasts



- Maximize enterprise value by balancing three key factors: return to shareholders, investment for further growth and strategic opportunities
- Sharing our mid- to long-term profit growth with our shareholders by increasing returns as appropriate
- Dividend forecast for FY2016: **68 yen**

	Dividend per share			DOE	Payout ratio
	half-year	year-end	annual		
FY2015	28.00	34.00	62.00	4.1%	30.3%
FY2016	34.00	34.00 <small>(forecast)</small>	68.00 <small>(forecast)</small>	4.3%	28.9%

【Appendix】

Japan: Sales of Strategic Products



(Unit B yen)

	FY2016				FY2015	YoY	
	full year forecasts (original)	1H forecasts	1H results	Progress vs forecasts (%)	1H results	change (%)	change
Crestor[®]	41.5	20.9	21.9	105.1	20.4	7.5	1.5
Cymbalta[®]	19.3	8.9	8.9	100.2	7.2	23.7	1.7
Irbetan[®] franchise	15.1	7.4	7.8	104.7	8.3	(6.3)	(0.5)
Total of 3 key products	75.9	37.2	38.6	103.9	35.9	7.6	2.7
OxyContin[®] franchise	10.5	5.5	5.0	91.1	5.2	(2.6)	(0.2)
Finibax[®]	3.9	2.0	1.8	87.7	2.1	(16.8)	(0.3)
Pirespa[®]	6.3	3.3	3.0	91.8	2.8	9.0	0.2
Rapiacta[®]	2.3	0.1	0.1	118.2	(0.0)	-	0.1
Total of 7 strategic products	99.0	48.1	48.5	100.9	45.9	5.7	2.6
[percent of sales]	[62.5%]	[63.0%]	[61.3%]		[58.6%]		
Prescription drugs	158.2	76.3	79.2	103.8	78.4	0.9	0.8

Prescription Drugs Increased by 0.9% to 0.8 B Yen



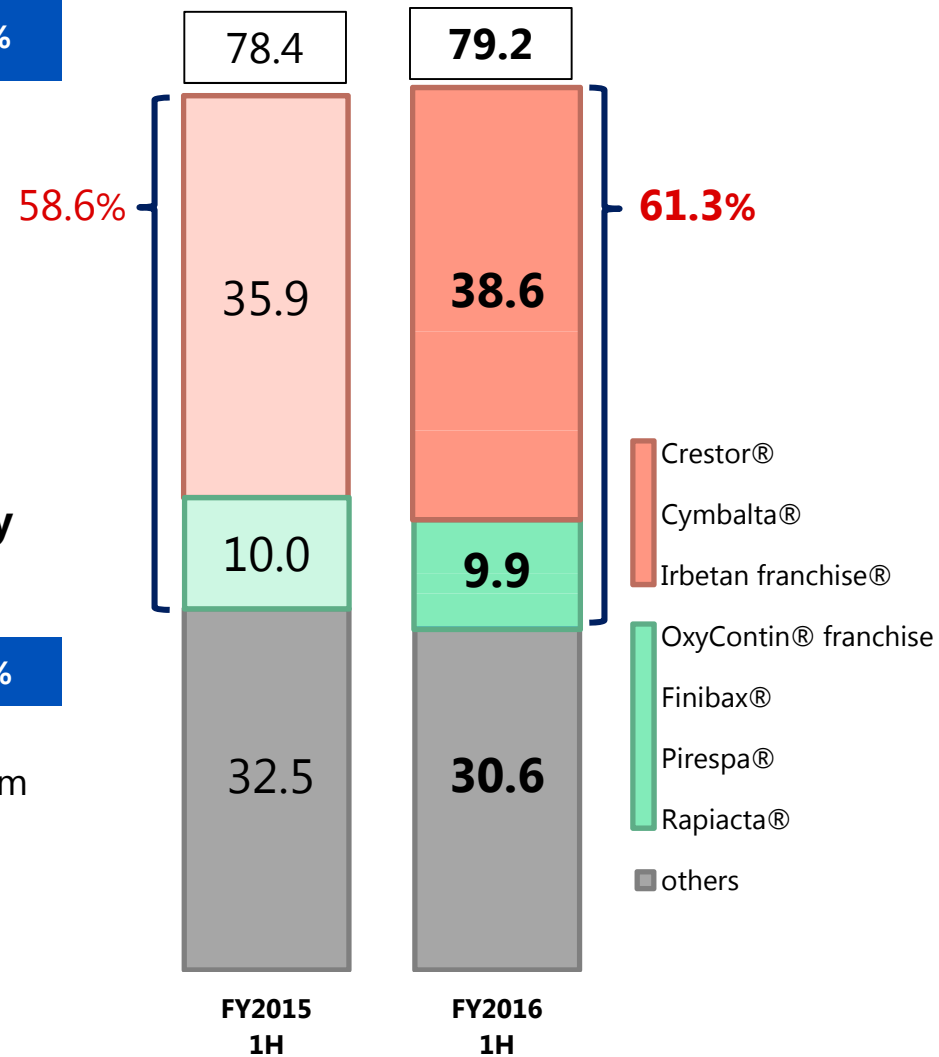
(Unit B yen)

Strategic products YoY changes +2.6 B yen, +5.7%

- **Crestor® increased to 1.5 B yen**
 - Launched OD Tablets
 - Activation of marketing activities
- **Cymbalta® increased to 1.7 B yen**
 - Focused resources on maximizing the product value
 - Expanded sales in depression and depressive symptoms
 - Increased awareness in pain area
- **Percent of strategic products increased by 61.3%**

Other drugs YoY changes (1.9) B yen, (5.7)%

- **Increased in Mulpleta® adoption**
 - Mulpleta® alleviate burden by avoiding risks from blood transfusion
- **Government stockpiling of Rapiacta®**
(Recorded 1.3 B yen as sales of other drugs)



Sales of Main Merchandise and Finished Goods (Consolidated)



(Unit B yen)

	FY2016				FY2015	YoY	
	full year forecasts (original)	1H forecasts *	1H results	Progress vs forecasts (%)	1H results	change (%)	change
Prescription drugs	158.2	76.3	79.2	103.8	78.4	0.9	0.8
Overseas subsidiaries/export	24.7	12.4	15.3	123.4	14.7	3.7	0.6
Shionogi Inc.	12.4	6.0	9.1	152.1	8.4	8.0	0.7
Osphena®	5.3	2.6	2.0	77.7	2.6	(22.4)	(0.6)
Contract manufacturing	10.9	5.3	5.4	101.5	3.7	46.4	1.7
OTC and quasi-drugs	7.0	3.5	3.4	97.5	2.6	33.3	0.8
Royalty income	114.9	46.3	50.6	109.3	37.5	35.2	13.1
Royalty income for the sales of Crestor® and HIV franchise	95.0	42.5	46.0	108.1	35.0	31.2	11.0
Crestor®	33.0	16.5	17.3	105.0	23.7	(26.8)	(6.4)
HIV franchise	62.0	26.0	28.6	110.1	11.4	152.0	17.2
Others	2.4	1.2	1.2	103.3	1.4	(14.4)	(0.2)
Total	318.0	145.0	155.1	107.0	138.3	12.2	16.8

Net Sales Increased by 12.2% to 16.8 B Yen



(Unit B yen)

Prescription drugs YoY changes
+0.8 B yen, +0.9%

- Growth of strategic products

Royalty income YoY changes
+13.1 B yen, +35.2%

- **Crestor® (6.4) B yen:** Generic entries in the US
- **HIV franchise +17.2 B yen:** Continued growth
- Others
 - Licensed out early research program to Sanofi
 - Received milestone payment from GSK

Overseas subsidiaries/export YoY changes
+0.6 B yen, +3.7%

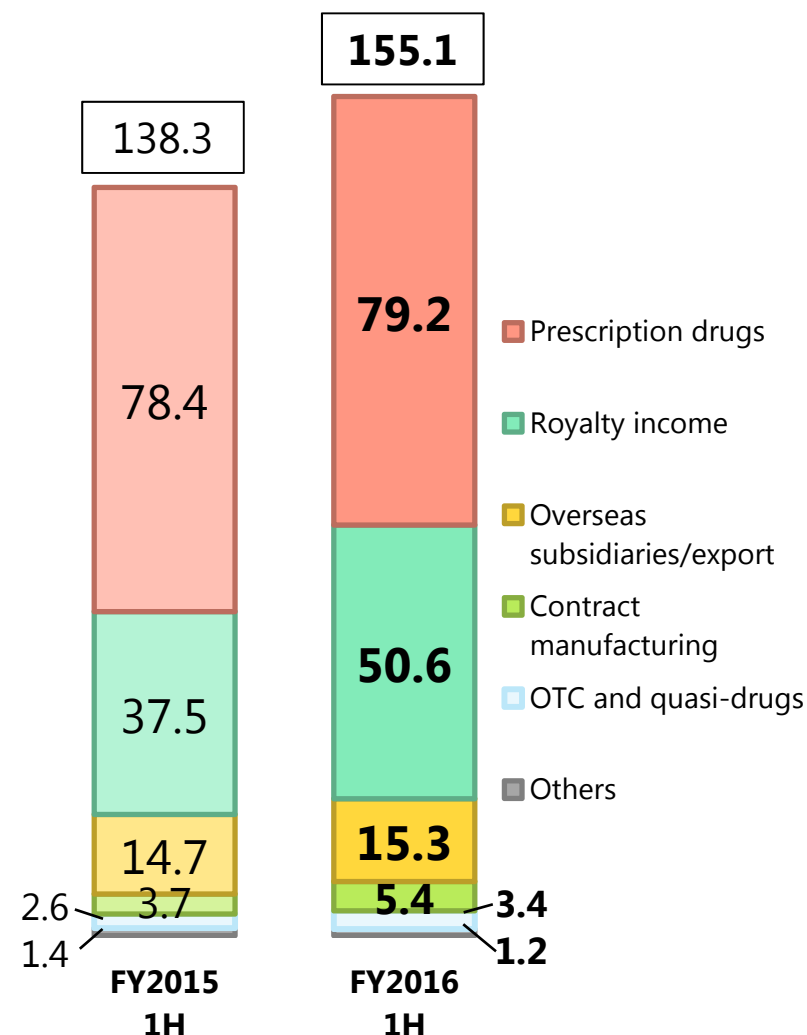
- **SI:** Royalty from authorized generic was higher than expectation

Contract manufacturing YoY changes
+1.7 B yen, +46.4%

- Growth of API for dolutegravir

OTC and quasi-drugs YoY changes
+0.8 B yen, +33.3%

- **ISODINE®**, new products were launched in Sep.



Statements of Income (Consolidated)



(Unit B yen)

	FY2016				FY2015	YoY	
	full year forecasts (original)	1H forecasts *	1H results	Progress vs forecasts (%)	1H results	change (%)	change
Sales	318.0	145.0	155.1	107.0	138.3	12.2	16.8
[Royalty** income]	95.0	42.5	46.0	108.2	35.0	31.2	11.0
	24.5 [35.0]	26.6 [37.6]	25.0 [35.5]		26.4 [35.3]		
Cost of sales	78.0	38.5	38.7	100.5	36.5	6.2	2.2
Gross profit	240.0	106.5	116.4	109.3	101.8	14.3	14.6
	46.7	50.7	46.5		49.1		
SG&A expenses	148.5	73.5	72.1	98.1	67.9	6.2	4.2
	31.0	33.8	29.3		33.3		
Selling & general expenses	98.5	49.0	45.4	92.7	46.1	(1.3)	(0.7)
	15.7	16.9	17.2		15.8		
R&D expenses	50.0	24.5	26.7	108.8	21.8	22.1	4.9
	28.8	22.8	28.6		24.5		
Operating income	91.5	33.0	44.3	134.2	33.9	30.5	10.4
[Excluding royalty** income]	(3.5)	(9.5)	(1.7)	-	(1.1)	-	-
Non-operating income and expenses	P10.0	-	L2.1	-	P0.9	-	(3.0)
	31.9	22.8	27.2		25.2		
Ordinary income	101.5	33.0	42.1	127.7	34.8	21.1	7.3

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

* The consolidated earnings forecasts announced on May 11, 2016 were written here, and the revisions to the forecasts were announced on Oct. 24, 2016

** Royalty income from AstraZeneca (Crestor®) and ViiV (HIV franchise)

Operating Income increased by 30.5% to 10.4 B Yen, Higher Than the Levels Achieved in 1H of Prior Fiscal Year



(Unit B yen)

Cost of sales Cost of sales ratio: (1.4)%

- Increase of royalty income improved cost of sales ratio
- Cost of sales ratio excluding royalty income increased 0.2% due to product mix, NHI price revisions and expansion of contract manufacturing of API for dolutegravir

SG&A expenses SG&A expense ratio: (2.6)%

- Strategic investment by focusing on efficiency and prioritization and total cost management
 - Selling & general expenses ratio: (4.0)%
 - R&D expenses ratio: +1.4%

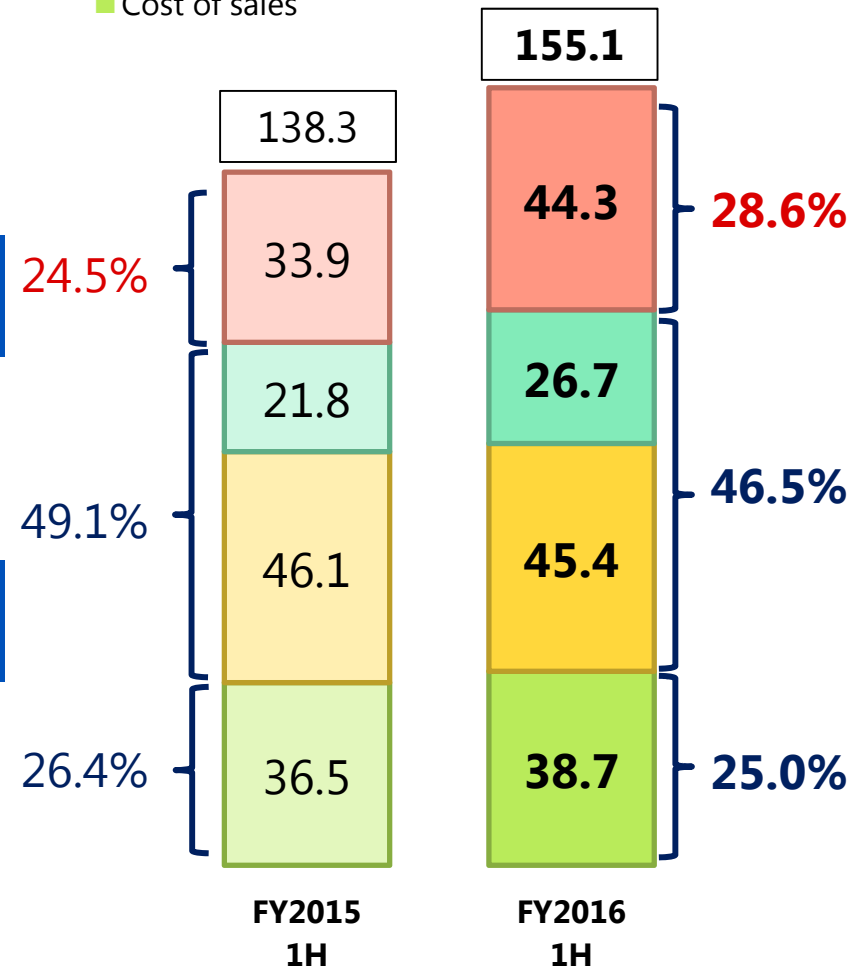
Operating income Operating income ratio: +4.1%

- Operating income was **44.3 B yen**: Higher than the levels achieved in 1H of prior fiscal year

Non-operating income and expenses: (2.1) B yen

Ordinary income was **42.1 B yen**: Higher than the levels achieved in 1H of prior fiscal year

- Operating income
- R&D expenses
- Selling & general expenses
- Cost of sales



Revision of Sales of Main Merchandise and Finished Goods (Consolidated)



(Unit B yen)

	FY2016			FY2015 results	YonY change (%)
	original	revised	change		
Prescription drugs	158.2	160.2	2.0	162.1	(1.2)
Crestor®	41.5	42.9	1.4	43.7	(1.9)
Cymbalta®	19.3	19.3	-	15.2	26.8
Irbetan® franchise	15.1	15.8	0.7	15.7	0.5
Total of 3 key products	75.9	77.9	2.0	74.6	4.5
OxyContin® franchise	10.5	9.9	(0.6)	10.0	(1.4)
Finibax®	3.9	3.6	(0.3)	3.8	(4.1)
Pirespa®	6.3	6.0	(0.3)	6.0	0.1
Rapiacta®	2.3	2.3	-	2.0	14.2
Total of 7 strategic products	99.0	99.8	0.8	96.5	3.5
[percent of sales]	[62.5%]	[62.3%]		[59.5%]	
Overseas subsidiaries/export	24.7	24.8	0.1	29.7	(16.5)
Shionogi Inc.	12.4	13.6	1.2	16.6	(18.1)
Osphena®	5.3	4.8	(0.5)	4.8	(1.0)
Contract manufacturing	10.9	12.4	1.5	8.4	46.6
OTC and quasi-drugs	7.0	7.0	-	4.9	44.3
Royalty income	114.9	112.3	(2.6)	101.8	10.3
Royalty income for the sales of Crestor® and HIV franchise	95.0	103.0	8.0	88.1	16.9
Crestor®	33.0	32.8	(0.2)	47.6	(31.2)
HIV franchise	62.0	70.2	8.2	40.5	73.5
Others	2.4	17.2	14.8	3.0	474.9
Total	318.0	334.0	16.0	310.0	7.8

Revision of Statement of Income (Consolidated)



(Unit B yen)

	FY2016			FY2015 results	YoY change (%)
	original	revised	change		
Sales	318.0	334.0	16.0	310.0	7.8
[Royalty* income]	95.0	103.0	8.0	88.1	16.9
	24.5	23.4		24.1	
	[35.0]	[33.8]		[33.7]	
Cost of sales	78.0	78.0	-	74.8	4.3
	46.7	47.5		46.4	
SG&A expenses	148.5	158.5	10.0	143.8	10.2
	31.0	29.3		30.3	
Selling & general expenses	98.5	98.0	(0.5)	94.0	4.2
	15.7	18.1		16.1	
R&D expenses	50.0	60.5	10.5	49.8	21.5
	28.8	29.2		29.5	
Operating income	91.5	97.5	6.0	91.4	6.7
[Excluding royalty* income]	(3.5)	(5.5)	(2.0)	3.3	-
Non-operating income and expenses	P10.0	P8.0	(2.0)	P9.5	(15.5)
	31.9	31.6		32.5	
Ordinary income	101.5	105.5	4.0	100.9	4.6

Pipeline (as of Oct. 2016)



Non-clinical	Phase I	Phase II	Phase III	NDA submission
Antibody drug candidate against Pseudomonas NTE inhalation	【Global】 S-033188 Influenza virus infection S-120083 Inflammatory pain S-117957 Insomnia S-237648 Obesity	Cefiderocol (S-649266) Multidrug-resistant Gram-negative bacterial infections S-707106 Type2 diabetes S-488210 Head and neck squamous cell carcinoma S-222611 Malignant tumor S-588410 Bladder cancer	S-033188 Influenza virus infection Cefiderocol (S-649266) Multidrug-resistant Gram-negative bacterial infections Lusutrombopag Thrombocytopenia Osphena® Vaginal dryness associated with postmenopausal VVA	Naldemedine Opioid-induced constipation
	【Japan】 Oxycodone Tamper resistant formulation S-120083 Inflammatory pain S-010887 Neuropathic pain S-600918 Neuropathic pain	Cefiderocol (S-649266) Multidrug-resistant Gram-negative bacterial infections S-237648 Obesity S-525606 Allergic rhinitis caused by Japanese cedar allergen S-588410 Bladder cancer	S-033188 Influenza virus infection S-033188 Influenza virus Infection (pediatric) Cefiderocol (S-649266) Multidrug-resistant Gram-negative bacterial infections Lisdexamfetamine ADHD (pediatric) Guanfacine hydrochloride ADHD (adult) Oxycodone Moderate to severe chronic pain Actair® Pediatric patients with perennial allergic rhinitis S-555739 Allergic rhinitis S-588410 Esophageal cancer	Naldemedine Opioid-induced constipation Cymbalta® Pain associated with osteoarthritis Guanfacine hydrochloride ADHD (pediatric)
				Infectious diseases Pain/CNS Metabolic disorder Frontier

Pipeline (as of Oct. 2016)



Non-clinical	Phase I	Phase II	Phase III	NDA submission
<p>【Out-licensed】</p> <p>GSK3342830 Multidrug-resistant Gram-negative bacterial infections</p> <p>Janssen/Shionogi Project compound Alzheimer's disease</p>		<p>Cabotegravir + rilpivirine LAP Treatment for HIV infection</p> <p>Cabotegravir LAP Prevention for HIV infection</p>	<p>Dolutegravir + rilpivirine Treatment for HIV infection</p> <p>Dolutegravir + lamivudine Treatment for HIV infection</p> <p>Janssen/Shionogi BACE inhibitor Alzheimer's disease</p>	<p>Infectious diseases</p> <p>Pain/CNS</p>

Forward-Looking Statements



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