Our Medium-Term Management Plan:

Current Progress, Long-Term Potential

SHIONOGI ANNUAL REPORT

2008

Year ended March 31, 2008

SHIONOGI & CO., LTD.

The Company Policy of Shionogi

(Established in 1957)

Shionogi's purpose

Shionogi strives constantly to provide medicine of the best possible kind essential for protection of the health of the people.

For this purpose, Shionogi will need to

Pursue the search for even better medicine.

Produce even better medicine.

Promote the word of even better medicine to an even greater number of people so that an even greater number of people will be able to use such medicine.

Pursue, produce and promote in an even more economical manner.

For this purpose, Shionogi people will need to

Strive ceaselessly day after day to improve their skills.

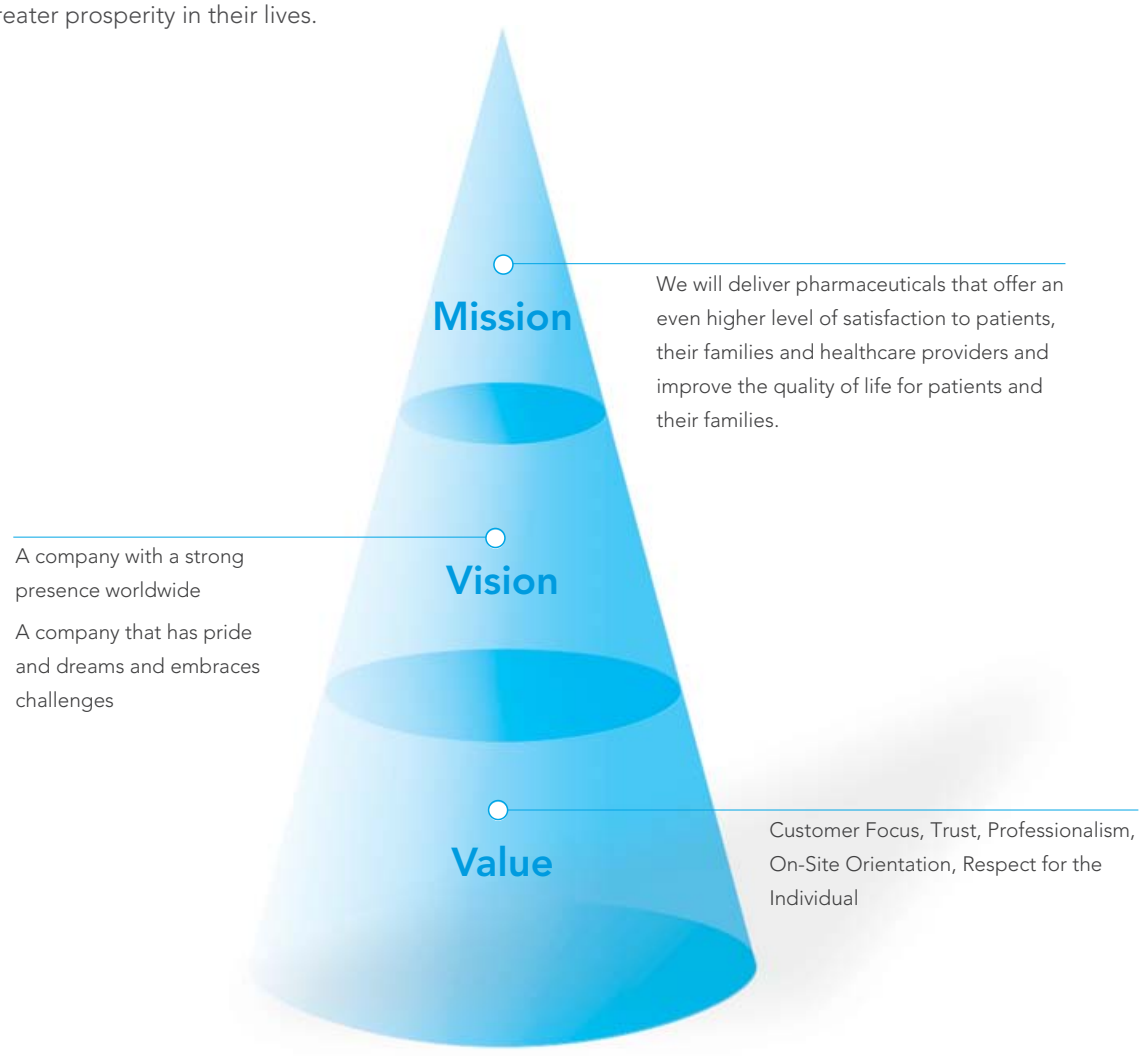
Strive ceaselessly day after day to improve as human beings.

As a result, Shionogi people will

Find even greater satisfaction in their daily work and in their daily lives.

Find even greater improvement in the quality of their lives.

Find even greater prosperity in their lives.



Shionogi's Action Guidelines

Editorial Policy

The Annual Report for the fiscal year ended March 31, 2008 is a key tool for informing all stakeholders about Shionogi's various economic, social and environmental activities. Contents have been edited for ease of understanding. Details and related information are also available on the Company website (http://www.shionogi.co.jp/).

Period under Review

Fiscal 2007 (April 1, 2007 - March 31, 2008)

Certain activities continuing into fiscal 2008 and thereafter are also included.

Scope and Organization

The Annual Report encompasses the activities of Shionogi & Co., Ltd., its eleven consolidated subsidiaries and five affiliates.

The section entitled Shionogi's Environmental Activities covers business facilities of Shionogi & Co., Ltd. and eight of its domestic and overseas subsidiaries. In this report, "Shionogi" refers to Shionogi & Co., Ltd. and all its on-site subsidiaries. "Domestic subsidiaries" refers to the two domestic manufacturing subsidiaries (Bushu Pharmaceuticals Ltd. and Nichia Pharmaceutical Industries Ltd.) and two domestic non-manufacturing subsidiaries (Shionogi General Service Co., Ltd. and Saishin Igaku Co., Ltd.), and "overseas subsidiary" refers to Taiwan Shionogi & Co., Ltd. "Shionogi Group" refers to all the aforementioned companies.

Notes Concerning Numerical Values and Graphs

All numerical values are rounded to the nearest unit, as applicable. Totals may not match due to rounding.

Contents

Forward-Looking Statements

This report 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 to forward-looking statements concerning existing products and those under development. 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.

For existing products, there are also manufacturing and marketing risks, which include, but are not limited to, inability to build production capacity to meet demand, unavailability of raw materials and competition with other companies' 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 report 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 pharmaceuticals nor provide medical advice of any kind.

Financial Highlights

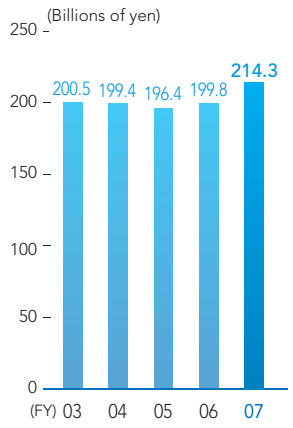
Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen			% change	Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008/2007	2008
For the year ended March 31:					
Net sales	¥214,268	¥199,759	¥196,389	7.3 %	$2,138,617
Operating income	40,399	28,863	29,226	40.0	403,224
Income before income taxes and minority interests	39,963	31,723	38,798	26.0	398,872
Net income	25,064	18,595	22,735	34.8	250,165
Research and development expenses	40,290	37,456	32,257	7.6	402,136
Capital investments	11,661	11,411	5,386	2.2	116,389
Depreciation and amortization	10,666	8,798	8,653	21.2	106,458
As of March 31:					
Total assets	¥413,704	¥429,569	¥427,683	(3.7)%	$4,129,195
Net assets (Note 2)	342,236	345,752	337,434	(1.0)	3,415,870
Per share amounts (in yen and U.S. dollars):					
Net income	¥ 74.21	¥ 54.61	¥ 66.55	35.9 %	$ 0.74
Net assets	1,020.31	1,014.73	989.76	0.5	10.18
Cash dividends applicable to the year	22.00	16.00	16.00	37.5	0.22
Number of employees	4,982	4,958	4,997		

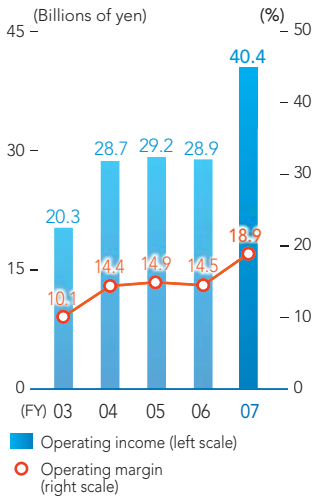
Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥100.19 = US$1.00, the approximate rate of exchange on March 31, 2008.

2. From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former shareholders' equity, valuation and translation adjustments, and minority interests as total net assets. Total net assets for the fiscal year ended March 31, 2006 have been calculated in conformity with the new standard.

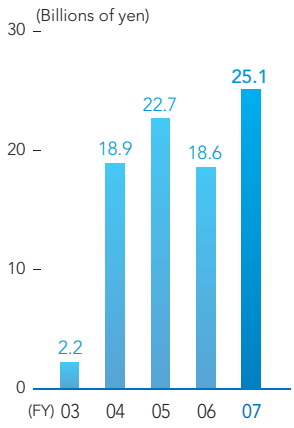
Net Sales



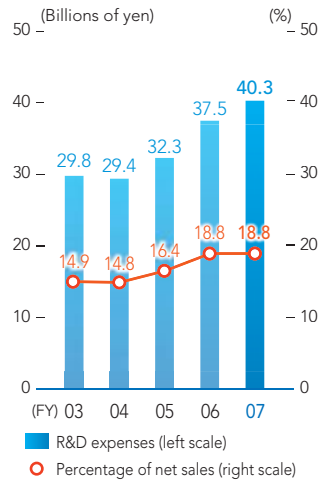
Operating Income / Operating Margin



Net Income



R&D Expenses / Percentage of Net Sales



To Our Stakeholders

In fiscal 2007, the midway point of the second medium-term management plan, the measures we have introduced and implemented began to yield results, and we achieved record profits. With these and other accomplishments, we have established a solid foundation for further growth. In fiscal 2008, under a new management structure, the Shionogi Group will work together toward further growth centered on the prescription drug business and accelerate the establishment of a foundation for global development as it moves to achieve the goals of the second medium-term management plan.

Motozo Shiono　　Isao Teshirogi, Ph.D.

Performance in Fiscal 2007

Business conditions in the pharmaceutical industry in Japan remained challenging in fiscal 2007, the year ended March 31, 2008. The government further strengthened policies to contain the cost of pharmaceuticals, including promotion of generic drug use and the Diagnosis Related Group/Prospective Payment System (DRG/PPS), in order to restrain rising healthcare costs. At the same time, competition in sales and marketing and R&D that includes global corporations intensified further.

Under these conditions, the Shionogi Group continued to aggressively prepare for long-term growth centered on the prescription drug business in line with the second medium-term management plan (from April 2005 through March 2010). As a result, consolidated net sales increased 7.3 percent compared with the previous year to ¥214.3 billion. Growth in sales of prescription drugs and higher royalty income from industrial property rights contributed to an increase in gross profit, which absorbed the increase in research and development expenses and selling expenses. Operating income thus increased 40.0 percent to ¥40.4 billion, a record high, and net income rose 34.8 percent to ¥25.1 billion.

Shionogi's basic policy for profit distribution is to steadily increase dividends in line with performance while aggressively investing in its business to enhance corporate value with a medium-to-long-term perspective. Based on this policy, Shionogi paid a year-end dividend of ¥12 per share. Combined with the interim dividend, total dividends for fiscal 2007 were ¥22 per share, an increase of ¥6 per share from the previous year, resulting in a payout ratio of 29.6 percent.

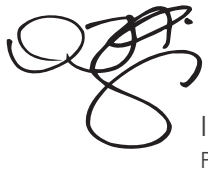
Toward Higher Corporate Value

On April 1, 2008, Isao Teshirogi was appointed president of Shionogi. Establishing a global development and marketing structure while enhancing the development pipeline and strengthening the domestic sales force will remain critical to the Company's growth. Under the new management structure centered on President Teshirogi, Shionogi will concentrate on achieving the goals of the second medium-term management plan, and move even more aggressively to globalize its operations to ensure long-term growth.

We look forward to the continuing support and guidance of our shareholders and all our stakeholders.

August 2008

Motozo Shiono
Chairman and Representative Director



Isao Teshirogi, Ph.D.
President and Representative Director

Interview with President Isao Teshirogi

Isao Teshirogi, Ph.D.
President and Representative Director

Isao Teshirogi, who was appointed president of Shionogi in April 2008, discusses the progress and results of the second medium-term management plan and Shionogi's business strategies for fiscal 2008 and beyond.

How would you assess Shionogi's performance in fiscal 2007, the first year of the revised management plan?

We announced the revised version of the medium-term management plan in April 2007. Chairman Shiono was president in the first year of the revised plan, and he was strongly determined to do whatever it takes to achieve our goals. Under his leadership, we made smooth progress in both research and development and sales and marketing based on the business infrastructure created through our growth strategy and the reforms we have implemented. As a result, sales and profits increased — in fact, profits reached their highest level since the Company was publicly listed.

In research and development, Shionogi focused investment of resources on the three target areas of infectious diseases, pain and metabolic syndrome, as well as frontier areas such as allergy treatments. Our promising drug candidates are advancing through development stages on schedule. Currently, S-2367 (anti-obesity agent) is in Phase IIb clinical trials, S-777469 (agent for atopic dermatitis) and S-021812 (anti-influenza agent) are in Phase IIa, and S-349572 (anti-HIV agent) is in Phase I.

In sales and marketing, we expanded sales by concentrating resources on Crestor®, a core hyperlipidemia treatment product. Conditions in Japan's pharmaceutical market remain challenging due to factors including the Diagnosis Related Group/Prospective Payment System (DRG/PPS) for medical expenses, reduction of National Health Insurance (NHI) drug prices, and promotion of the use of generic drugs. In these conditions, Crestor® achieved substantial sales growth, despite being the sixth statin-based hyperlipidemia treatment on the market. Crestor® has grown into a product with annual sales of over ¥10 billion, which is highly significant. As a result, in fiscal 2007, Shionogi increased sales of prescription drugs in Japan for the first time in eight years. This gives me confidence that our strategy of concentrating promotional efforts on fewer products will yield substantial benefits.

Moreover, I believe that this performance is also a result of our focus on sales and marketing activities intended to restore Shionogi's traditional strength in the hospital market. We steadily implemented various new initiatives including the adoption of new medical representative (MR) performance evaluations centered on Crestor®

and other new products, special training programs for MRs responsible for advanced treatment hospitals, and lectures and forums for clinicians.

On the other hand, several important tasks remain to be dealt with. Although strategic products such as Crestor®, cancer pain analgesic OxyContin® and allergic disease treatment Claritin® performed well, sales of carbapenem antibiotic Finibax® and new quinolone antibiotic Avelox®, which are also strategic products targeted for sales expansion, were lower than expected. In addition, manufacturing cost reductions fell short of our target, which is partly attributable to the external factor of higher oil and raw material prices. These are major issues that we need to address.

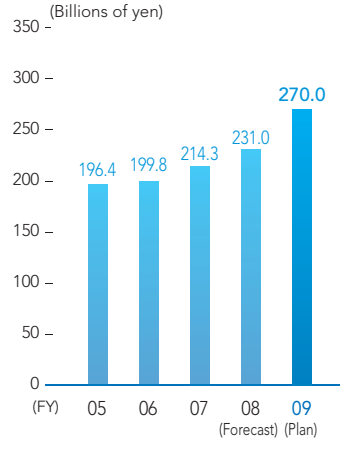
Chairman Shiono placed the highest priority on accelerating expansion of overseas business when he was president. What is your mission as Shionogi's new president and what are your ideas for Shionogi's continuing growth in the next five to ten years?

When Chairman Shiono became president in 1999, he foresaw the future contraction of the domestic prescription drug market, and set a future strategy for overseas expansion focusing on the prescription drug business. In building the infrastructure to support its entry into overseas markets, through the first and second medium-term plans, we steadily restructured our business operations to concentrate on prescription drugs, and reformed our R&D structure so that we would always have at least six or seven original compounds in our pipeline in clinical development. We now have a well-stocked development pipeline and are positioned for full-scale overseas expansion. Therefore, I believe that the responsibility I inherited from Chairman Shiono is to establish a strong overseas business platform.

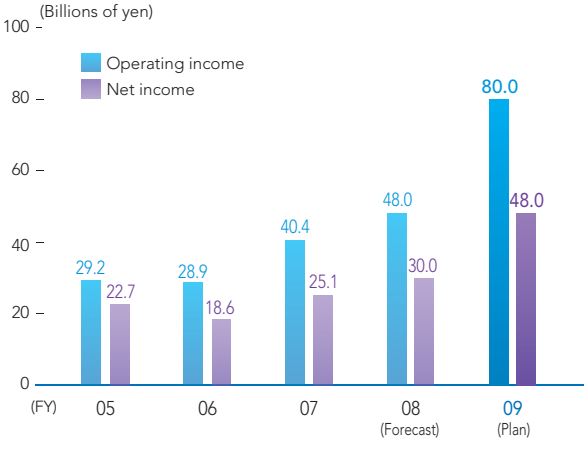
Specifically, Crestor® is now generating healthy royalty income, which contributes directly to growth in operating income. We expect this royalty income to increase to ¥60 billion in fiscal 2009. However, because the patents on Crestor® will expire from 2016 to 2017, we need to create a structure over the next eight years to support continuous growth to replace that ¥60 billion. I consider this my most important mission.

To ensure Shionogi's continuous growth, it is vital that we launch at least two or three original world-class drugs with strong growth potential over the next eight years, and establish infrastructure capable of expanding their sales. If we expect to achieve a certain level of sales in 2016 to 2017, then calculating backward, we need to file new drug applications (NDAs) for those drugs five years before that time, and obtain approval and begin sales no later than three years before. Candidate drugs are those that will be in Phase II or Phase III clinical trials at the end of fiscal 2009, the last year of the second medium-term management plan. The compounds currently in our pipeline that qualify, in addition to S-2367, S-777469 and

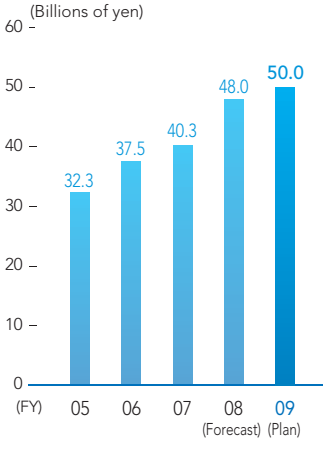
Net Sales



Operating Income / Net Income



R&D Expenses



S-349572, are S-888711, a thrombocytopenia treatment, and S-555739, a treatment for allergic diseases, which are currently in Phase I, as well as compounds for which clinical trials are set to begin during fiscal 2008. I believe that launching two or three of these is absolutely necessary.

If we can significantly expand sales centered on these new products in overseas markets by 2016 to 2017, and add those to sales growth in the domestic market, I believe we will be able to cover the decrease in operating income due to expiration of the patents on Crestor®. By doing so, we will contribute to society as a company that is capable of sustained growth.

How do you plan to upgrade Shionogi's organizational framework to achieve this major expansion of overseas sales?

In research and development, we plan to create infrastructure that enables us to develop multiple original products simultaneously in Japan, the United States and Europe. Currently, we are cultivating our own overseas development expertise through Shionogi USA, our development subsidiary in the United States, but we will also consider co-development with other companies depending on each product's growth potential. For example, S-2367 is currently in Phase IIb, but from Phase III we would like to select a co-development and co-marketing partner with strong development and marketing capabilities in the U.S. primary care market. In Europe, we will need a development base as early as fiscal 2009, and plan to begin concrete studies for it.

In marketing, while our decisions will partly hinge on the development status of S-2367, which is currently the item furthest along in clinical trials, we plan to choose marketing partners according to the potential of each product. This does not include anti-HIV agents such as S-349572, which is under development and will be marketed by Shionogi-GlaxoSmithKline Pharmaceuticals. We will also consider establishing our own marketing network in the United States.

The second medium-term management plan has two years remaining. What measures are you taking to achieve plan targets, and what is your policy for fiscal 2008?

● Research and Development

In fiscal 2008, we will have as many as five novel compounds in Phase II simultaneously: S-2367, for which overseas Phase IIb trials are already under way, and S-777469, S-349572, S888711 and S-555739. This will require substantial development investment. Under the second medium-term management plan, we intend to expand research and development investment to the ¥50 billion level in fiscal 2009, but we need to clarify development priorities and invest strategically.

We are now conducting clearly prioritized research activities to achieve our goals of moving two or more candidate compounds into clinical trials and creating four or more development candidates each year. We are also focusing on measures to enhance new drug discovery. As part of that effort, we held FINDS (PHarma-INnovation Discovery competition Shionogi), a drug discovery competition for the purpose of uncovering the seeds of original new drugs, for the second time in June 2008. The first FINDS competition in fiscal 2007 attracted 242 entries, mainly from universities in Japan, and we selected 11 of them. Impact and response to the results has been considerable. Going forward, we plan to invite government institutions and private think tanks to participate, and will even consider expanding the program overseas in the medium-to-long term, with the aim of converting dormant ideas from around the world into Shionogi products. Through these and other measures, we will work to expand and enhance new drug discovery and steadily move the resulting compounds into our research program.

● The new research laboratory, slated for completion in 2010, will be our core research facility.

We are also expanding collaborative research with universities. In May 2008, we opened the Shionogi Innovation Center for Drug Discovery on the campus of Hokkaido University. In addition, to expand our research capacity, we have decided to invest approximately ¥14 billion to build a new research laboratory that will become our core research facility. Construction is slated for completion in 2010.

In development, we have five candidate compounds in the drug candidate selection stage: an analgesic, an alleviator of opioid-induced adverse effects, an anti-dyslipidemia agent, an anti-allergy agent, and a molecular targeted anti-cancer drug. Other compounds, such as S-2367, are moving steadily through clinical development.

● Sales and Marketing Activities

In sales and marketing activities, we plan to expand sales by continuing to concentrate resources on new products, with a focus on Crestor®. First, we will conduct extensive promotional activities for Crestor® and antihypertensive Irbetan® to boost Shionogi's presence in the area of metabolic syndrome. We will also focus on efficiently expanding sales of strategic products such as Finibax® and Avelox® in the area of infectious diseases and OxyContin® in the area of pain through lectures, educational activities and other initiatives. Finally, we will work to ensure the successful launches of Differin® Gel, a topical treatment for acne vulgaris, and pirfenidone, a treatment for idiopathic pulmonary fibrosis. Through these actions, we will steadily achieve our sales targets.

In efforts to strengthen sales and marketing, our interviews with medical professionals and others indicate that Shionogi's message is getting through. However, the results of our promotional activities have not been fully reflected in sales. From this perspective, we still have room to improve. The Strategic Sales Planning Department, established in April 2008, will strategically implement measures that support MR activities, such as determining allocation of resources for the products we want to focus on, distinguishing between head office functions and work to be done by MRs in the field, and effectively distributing sales and marketing costs.

How do you plan to reduce manufacturing and other costs, which is one of your stated management priorities?

Cost of sales is currently at about 32 percent of net sales. This is high relative to other companies in the industry, so we have set challenging targets and are moving to increase productivity and improve procurement. We plan to reduce manufacturing costs by expanding production of solid dosage forms of Irbetan®, pirfenidone and other drugs at a new ¥6 billion facility at the Settsu Plant that is scheduled to be completed in fall 2008. In addition, we will move to build a systematic production system in order to expand exports of carbapenem antibiotic Doribax® (doripenem), for which Johnson & Johnson received approval in the United States in October 2007.

Our first management task will be reducing selling, general and administrative (SG&A) expenses. Excluding research and development expenses, SG&A expenses are equivalent to about 30 percent of net sales. We believe this level can be reduced considerably. In particular, we plan to integrate the work of indirect support divisions that function as cost centers into divisions directly involved in sales, which are profit centers. As a result, we will change the mindset of support personnel to a perspective of operating as part of a profit center, while also streamlining head office functions. In addition, we intend to strategically consider how to make the best use of external resources, including subsidiaries.

For a company of Shionogi's size to grow consistently, it also must maintain productivity per employee at a higher level than other companies. That places strong demands on our employees to increase their capabilities. We therefore intend to enhance training programs to help individual employees do so, and raise their skill levels

through regular personnel rotation. Moreover, we must change to an operating structure of high profitability and high productivity by improving our personnel policies to accommodate diverse labor requirements, such as rehiring baby boomers, in addition to increasing the capabilities of each employee.

What is Shionogi's thinking in regard to corporate social responsibility (CSR) and corporate governance?

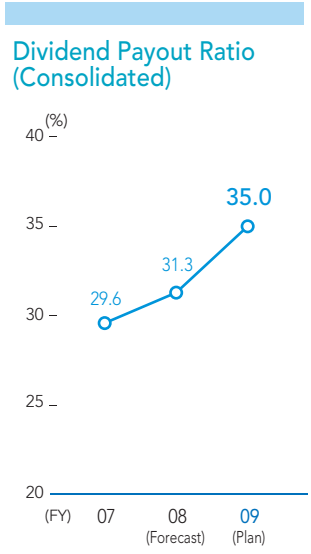
Shionogi's corporate philosophy is "to strive constantly to provide medicine of the best possible kind essential for protection of the health of the people." Implementing this philosophy is at the heart of Shionogi's CSR efforts as a pharmaceutical company. Part of our vision for the world in the second medium-term management plan is the establishment of a pain-free society, and we are taking ongoing measures aimed at freeing all cancer patients from pain. For example, we ran a television commercial to educate people about cancer pain treatments, and launched a website entitled "Don't Tolerate Cancer Pain."

We will continue to contribute to society through activities such as our long-running support for music culture via music programs on television and our research support program that includes donations to the Cell Science Research Foundation, which helps cultivate young researchers. These activities are not things that can be accomplished overnight, and we must be committed to continuing them even if business results are poor. Regarding environmental issues, while environmental measures often increase costs for companies, we believe that they should absorb these costs and work to achieve their corporate objectives. This commitment is part of Shionogi's DNA, and has been handed down unchanged from Chairman Shiono to myself, and to all employees. In my view, it is part of what makes Shionogi an appealing company.

In corporate governance, the objective and outspoken advice we receive from outside corporate auditors serves as a positive stimulus and energizes the Board of Directors. I feel we have made significant progress in achieving management objectivity, but I intend to strive for a management structure of even higher quality. For internal controls, we will strengthen third-party checks in financial matters with the introduction of the Financial Instruments and Exchange Act (the Japanese version of the Sarbanes-Oxley Act). While keeping a close eye on social trends, we will continue to consider ways to create a more efficient and flexible framework for business execution.

What is Shionogi's stance on shareholder returns, and do you have any closing message for shareholders?

As stated in the second medium-term management plan, we are aiming for a 35 percent consolidated dividend payout ratio in fiscal 2009. We plan to continue increasing shareholder returns in fiscal 2010 and beyond, but the Company is still at the stage where we have to balance shareholder returns, primarily dividends, with the need to use retained earnings for investment in future growth.



Shionogi is proud to be one of the few pharmaceutical manufacturers in Japan that is well positioned for highly profitable growth. I am confident that Shionogi will transform into a strong, highly productive and highly profitable company. Moreover, while aggressively improving our operations with a sense of urgency that we will be left behind if we do not change, we welcome the frank opinions of our shareholders. I ask shareholders for their understanding and support as we continue to put our fullest efforts into forging a unique path for long-term growth.

Corporate Governance

In line with the Company Policy of Shionogi, we recognize our social mission to continually discover, develop and provide effective, safe medicines. Shionogi is also aware that continually fulfilling this social mission will lead to high corporate value, and has therefore given first priority to carrying out sound, transparent management through the corporate governance framework it has established.

Management Structure

The Board of Directors is composed of five directors and meets once a month in principle, to make decisions on matters affecting management, and supervises business execution. The term of office of directors is one year in order to respond swiftly to changes in the operating environment and clarify directors' responsibilities.

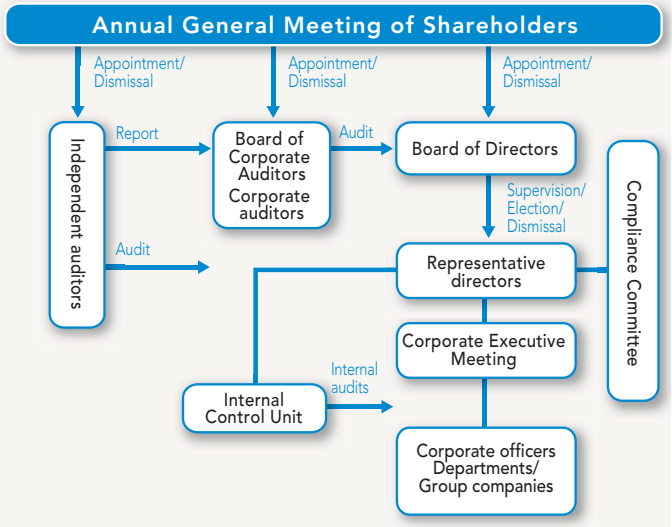
Moreover, the Company has introduced a corporate officer system to build a flexible and agile business execution structure that enables swift response to changes in the operating environment. The Corporate Executive Meeting, composed of the directors and corporate officers, meets every week in principle to deliberate matters of business execution.

Auditing Structure

The Company has two standing corporate auditors and two outside corporate auditors. The corporate auditors attend meetings of the Board of Directors, the Corporate Executive Meeting and other important meetings, offering opinions when necessary. To ensure management transparency, they also check and evaluate the legality and propriety of directors' and corporate officers' activities through work and accounting audits in accordance with corporate auditing standards.

While cooperating with the independent auditors and the Internal Control Unit, an internal auditing department, in auditing and counseling, the corporate auditors regularly exchange opinions with the representative directors in order to ensure the effectiveness of audits.

Corporate Governance Structure



Strengthening the Internal Control System

Pursuant to the Companies Act, in May 2006 the Board of Directors adopted the Basic Policy for Building an Internal Control System to create a system for ensuring appropriate business operations at Shionogi. Since then, Shionogi has worked to establish the system throughout the Group. In addition, the Company continues to strengthen and enhance the system through annual revisions of matters for resolution by the Board of Directors, based on the past year's activities.

Sincere efforts to ensure the reliability of financial statements are necessary for maintaining management transparency and integrity. To comply with the Internal Control Report System under the Financial Instruments and Exchange Act, Shionogi established an internal project team to upgrade internal control over financial reporting while optimizing the Company's IT environment. As part of these efforts, the president of Shionogi sent a message to all Group employees in April 2008, when the system went into effect, to promote their awareness and adoption. His message stressed the importance of reliable financial reporting.

Action Guidelines

Shionogi contributes to the maintenance of health and ensuring comfortable lives for people around the world. As such, Shionogi's aim in all its daily activities is to be of use to customers, patients, shareholders and society in general, and the personal betterment of its employees. Based on this, the Company works to implement and disseminate the Shionogi Behavior Charter, which it established as guidelines for the conduct of management and employees.

Risk Management

Each organizational unit of the Company avoids or mitigates risk by establishing response measures that match its respective degree of risk.

In particular, the Corporate Executive Meeting and other meetings discuss policies for responding to significant management risks, and main organizational units cooperate with relevant divisions to respond as necessary. Shionogi promotes crisis management to deal with serious accidents and disasters with the aim of respecting human life and considering and contributing to local communities.

Framework for Information Disclosure

Shionogi maintains an internal framework for disclosing accurate and fair Company information in a timely and appropriate manner to all stakeholders, including investors.

Thorough Compliance

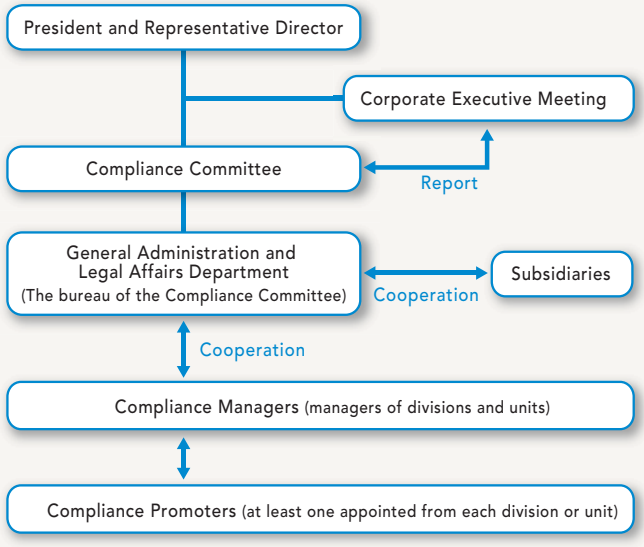
All divisions including subsidiaries conduct compliance activities primarily through the Compliance Committee, which is under the direct jurisdiction of a representative director. The General Administration and Legal Affairs Department serves as the bureau of the Committee. Shinogi is engaged in the following activities throughout the year to inculcate and enforce legal compliance and ethical behavior among all Group employees.

1. The General Manager or Manager of each division or unit, as the designated Compliance Manager, cooperates with the assistant Compliance Promoter to advance activities that inculcate and promote compliance within each division. They are engaged in clarification of risks, development of measures to be taken, preparation and reporting of implementation of such measures, as well as education of employees.
2. To support the formulation and implementation of compliance measures, the General Administration and Legal Affairs Department provides compliance education and support for all Group employees, publishes and distributes the Compliance Handbook, and conducts attitude surveys.
3. Regarding internal reporting, Shionogi works to uncover and redress violations early and prevent their occurrence by formulating internal protection regulations in accordance with the Whistleblower Protection Act so that whistleblowers do not encounter adversity. The Company has also established an internal reporting desk in the General Administration and Legal Affairs Department and an external reporting desk at the offices of its outside legal counsel.

Compliance Handbook

4. To protect personal information, Shionogi has established a standing committee headed by the General Manager of the General Administration and Legal Affairs Department. In taking full measures to prevent the leakage of personal information, the committee formulated a privacy policy, discloses the scope of use of personal information, established dedicated consulting line to offer counsel and handle complaints regarding personal information, and assists employees who handle personal information in acquiring certification.

Compliance Promotion Structure (As of April 1, 2008)



Members of the Board, Corporate Auditors and Corporate Officers

(As of June 27, 2008)

Members of the Board

Motozo Shiono
Chairman of the Board and
Representative Director

Isao Teshirogi, Ph.D.
President and
Representative Director

Kiyoshi Miyamoto
Director and Advisor

Sachio Tokaji*
Director

Yasuhiro Mino*
Director

* Serves concurrently as a corporate officer

Corporate Auditors

Standing Corporate Auditor
Mitsuaki Ohtani, Ph.D.

Standing Corporate Auditor
Satoshi Komatsu

Corporate Auditor
Takeharu Nagata
(President, Keihanshin Real Estate Co., Ltd.)

Corporate Auditor
Shinichi Yokoyama
(Chairman and Representative Director,
Sumitomo Life Insurance Company)

Note: Takeharu Nagata and Shinichi Yokoyama are outside corporate auditors appointed pursuant to Article 2, Paragraph 16 of the Companies Act.

Corporate Officers

Senior Executive Officer
Sachio Tokaji

Senior Executive Officer
Yasuhiro Mino

Executive Officer
Takuo Fukuda
Executive General Manager, Human Health Care Division

Executive Officer
Ryuichi Kume, Ph.D.
Executive General Manager, Manufacturing Division

Corporate Officer
Hirosato Kondo, Ph.D.
Executive General Manager, Pharmaceutical Research Division

Corporate Officer
Hitoshi Maeda
General Manager, Consumer Health Care Business Division

Corporate Officer
Keiichiro Nouda
General Manager, Diagnostics Department

Corporate Officer
Takuko Sawada
Executive General Manager, Pharmaceutical Development Division

Corporate Officer
Shigenobu Mashimo
General Manager, Quality, Safety and Regulatory Affairs Management Division

Pharmaceutical Research

The Pharmaceutical Research Division has made steady progress in the creation of high-potential drug candidates as we move to reach our objective in the second medium-term management plan of having at least five new compounds at Phase II or more advanced stages by the end of fiscal 2009. Past the midway point of the five-year plan, in fiscal 2008 we will promote global research activities through enhanced collaboration with universities and overseas pharmaceutical companies while focusing on heightening our technology, speed and flexibility. Through these efforts, we will build a research and development organization that allows us to "dream big."

We design candidate compounds for new breakthrough drugs, and synthesize them chemically.

Research Results of the Past Three Years

The Pharmaceutical Research Division has made numerous reforms in the last three years to accomplish the objectives of the second medium-term management plan. We increased the transparency of drug discovery research strategies through research portfolio management, clarified responsibility through a program leader system, and flexibly reallocated resources through quarterly milestone management. We also clarified the role of committees and increased decision-making speed. These proactive measures have facilitated unprecedented research progress, and we have succeeded in consistently creating four new drug development candidates in each of the last three years.

In particular, in fiscal 2006, the rigorous selection criteria we set led to development candidates with excellent properties and enabled us to dramatically reduce the dropout rate after selection. The fact that all of the compounds except for one that is currently undergoing GLP testing advanced to Phase I demonstrates the high quality of our development candidates. In fiscal 2007, we generated four new development candidates: an alleviator of opioid-induced adverse effects, an analgesic, an anti-allergy agent, and an anti-dyslipidemia agent. We are conducting non-clinical trials of these compounds, and are aiming to move them quickly into clinical trials.

New Research Facility to Be Built in Toyonaka

Although information technology has improved tools for exchanging information in real time, the importance of opportunities for research colleagues to have face-to-face discussions is increasing in drug discovery research, where diverse research fields are intertwined in complex ways. In January 2008, Shionogi decided to construct a new pharmaceutical research center in the city of Toyonaka, Osaka Prefecture, that will not only incorporate an abundance of the world's most advanced new technologies, but will also provide a unique space for communication among researchers. Many pharmaceutical manufacturers tend to set up numerous buildings with different functions, but Shionogi has created an innovative design that gathers all drug discovery functions into one giant facility to further build on the internal collaboration cultivated at the existing Shionogi Research Laboratories. Through this new concept, Shionogi plans to achieve speed and flexibility that are unmatched by the "mega-pharmas."

The Concept behind Joint Development with Hokkaido University

One of Shionogi's greatest strengths is that all researchers engaged in drug discovery research work in a single location. However, to facilitate the development of new technologies that will support future drug discovery, and enhance the basic research that forms the

Hirosato Kondo, Ph.D.

Corporate Officer,
Executive General Manager,
Pharmaceutical Research Division

foundation of drug discovery, we saw a need to provide an environment that was different from that of the Shionogi Research Laboratories, where researchers are under the pressure of strict timelines. To that end, Shionogi built the Shionogi Innovation Center for Drug Discovery, the first private research laboratory in Japan on the campus of a public university. The Shionogi Innovation Center for Drug Discovery is a place where young researchers can freely pursue their dreams through research projects conducted in an academic atmosphere, and it will expand collaboration with Hokkaido University, which has a wealth of researchers. Here, we can cultivate people with a broad outlook and a long-term view. At the same time, we expect that this facility will foster the breakthrough technologies that will support drug discovery research 10 years from now, and give rise to the seeds of new drugs with the potential to revolutionize healthcare in 20 years.

FINDS (PHarma-INnovation Discovery competition Shionogi)

In order for Japanese industry and academia to advance together and establish a major presence on the world stage, mutual understanding and collaboration are becoming increasingly important. The key to this is matching innovative ideas in academia with specific industry needs . Accordingly, in fiscal 2007, Shionogi undertook a new initiative: We presented to the public the specified needs of our research laboratories and invited people at domestic research institutions to submit creative ideas to address those needs. Even though it was only the first year, we received 242 submissions, 11 of which led to joint research agreements, and research is already under way. We plan to continue this initiative in fiscal 2008, and hope to firmly establish it as a new form of open innovation.

Creating a Steady Stream of Original, World-Class Drugs

Until now, Shionogi has sought to create new breakthrough drugs by conducting joint development with many researchers around the world. Through this approach, Shionogi has come to realize that the most critical factor for success is the development of world-class researchers. In the Pharmaceutical Research Division, we have launched a new program called "Global Research Leader Training" that we had been planning over the previous year, and are developing people who are capable of leading joint research with major U.S. and European pharmaceutical companies. We believe synergy with our various existing training programs will help us to become a world-class research organization and develop the seeds of highly original new drugs. At the same time, we will strengthen joint research with domestic and overseas universities, start-up companies and mega-pharmas. As a result, we expect to generate a steady stream of original, world-class drugs.

Analyzing the chemical structure of candidate compounds using cutting-edge equipment

Pharmaceutical Development

To achieve the objectives of the second medium-term management plan, Shionogi is quickly making go/no go decisions on development compounds and formulating product strategies that cut across the entire company in an effort to maximize the value of each compound. Eyeing growth during the next medium-term management plan and beyond, we are also accelerating the establishment of our own global development capabilities and focusing on creation of our third and fourth global products to follow Crestor® and Doribax®.

Progress of the Second Medium-Term Management Plan

The Pharmaceutical Development Division is speeding up the development process by concentrating resources on target areas and specific projects as well as actively utilizing external resources. The Division also teams up with the Pharmaceutical Research Division and domestic and overseas academic institutions to apply the latest scientific technologies. Through these approaches, we are working to increase the probability of success in product development.

Among original development compounds (including compounds created through joint research), an anti-HIV drug has entered Phase IIa trials in the target area of infectious diseases, and an obesity treatment is now in Phase IIb in the area of metabolic syndrome. In the frontier area, S-777469, a treatment for atopic dermatitis, is currently in Phase IIa and S-888711, a treatment for thrombocytopenia, has already been confirmed to increase platelet count in testing on healthy adult volunteers. We also plan to conduct proof of mechanism (POM) trials during fiscal 2008 for S-555739, a treatment for allergic diseases. As a result, we are on track to achieve our goal of having at least five new chemical entities in Phase II or more advanced stages by the end of the second medium-term plan.

As a rule, we intend to develop these original drugs globally, but are negotiating the best type of alliance for each one, depending on the scale of development and marketing. Our objective is to use strategic alliances to further accelerate our establishment of development and marketing capabilities in Europe and North America.

Since fiscal 2005, we have augmented our domestic pipeline by adding Differin® Gel, a novel topical treatment for acne vulgaris that received manufacturing and marketing approval in July 2008, and peramivir, an anti-influenza drug in preparation for Phase III.

In addition, through cooperation with the Marketing Department, the Human Health Care Division and other relevant departments, a cross-divisional framework that reflects market needs in development plans has begun to take shape. By formulating concerted Company-wide product strategies, we are maximizing the potential of each product in ways such as adding new formulations (OxiNorm® powder, Finibax® 0.25g IV Solution Kit, Claritin® Dry Syrup and Cetrotide® sustained release formulation), expanding indications (duloxetine, NS75B and Finibax®), and conducting post-marketing surveillance studies for more evidence (Crestor®, Finibax® and Imunace®).

Training global development personnel

Globalization Initiatives

Development plans are progressing steadily toward the targets of the second medium-term management plan, but establishing global development capabilities and cultivating human resources will be key issues in promoting further globalization. Therefore, Shionogi has started to upgrade its human resource development programs in develop-

Takuko Sawada

Corporate Officer,
Executive General Manager,
Pharmaceutical Development Division

ment operations. In addition to accelerating cultivation of global development personnel, we are expanding Shionogi USA, Inc., which has begun collaborating with Shionogi to build various systems and improve communication. We plan to establish and begin operations at European development bases, taking into consideration the timing for the start of clinical trials in Europe for a number of development compounds.

Because the domestic pharmaceutical market is forecast to be stagnant, we must move away from our dependence on in-licensing and the domestic market and establish a structure for global development of original Shionogi products. We plan to speed up the establishment of global development capabilities by actively forming strategic alliances. Our goal is to create our third and fourth global products to follow Crestor® and Doribax®.

Current Status and Future Development Schedule for Globally Strategic Compounds

S-2367

(Neuropeptide Y Y5 receptor antagonist for treatment of obesity)

SUI is currently conducting Phase IIb clinical trials in the United States. Based on the results of an interim analysis, the FDA recommended continuance to a year-long trial, as originally planned. Final results of the trial are scheduled for early 2009. (Please see page 16 for details.)

S349572, S-265744 and S-247303

(Integrase inhibitors for treatment of HIV)

Under development by joint venture Shionogi-GlaxoSmithKline, each of these drug candidates has an excellent resistance profile and good pharmacokinetic properties. Phase IIa trials are currently under way in the United States.

S-777469

(Selective cannabinoid 2 receptor agonist for treatment of atopic dermatitis)

This compound, positioned as first-in-class in this therapeutic area, has antipruritic and anti-inflammatory effects. It is currently in Phase IIa in Japan and the United States.

S-888711

(Thrombopoietin receptor agonist for treatment of thrombocytopenia)

Phase I repeated-dose studies are currently in progress in Japan. The compound brings about a rapid increase in platelet count with a once-daily dose, and has been confirmed to have good tolerability.

S-555739

(Prostaglandin D2 receptor antagonist for treatment of allergic rhinitis)

Animal studies have confirmed that this drug has a better nasal decongestive effect than existing anti-allergy drugs. In a Phase I single dose study, it was also confirmed to have good tolerability, with once-daily dosing possible. Therefore, we plan to conduct repeated-dose and POM studies in Europe.

S-4661

(Carbapenem antibiotic for treatment of bacterial infection; product name in Japan: Finibax®)

Currently marketed in the United States, this product was approved by the FDA in October 2007 for treatment of urinary tract infections and intra-abdominal infections after we licensed it to Johnson & Johnson. In 2008, we expect it to be approved for treatment of pneumonia in the United States, and for all three of these indications in Europe.

Shionogi USA: Advancing a Global Pipeline

Over the past year, Shionogi USA reached a number of milestones as it expanded its role in building overseas expertise and infrastructure to support Shionogi's global development and commercialization efforts.

The staff of Shionogi USA

Critical to Shionogi's global aspirations is an infrastructure that allows for the clinical development and commercialization of novel compounds in key markets outside of Japan. Shionogi USA was formed in 2001 as a first step in building such capability in the United States. More recently, Shionogi USA has evolved from a small team supporting just one or two early stage clinical programs, into a complex organization that supports multiple early and late stage efforts including three Phase II stage development programs in obesity, atopic dermatitis and HIV, as well as a marketed antibiotic, Cedax®.

In the last year, Shionogi USA reached several clinical milestones, including the on-time completion of an interim analysis for the two ongoing 750-subject Phase IIb studies of S-2367 (velneperit) for obesity. This interim analysis resulted in a decision to complete the full one-year duration for the two Phase IIb studies, which will be completed at the end of 2008. Another significant milestone was the initiation of a Phase IIa proof-of-concept study of S-777469 for the treatment of atopic dermatitis. The results of this study are expected early in 2009. Finally, Shionogi's collaboration with GlaxoSmithKline Pharmaceuticals, which Shionogi USA supports, also reached a milestone with the initiation of a Phase IIa proof-of-concept study of S-349572, an HIV integrase inhibitor. Results of this important clinical study are expected by the end of 2008, with additional candidates to follow.

In terms of Shionogi's earlier stage clinical development portfolio, Shionogi USA has worked closely with the Clinical Research Department in Osaka to prepare for the U.S. development of several new drug candidates including S-555739 for allergic diseases and S-888711 for thrombocytopenia. To meet the demands of the current portfolio, Shionogi USA has expanded its staff in areas such as clinical development, project management, drug safety, quality assurance, regulatory affairs and human resources.

In addition to Shionogi USA's expanded clinical development efforts, the last year also included continued sales, marketing and distribution of Cedax® (ceftibuten), a third generation cephalosporin antibiotic originally discovered by Shionogi, which is indicated for otitis media, pharyngitis, tonsillitis, and acute exacerbations of chronic bronchitis. Shionogi USA acquired the sales and distribution rights to Cedax® in 2004 as an initial step in building the capability to support the future U.S. commercialization of the compounds in Shionogi's pipeline. Cedax® sales, marketing and distribution are supported by a core team within Shionogi USA along with several contract service providers.

Shionogi USA will continue to aggressively support Shionogi & Co., Ltd.'s global clinical and commercial efforts in the future.

Status of Products under Development (As of July 2008)

Targeted for launch during the second medium-term management plan period

In-house product | Out-licensed product | In-licensed product | In-house product being developed globally

		Code No. (Generic Name)	Indication	Development Area	Stage
Three Targeted R&D Areas	Infectious Diseases	S-349572/S-265744/S-247303	HIV infection	USA	Ph II
		S-021812 (Peramivir)	Influenza infection	Japan	Ph II
		S-013420	Bacterial infection	Japan	Ph II
		S-4661 (Doripenem hydrate)	Pediatric infection	Japan	Ph III
			Severe infection (Addition of new dosage regimen)	Japan	Ph III
			Bacterial infection (Complicated intra-abdominal infections; complicated urinary tract infections including pyelonephritis)	USA	Launched: Oct. 2007
			Bacterial infection (Hospital-acquired (nosocomial) pneumonia including ventilator-associated pneumonia)	USA	Launched: June 2007
			Bacterial infection (Complicated intra-abdominal infections; complicated urinary tract infections including pyelonephritis; hospital-acquired (nosocomial) pneumonia including ventilator-associated pneumonia)	Europe	Launched: June 2007
		Finibax®	Bacterial infection	Japan	Launched: Sept. 2005
		Avelox®	Bacterial infection	Japan	Launched: Dec. 2005
	Pain	LY248686 (Duloxetine hydrochloride)	Diabetic peripheral neuropathic pain	Japan	Ph III
		OxiNorm® powder	Cancer pain	Japan	Launched: Feb. 2007
	Metabolic Syndrome	S-2367	Obesity	USA	Ph II
		S-3013	Atherosclerosis	USA	Ph II
		Crestor®	Hyperlipidemia	Japan	Launched: Apr. 2005
		Irbetan®	Hypertension	Japan	Launched: July 2008
Frontier Areas	Allergies	S-555739	Allergic diseases	Japan, Europe	Ph I
		S-777469	Atopic dermatitis	Japan, USA	Ph II
		Claritin® Dry Syrup	Allergic diseases	Japan	Launched: Jan. 2008
	Others	S-0373	Spinocerebellar ataxia	Japan	Ph I
		S-888711	Thrombocytopenia	Japan	Ph I
		S-0139	Cerebrovascular diseases	Europe	Ph I
				Japan	Ph II
		NS75A (Cetrorelix acetate)	Uterine myoma	Japan	Ph II
		NS75B (Cetrorelix pamoate)	Benign prostatic hypertrophy	Japan	Ph II
		S-7701 (Pirfenidone)	Idiopathic pulmonary fibrosis	Japan	Launched: Mar. 2007
		LY248686 (Duloxetine hydrochloride)	Depression	Japan	Launched: Jan. 2008
		Differin® Gel	Acne vulgaris	Japan	Launched: July 2008
		Cetrotide®	Premature ovulation inhibitor	Japan	Launched: Sept. 2006

Manufacturing

Based on the Company Policy of Shionogi, the Manufacturing Division has established SQDCE as its motto for daily activities. Under this motto, the division has three missions: to manufacture and provide a stable supply of quality drugs at reasonable prices; to contribute to the speedy launch of new products by promoting R&D focused on the entire process from the initial stages of development to commercial production; and to implement product life cycle management through the development and application of new formulations to add value to existing products.

The Manufacturing Division Motto: SQDCE (Standards of Conduct)

S (Safety):
Secure the safety of people, materials and equipment,

Q (Quality):
Manufacture quality products with a sophisticated quality management system,

D (Delivery):
Bring new products to market on the expected launch date without delay, while maintaining a stable supply of existing products,

C (Cost):
Cut costs through reduction of raw material costs and process improvements, and

E (Environment):
Reduce waste pursuant to ISO 14001.

Facility for sterile APIs for Finibax® at the Kanegasaki Plant (in full operation since May 2008)

To achieve these missions, Shionogi has established the Production Strategy & Planning Department to improve comprehensive planning, and the CMC QA Unit to strengthen its world-class quality assurance system. The Company has also established Shionogi Analysis Center Co., Ltd., which performs contract testing of pharmaceuticals and other materials.

Contribution to the Second Medium-Term Management Plan and Preparation for the Next Management Plan

The Manufacturing Division has upgraded its infrastructure during the past three years through proactive capital investment in preparation for a "significant leap forward" under the second medium-term management plan.

- **Kanegasaki Plant:** Shionogi opened a new facility for quality assurance (QA) and quality control (QC) to enhance its QA system. It also expanded the packaging and storage areas of one of the existing manufacturing facilities and constructed a new large-scale facility for sterile active pharmaceutical ingredients (APIs) to support global sales of carbapenem antibiotic Finibax®, shipments of which have begun to overseas markets. In addition, Shionogi expanded its manufacturing facility for cancer pain drugs and created an integrated system from bulk pharmaceutical production to formulation and packaging. Expansion of the existing facility for OxiNorm® powder 0.5%, an immediate-release formulation of OxyContin®, is under way to improve productivity and support the steady increase in sales of the product. With these investments, the Kanegasaki Plant is making significant progress as a base for supplying cancer pain drugs domestically and antibiotics globally.
- **Settsu Plant:** Leveraging its many years of expertise in pharmaceutical manufacturing and packaging technology, Shionogi is constructing a new facility for solid dosage forms that is scheduled for completion in November 2008. In addition to manufacturing new products such as duloxetine hydrochloride, an antidepressant that is awaiting approval, this facility will enable Shionogi to manufacture diverse new drug candidate compounds from clinical supply to commercial production levels. By conducting such a wide variety of manufacturing in a single facility, Shionogi expects to improve the quality of development and accelerate the launch of new products. Shionogi is also thinking of using this facility as a key base for expanding integrated contract manufacturing services, and aims to use it as a place to most effectively leverage its manufacturing technologies in the entire process from development to commercial production of pharmaceuticals, including products of other companies. The Settsu Plant has also begun commercial production of anti-allergic Claritin® Dry Syrup and antihypertensive Irbetan®, and is preparing for the start of commercial production of pirfenidone, a treatment for idiopathic pulmonary fibrosis awaiting approval, and other new products.
- **Kuise Site:** As a base for chemistry, manufacturing and controls (CMC) development, the Kuise Site currently conducts develops manufacturing processes and manufactures products for clinical trials. In response to the increase in candidate compounds, Shionogi constructed a new facility for manufacturing APIs for clinical trials that has more than three times the capacity of the existing facility. With this and existing facilities, which strengthen the manufacturing system for clinical products, Shionogi has enhanced its clinical supply capability. The Company also expects to further increase development speed and quality by strengthening its synthesis process system.

Ryuichi Kume, Ph.D.

Executive Officer,
Executive General Manager,
Manufacturing Division

In the remaining two years of the second medium-term management plan, Shionogi will aggressively utilize the investments it has made to quickly achieve further quality improvements and cost reductions. Shionogi will also build facilities to accommodate new products and increased overseas sales of Finibax®, and take other steps to upgrade its infrastructure in preparation for its next leap forward. These changes and advances in the Manufacturing Division are clearly contributing to the Company's progress and, by extension, to global healthcare.

Ongoing Development and Utilization of Manufacturing Technology Capabilities as a Core Competency

Under the second medium-term management plan, Shionogi conducts contract manufacturing to attain a high level of quality and manufacturing technology capabilities; maintain and improve its manufacturing technologies; and establish a system that enables plants to operate as self-sustaining enterprises. Shionogi works together with consolidated subsidiaries Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries Ltd. and Shionogi Analysis Center Co. Ltd., to provide integrated contract manufacturing services.

For manufacturing of antibiotics, Shionogi offers expertise developed over many years, skilled technicians, and a manufacturing system that can handle requests on a global basis. These advantages have led to contract manufacturing orders from companies in Japan and overseas, which is contributing to achievement of the second medium-term management plan.

In addition, Shionogi also supports overall healthcare by actively providing its manufacturing technologies. For example, Shionogi has developed a highly convenient orally disintegrating tablet, a chewable soft-capsule that can be taken without water, and coating technology that uses polyvinyl acetate copolymer to prevent oxygen permeation.

Shionogi will expand its contract manufacturing business by proposing solutions that take advantage of its production technologies. By effectively utilizing, maintaining and developing its production technology and facilities, Shionogi will build a strong group with even higher competitiveness in terms of quality, technology and cost. We are confident that the measures we are taking, including strengthening product research and development and product life cycle management functions, will benefit our customers and all stakeholders, as well as Shionogi.

New solid dosage facility at the Settsu Plant
(scheduled for completion in November 2008)

Facility for manufacturing APIs for clinical trials at the Kuise Site
(in full operation since November 2007)

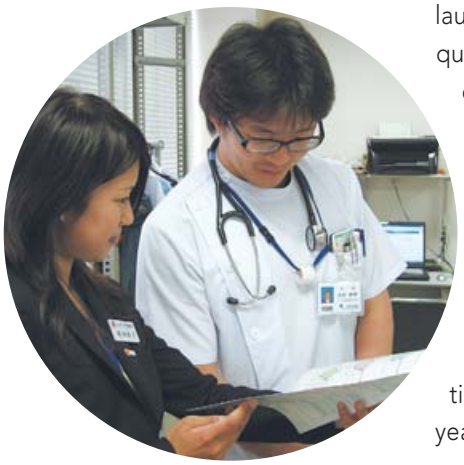
A Manufacturing System that Support Overseas Business

Finibax® is now available in overseas markets through licensee Johnson & Johnson, with the start of shipments to the United States in 2007. To support the increase in overseas sales of Finibax®, the Manufacturing Division is upgrading its overseas product supply structure centered on the Kanegasaki Plant. Shionogi also plans to quickly strengthen its global CMC development structure to accommodate future overseas sales of new drugs.

Shionogi has already begun procurement of raw materials in China, India and other Asian countries to decrease cost of sales, and will take further steps to strengthen overseas procurement of inexpensive, high-quality raw materials and intermediates to raise its international cost competitiveness.

Sales and Marketing

Shionogi's sales in Japan increased year on year for the first time in eight years amid tough conditions in the domestic pharmaceutical market. This demonstrates that our measures to strengthen domestic sales and marketing, one of the objectives of the second medium-term management plan, are steadily producing results. We will continue to strengthen our sales force by concentrating resources on new products, and will focus on achieving sales and marketing plans.



Toward Achievement of the Second Medium-Term Management Plan

In sales and marketing, we have set the goal of strengthening the domestic sales force based on a plan to launch 10 new products during the second medium-term management plan period. In 2005, the year the second medium-term management plan began, we launched hyperlipidemia treatment Crestor®, carbapenem antibiotic Finibax®, and new quinolone antibiotic Avelox®. However, discussions aimed at restraining soaring healthcare costs led to a succession of measures, including the DRG/PPS and promotion of the use of generic drugs. Thus, in fiscal 2005 and 2006, the decrease in sales of existing products overshadowed the growth of new products.

In view of this situation, at the end of fiscal 2006 we undertook a drastic reassessment of our sales and marketing measures during the previous two years. In fiscal 2007, we moved to conduct sales activities focused on new products through measures such as concentrating sales and marketing resources on strategic products and introducing a new method for evaluating MRs. The result was growth in sales of new prescription drugs, particularly Crestor®. In fiscal 2007, our domestic prescription drug sales increased 2.1 percent year on year, reversing an eight-year decline.

In fiscal 2008, in addition to new products already on a growth track, we plan to launch three more products: antihypertensive Irbetan®, acne vulgaris treatment Differin® Gel, and idiopathic pulmonary fibrosis treatment pirfenidone. As a new initiative, in fiscal 2008 we have established the Strategic Sales Planning Department in the Human Health Care Division to efficiently support sales and marketing activities. Our focus continues to be on achieving the objectives of the second medium-term management plan.

Crestor®

New Products Supporting Shionogi's Growth

Crestor® (Hyperlipidemia treatment) Launched April 2005

Crestor® was launched in April 2005 by Shionogi and AstraZeneca Japan K.K. Placing top priority on confirming safety in Japanese patients, Shionogi and AstraZeneca formulated and implemented a pharmacovigilance plan aiming to collect clinical data from a sample in the order of 10,000 patients. As a result, Crestor® was confirmed to have excellent efficacy and safety in Japanese patients, and regular sales began in September 2006.

Crestor® is a powerful HMG-CoA reductase inhibitor that is extremely effective in lowering LDL, or "bad cholesterol," while raising the level of HDL, the "good cholesterol." These characteristics have made Crestor® a popular choice among medical professionals for treating hyperlipidemia, and sales expanded to ¥10.4 billion in fiscal 2007.

The new Specified Health Checkup and Health Guidance program started in April 2008 as part of the government's measures to prevent lifestyle diseases among Japanese people over 40 years old. Consequently, concern in Japan about lifestyle diseases is expected to continue rising. In these circumstances, Shionogi will work to steadily increase the presence of Crestor® as an effective, safe and economical statin.

Takuo Fukuda

Executive Officer,
Executive General Manager,
Human Health Care Division

Finibax® (Carbapenem antibiotic) Launched September 2005

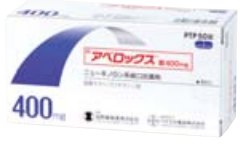
Finibax® has a broad antibacterial spectrum covering Gram-positive to Gram-negative aerobic bacteria and anaerobic bacteria. Moreover, because it exhibits strong antibacterial activity against *Pseudomonas aeruginosa*, it is a highly useful drug for treating moderate to serious infections. We believe the properties of Finibax® are fully demonstrated in treating serious infectious diseases, and aim to increase its evaluation not only from the perspective of efficacy, but also based on its specific properties that prevent *Pseudomonas aeruginosa* from becoming resistant, which is a concern when treating serious infectious diseases.

In the United States, this drug was launched by Johnson & Johnson in 2007, and has been listed in the Sanford Guide to Antimicrobial Therapy based on various evidence. Therefore, it is expected to gain increasing domestic and international recognition as the reference drug for injectable carbapenems.

Finibax®

Avelox® (New quinolone antibiotic) Launched December 2005

As a respiratory quinolone, Avelox® exhibits excellent antibacterial activity against all the major bacteria that cause respiratory tract infections, and is particularly useful in treating lower respiratory tract infections. This drug also contributes to lowering healthcare costs by shortening the treatment period, and thus has very high growth potential. Shionogi aims to increase sales by solidifying the position of Avelox® as a first-choice drug for treating lower respiratory tract infections.



Avelox®

New Products Launched or Scheduled for Launch in Fiscal 2008

Irbetan® (Antihypertensive) Launched July 2008

A long-acting angiotensin II receptor antagonist, Irbetan® has a stable hypotensive effect lasting 24 hours on mild to severe hypertension. In large-scale clinical trials overseas, the drug has proven to have a high renoprotective effect. It is already approved in 109 countries and marketed in 86 countries. The Japanese market for angiotensin II receptor antagonists is approximately ¥500 billion (based on 2007 NHI drug prices). By participating in this market, Shionogi aims to establish a presence in the cardiovascular/lipid metabolism area.

Differin® Gel 0.1% (Topical treatment for acne vulgaris) Manufacturing and marketing approval received July 2008

Differin® Gel 0.1% is a topical treatment for acne vulgaris that contains the active ingredient Adapalene, a naphthoic acid derivative that has retinoid-like activity. It has a mechanism of action that reduces acne by suppressing cornification. Differin® Gel 0.1%, the first topical preparation for acne vulgaris approved for manufacturing and marketing in Japan, is expected to contribute to treatment and improve the quality of life for acne patients.

Pirfenidone (Treatment for idiopathic pulmonary fibrosis)

Idiopathic pulmonary fibrosis affects an estimated 3 to 5 of every 100,000 people in Japan, but patients have a poor prognosis marked primarily by chronic and progressive fibrosis of the lungs. There are currently no effective medications. Shionogi is working to bring this drug to market as early as possible to fulfill the expectations of the patients suffering from this disease, their families and healthcare providers.

Intellectual Property

New drug development requires a huge commitment of financial resources, but is characterized by a very low success rate. This means that companies must rely on products on the market to recover their total R&D investment and increase profits. Protection of patents therefore is critical to maintain adequate incentives for research and development. Moreover, there are fewer patents in the pharmaceutical industry than in other industries, so the value of a single patent is extremely high. Consequently, intellectual property can determine a company's competitiveness. Shionogi recognizes that an intellectual property strategy linked to R&D strategy is a source of corporate growth and income, and is conducting its intellectual property activities globally.

Patent Filing Strategy

Shionogi conducts its drug discovery activities after accurately confirming other companies' patents related to promising drug discovery targets selected in the research process, and employs a patent filing strategy that emphasizes efficient acquisition of broad and strong substance patents for the novel compounds it discovers. Focusing on the future, Shionogi also continues working to reserve suitable patent rights for drug discovery targets and basic search technologies relating to gene, protein and screening methods.

In fiscal 2007, Shionogi filed approximately 100 patent applications, of which about 40 percent were filed overseas.

Patent Portfolio Management and Royalty Income from Patent Licensing

Shionogi periodically reviews its patent portfolio to determine whether or not unused patents should be maintained, taking cost into account. As of March 31, 2008, Shionogi held approximately 230 patents in Japan and about 140 patent families (subject matter claimed, patents registered) overseas.

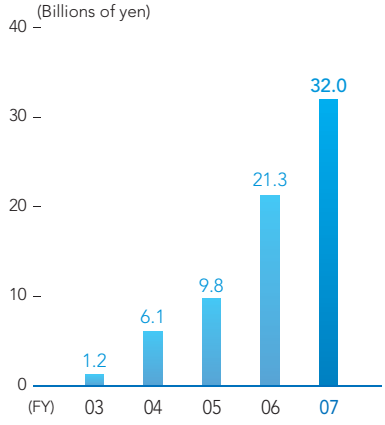
Royalty income from patent licensing in fiscal 2007 was approximately ¥32.0 billion, a substantial increase from ¥21.3 billion in fiscal 2006.

Life Cycle Management and Response to Patent Disputes

Patents have a limited duration, and generic products are sold after the substance patent expires. However, Shionogi extends the life cycle of drugs after they are launched by actively acquiring patents for manufacturing methods, intermediates, methods of use, formulations, crystalline forms and other related items. In addition to strengthening protection of its original products, Shionogi also takes advantage of the patent extension systems in various countries to maximize patent protection periods.

In the United States, generic drug applications can be filed even during the effective patent period. Consequently, applications have been filed to manufacture generic versions of hyperlipidemia treatment Crestor®. Shionogi and its licensee AstraZeneca plc have worked closely and filed patent infringement suits against the generic drug companies, and will take all possible measures to continue to protect revenues by leveraging the patents on Crestor®.

Royalty Income from Patent Licensing



CSR Report

Shionogi's CSR Activities

Shionogi's CSR Activities

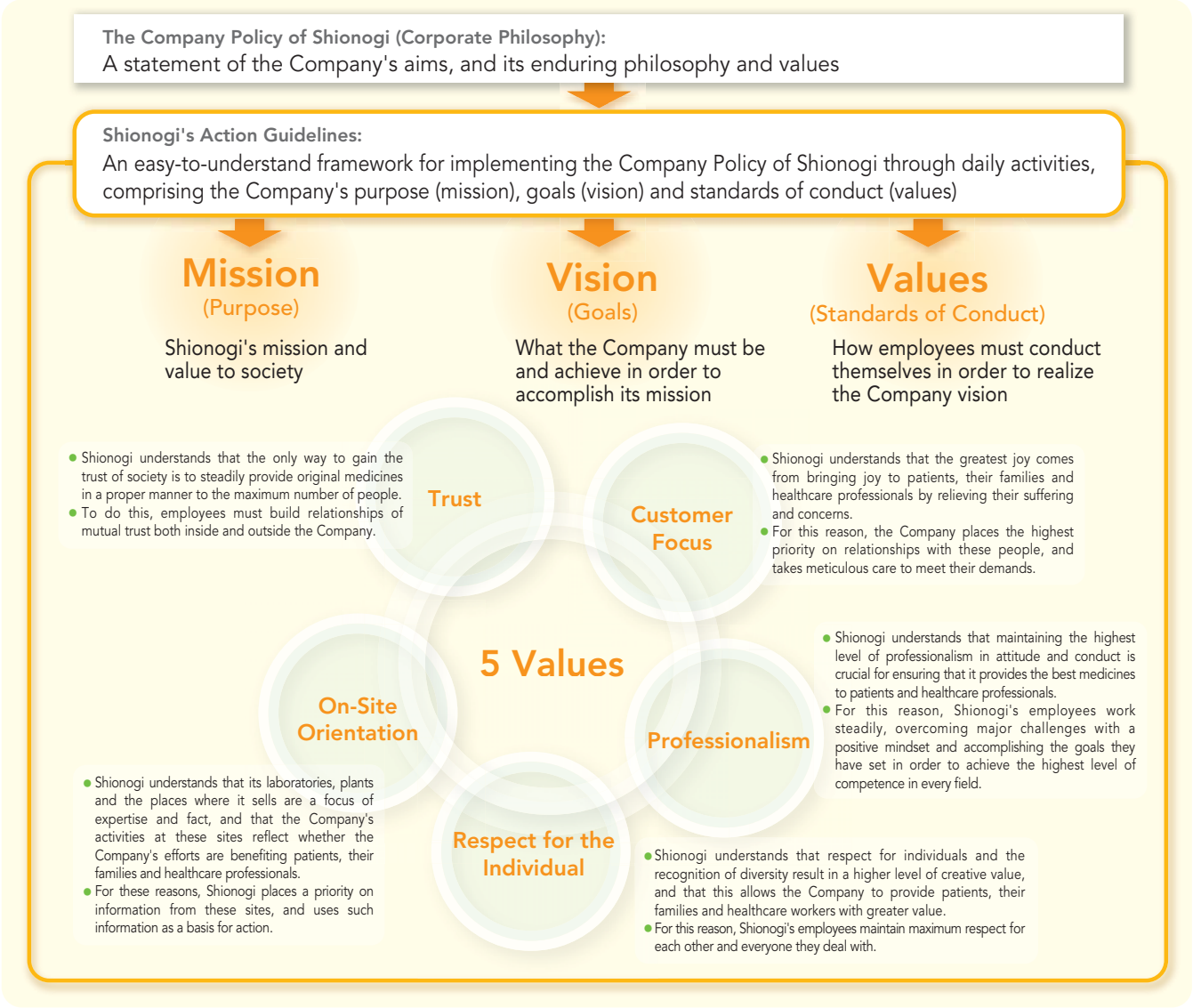
Shionogi's Company Policy on CSR Activities

Shionogi's purpose, as expressed in the beginning of the Company Policy, is "to strive constantly to provide medicine of the best possible kind essential for protection of the health of the people." This enduring and unwavering corporate philosophy is a statement of our vision and value to society. Our activities as a pharmaceuticals company definitely contribute to society, and we believe that implementing our corporate philosophy enables us to fulfill our social responsibilities.

Further, we have created Shionogi's Action Guidelines, a framework of standards shared by all employees for implementing the Company Policy through all current and future activities.

By acting in accordance with the Company Policy and the Action Guidelines, we can contribute to patients, physicians and other healthcare professionals who need the medicines we provide, shareholders and society as a whole. This in turn leads to the Company's development, the personal growth of Shionogi employees and the enrichment of their lives.

In addition, Shionogi believes that, as part of the CSR process, maintaining the integrity of society and protecting the environment are highly important for protecting the health of the people. The Company is dedicated to contributing to society in various ways, as well as reducing the environmental load of all its business functions as it works to preserve and improve the global environment.



Quality Assurance and High-Quality Pharmaceutical Manufacturing

Quality Assurance of Shionogi Products

Shionogi goes beyond just assuring the high quality and efficacy and safety of the products it manufactures. As a company that handles products related to people's lives and health, we consider it our corporate social responsibility (CSR) to deliver a stable supply of these products to healthcare providers and patients, and to ensure that they use them properly with a sense of security backed by science.

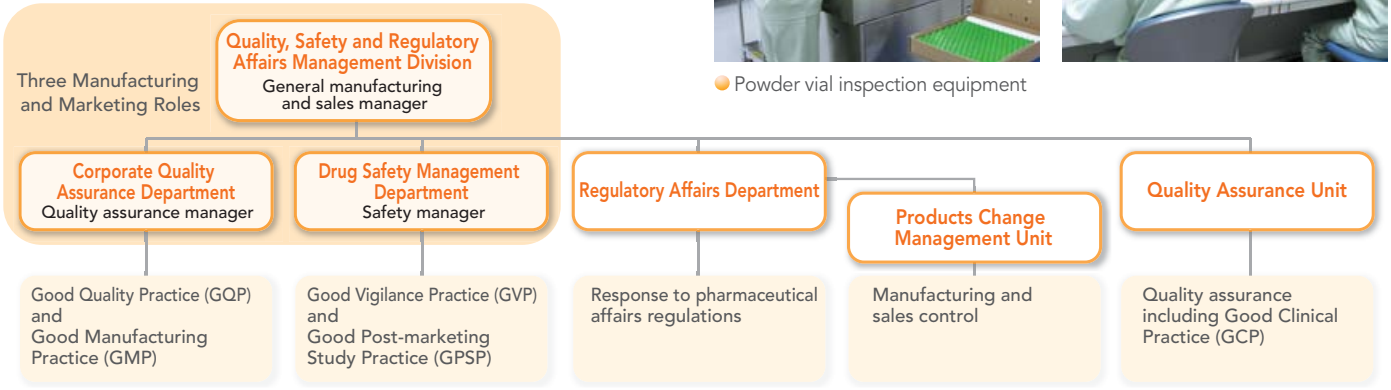
We ensure the reliability of the pharmaceuticals we manufacture and sell with a quality assurance structure based on the three manufacturing and marketing roles stipulated in the Pharmaceutical Affairs Law.

In fiscal 2007, there were no product recalls due to the development of serious health damage, quality defects or other such reasons as a result of Shionogi's promotion of proper use of its products and strict quality assurance activities. Owing to proper manufacturing and sales management, there were also no deficiencies in stable supply, no violations of the Pharmaceuticals Affairs Law or other regulations, and no compliance violations. Due to proper quality assurance activities no situations arose that could disrupt Shionogi's manufacturing and marketing operations. These results demonstrate that Shionogi's quality assurance structure functioned smoothly. They were also made possible because all Shionogi employees understood the Company's basic policy of "providing medicine of the best possible kind essential for protection of the health of the people," and acted appropriately.

With the globalization of the pharmaceutical industry, overseas manufacturing and sales are rapidly expanding. In tandem with this trend, Shionogi is working to ensure that people around the world can use its products secure in the knowledge that they are safe and effective.

Quality Assurance Division Structure

(As of July 2008)



Approaches to High-Quality Pharmaceutical Manufacturing

Throughout its long history, Shionogi has strictly adhered to its Company Policy and continues to diligently pursue quality improvements. In the sequence of pharmaceutical development, from drug discovery to clinical trial drug manufacturing to commercial production, we use both tangible and intangible measures backed by science to achieve consistent quality assurance. We also actively adopt the latest technologies, such as a process analytical technology (PAT) system for designing, analyzing and controlling manufacturing processes, and have installed state-of-the-art inspection equipment.

However, exhaustive operating procedures and the latest equipment alone are not enough to create the highest-quality pharmaceuticals. As manufacturers, we must have a deep understanding of the properties of each drug and have the commitment to provide medicines of the highest possible quality to patients. As part of this commitment, Shionogi is continuously raising its development, design and manufacturing capabilities to improve its quality assurance system in order to guarantee high quality.

Technology transfer is one of our means to improve quality. Shionogi thinks that technologies should not be transferred as they are between individuals. They should be continuously improved and transferred after some improvement. For example, in the education and training of younger scientists by senior experts, new technologies such as powder vial inspection are used to enhance our quality assurance level. Thus Shionogi is trying to improve its working environment and organization to enable the incorporation of new technologies in its products.

Powder vial inspection equipment

Responses to Inquiries at the Drug Information Center

Role of the Drug Information Center and Status of Inquiries

Shionogi's Drug Information Center has two toll-free telephone lines, one for healthcare professionals and the other for general consumers or patients. It responds to inquiries from outside Shionogi and also accepts inquiries from our MRs. The Center staff work diligently every day so that they can promptly supply accurate information regarding the various fields and products they are responsible for.

During the two months of April and May 2008, the Center received a total of 11,580 inquiries, the breakdown of which is shown in the charts below right. By customer type, 56 percent of inquiries were from pharmacists at hospitals, pharmacies and other facilities, 20 percent were from Shionogi MRs, 10 percent were from general consumers or patients, and 2 percent were from doctors. This data suggests that the pharmacist's role is becoming increasingly important.

By pharmaceutical type, 91 percent of questions concerned prescription drugs.

Sharing Inquiry Information

The Center has been working to collect and share information on inquiries. It has been enhancing information storage by recording responses to all inquiries since April 2008. In addition, it organizes and analyzes the data from multiple perspectives and provides feedback to relevant Company departments depending on the contents.

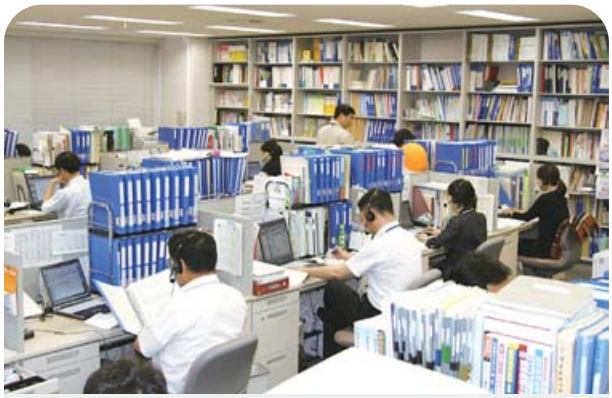
Of the inquiries received during the two months stated above, 159 were related to adverse effects and were reported to the Drug Safety Management Department, and 54 were questions or complaints about quality and were reported to the Corporate Quality Assurance Department. All inquiries concerning OTC drugs are periodically reported to the Consumer Health Care Business Division. Response records for inquiries concerning prescription drugs, primarily core products, are organized and analyzed from multiple perspectives on a monthly basis.

Furthermore, from June 2008, the Center has begun to make monthly reports in addition to discussing recent topics at meetings attended by managers of head office departments in charge of sales and marketing, such as the Human Health Care Division and the Marketing Department.

By sharing this information, the Center expects to be able to quickly identify issues and various risks requiring Company-wide attention and matters that could lead to substantial risks in the future, promptly consider responses to such issues and risks, and appropriately deal with them.

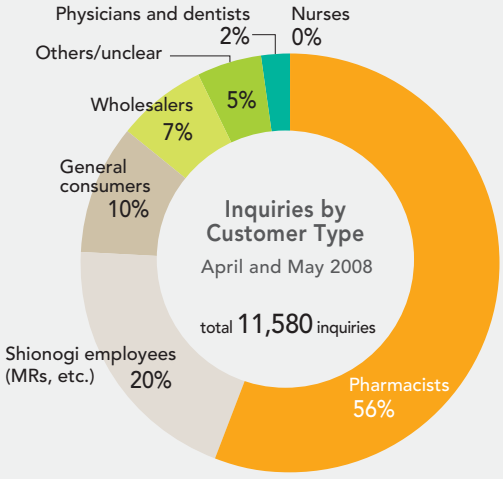
With respect to various information purposefully prepared and provided by product managers with high expectations, the Center is also considering the confirmation of penetration rates among healthcare providers as a future issue.

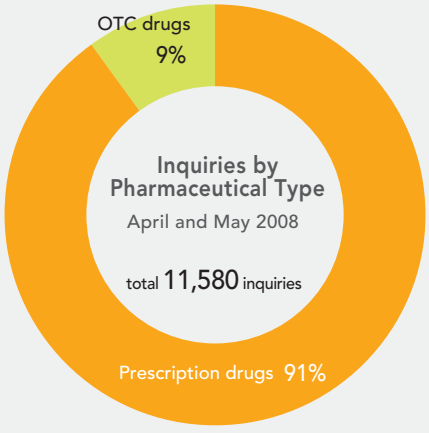
In this way, the Center accurately responds to a variety of inquiries from outside Shionogi and is working to strengthen its function as an information-gathering antenna.



The Drug Information Center

Inquires to the Drug Information Center





Initiatives to Spread Cancer Pain Treatment

Shionogi not only provides medicines for patients suffering from cancer pain, but also focuses on educational activities concerning cancer pain treatment. We intend to contribute as much as possible to freeing patients from pain and improving their quality of life.

Status of Cancer Pain Treatment in Japan

Cancer has the highest mortality rate of any disease in Japan. The rate differs by gender, but roughly one in two Japanese will develop cancer, and one in three of those will die as a result. Although many cancer patients experience severe pain, few people are aware that treatment to alleviate cancer pain exists.

The treatment promoted by Shionogi and recommended by the World Health Organization (WHO) is analgesics, typically oral narcotic medicines.

Although the use of narcotic medicines in Japan has risen since the 1989 launch of MS Contin®, many patients still suffer from pain. According to research published in 2003 by the Ministry of Health, Labour and Welfare, only around 40 percent of cancer patients were free of pain.

As a result of these conditions, the government of Japan bolstered cancer treatment measures with the enforcement of the Basic Law Concerning Cancer Countermeasures in April 2007. The government increased opportunities for spreading cancer pain treatment by making the spread of palliative cancer care and pain treatment a priority of the law.

Shionogi's Initiatives

Shionogi launched MS Contin® in 1989, OxyContin® Tablets in 2003 and OxiNorm® powder in 2007. Through the provision of information on these narcotic medicines to healthcare professionals, the Company has actively disseminated information on WHO pain relief methods.

Further, in conjunction with the enforcement of the Basic Law Concerning Cancer Countermeasures, Shionogi established the Cancer Pain Management Business Development Department to promote initiatives that increase acceptance of cancer pain treatment by healthcare professionals and the general public.

Specific educational initiatives include television commercials and public lectures that widely convey the importance of cancer pain treatment. In addition, Shionogi has acquired mass media understanding of the issue through measures including press seminars, which has enabled the Company to disseminate information through the media.

New initiatives from fiscal 2008 include active participation in planning and managing a consortium to promote cancer pain relief, as well as support for activities of the Orange Balloon Project, which spreads correct information about palliative care for those suffering from cancer and other diseases under the sponsorship of the Ministry of Labour, Health and Welfare and the non-profit Japanese Society for Palliative Medicine.

Educational poster about cancer pain treatment

Television commercial about cancer pain treatment

Press seminar on cancer pain and medical narcotics

Relations with Employees

Human Resource Development

People are Shionogi's most important resource. The Company does its utmost to create an environment in which employees can proactively improve and exercise their skills.

Employee training

Support steady advancement

Building the foundation	Training for junior employees
Promoting management capabilities and helping upgrade skills	Management training
Broadening the scope of activity	Training for newly promoted employees

Help employees pursue opportunities

Leveraging individual capabilities in choosing preferred area of activity	Job requests
Aiming to further improve professional skills	Study programs

Detailed development by matching work to employee growth

Personal guidance by supervisors	Interview program
Detailed guidance by senior employees	New employee trainer system

Help motivated employees upgrade their abilities and skills

Choose from a wide range of training programs	Optional training
Self-guided career design	Career design seminars
Foster key personnel	Succession plans

Enhance job-specific abilities and skills

Education for MRs

Education for researchers and development personnel

Fair and Equitable Personnel Evaluations

Shionogi has strictly aligned Company targets with individual employee targets, and has built a target management system that emphasizes Plan, Do, Check, Act management.

We believe that by accurately evaluating the abilities employees display, the roles they play and the results they achieve in their areas of responsibility, we can assign them appropriately, placing the right people in the right jobs. This allows us to make the most of their ambitions and abilities. For this reason, Shionogi is increasing the transparency of the evaluation framework through the creation and disclosure of evaluation standards to employees, as well as by maintaining evaluation manuals and providing evaluation training. In addition, the Company is working to increase employee confidence in the application of the evaluation framework by gathering feedback on the results.

Labor-Management Relations

Shionogi has concluded a labor agreement with the Shionogi Pharmaceuticals Labor Union, of which its employees are members, in order to further improve their working conditions and lifestyles. The Company and the Union have created various venues for dialogue in order to establish sound labor-management relations based on mutual understanding and trust. The Company provides detailed explanations regarding Shionogi's Company Policy and business plans at the Management Conference, and holds discussions on a variety of labor-management topics through bodies including the Working Hours Reduction Review Meeting, the Welfare Program Review Meeting and the Gender Cooperation Review Meeting. We will continue to deepen understanding between labor and management while working to improve the work environment and implement various measures.

Occupational Safety and Health

In protecting people's health, Shionogi recognizes the primary importance of the safety and health of its employees, which the Company ensures though a variety of initiatives centered on the safety and health committees of each workplace. To ensure safety, because many chemicals are used at its research facilities and factories, the Company strictly enforces appropriate handling and storage management, and is strengthening the internal check system. In addition, to prevent occupational injury or illness, Shionogi regularly conducts rigorous safety inspections, promptly addresses any problems identified, and works to raise employee safety awareness.

Number of Occupational Illness/Injury Incidents (FY)

	2006	2007
Number of occupational illness/injury incidents	19	18
Occupational illness/injury incident frequency rate	0.68%	0.33%
Occupational illness/injury incident severity rate	0.006%	0.002%

To promote employee health, Shionogi is striving to create a business framework that prevents chronic long working hours by adopting a new work information system to manage time on the job. In addition, we are enhancing initiatives to maintain and improve employee

Health seminar

health in cooperation with a health insurance association. We work to ensure employees participate in the regular annual health checkup. The participation rate is currently 99.9 percent. On-site health staff (industrial physicians, nurses and public health nurses) conduct personalized follow-up on employees with pre-existing or newly diagnosed conditions. Moreover, we are improving employee awareness of health by holding events such as health seminars and fitness walks.

To address mental health, Shionogi also has a specialized industrial physician and has established a counseling system that includes a counseling room and outside services. In this way, the Company provides comprehensive measures in line with the "four care policy" of the Ministry of Health, Labour and Welfare (self-care, care by the manager, care by on-site industrial health staff and care by external resources).

Employment of Persons with Disabilities

To promote normalization, Shionogi has been making ongoing efforts to hire persons with disabilities. In fiscal 2007, Shionogi's employment rate for persons with disabilities was 2.29 percent, far exceeding the legally mandated employment rate of 1.8 percent. In 2003, Shionogi received recognition from the Osaka Employment Development Association as a distinguished employer. This association also presents a disabled Shionogi employee with a longtime service award every year, reflecting the Company's high retention rate for persons with disabilities.

Percentage of Employees with Disabilities (FY)

2004	2005	2006	2007
2.14%	2.16%	2.19%	2.29%

Rights Initiatives

In the process of research and development for new drugs, the most advanced new technologies, animal experiments and other measures such as human genome and applied genetic research are used. Ultimately, clinical trials using patients are necessary to conclusively establish a drug's efficacy and safety.

Considering the rights of individuals who submit genetic information, blood and tissue for or participate in clinical trials, in 2001 Shionogi established the Ethics Committee for Human Tissue and Genetic Research, including non-Company physicians and lawyers, and conducts drug development with full ethical consideration of matters including informed consent and privacy protection.

Shionogi has clearly set out its stance on employee rights in the "Conduct at Shionogi" section of the Shionogi Charter of Conduct, stating that "Shionogi respects the rights and individuality of its employees and works to ensure their comfort and fulfillment." In line with this, Shionogi has implemented various training programs and established a consultation service to ensure that there is no discrimination either inside or outside the Company on the grounds of race, nationality, origin, religion, creed, beliefs, gender, age, education, disability, illness or other factors, nor any harassment, sexual or otherwise. In addition, as stated in one of the five values of Shionogi's Action Guidelines, "Respect for the individual," maintaining maximum respect for everyone involved with Shionogi is one of the Company's most important values.

Benefits

Shionogi has adopted a "cafeteria plan" that allows employees to select programs from an array of options to match their own life plans and needs. This plan helps enrich employees' lives with a wide range of more than 30 programs, including support for health, child care and education, nursing care, self-improvement, lifestyle, and asset building.

Shionogi is working to provide a full range of programs to create an environment where employees can securely balance work with home life, including child and nursing care.

Holiday and Leave Systems

No-Overtime Day	Two days a month are set on which all employees leave at the regular time, with no overtime.
Consecutive Holiday System	Employees can use three paid vacation days a year and combine them with weekends for five consecutive days off.
Child-Care Leave	Available until the child is two years of age. In fiscal 2007, 119 employees used this option.
Reduced Work Hours for Child Care	Employees with preschool children can reduce their daily working hours by up to two hours. In fiscal 2007, 117 employees used this option.
Staggered Hours	Employees with preschool children can stagger their working hours. (Five patterns available)
Child-Care Time System	Employees with children up to the age of 18 months can take up to one hour of paid time per day for child care.
Nursing Care Leave	Employees with family members in need of care can take partially paid leave for up to two years.
Reduced Work Hours for Nursing Care	Employees with family members in need of care can reduce their daily working hours by three hours for up to two years.
Nursing Leave	Employees with preschool or otherwise dependent children can take up to five paid days off a year to care for a sick child. In fiscal 2007, six employees used this option.

Social Contribution Activities

Shionogi Social Contribution Support Association "Socie"

Shionogi established Socie in 1997. The Company, its employees and the employee labor union cooperate in supporting Socie members' voluntary social contribution activities. Management and employees work together in carrying out social contribution activities, using funds provided by Shionogi and the labor union at the time Socie was established, and through monthly contributions from employees and the Company.

Socie provides assistance to areas affected by earthquakes, storms, volcanic eruptions and other disasters designated by Japan's Disaster Relief Act, as well as surrounding regions. It also makes annual donations to groups that contribute to society, such as the Japanese Red Cross Society and the Japan Guide Dog Association.

In July 2007, Socie donated ¥5 million to the Japanese Red Cross Society to support victims of the Niigataken Chuetsu-Oki Earthquake.

In addition, Shionogi supports the voluntary social contribution activities of employees by helping raise their consciousness of volunteer work with time off or leaves of absence for such activities or for bone marrow donation.

The Cell Science Research Foundation

The Cell Science Research Foundation was established on March 17, 1988, to commemorate the 110th anniversary of the establishment of Shionogi and Co., Ltd. The Foundation aims to contribute to clarifying causes of disease and clinical conditions, and to preventing and curing diseases, through life-science research at the cellular level, the cultivation of young Japanese researchers, and international exchange. Specific activities include providing research grants, arranging studies for young researchers in Japan and overseas, sending and inviting researchers to international conferences, and publishing materials such as reports on funded research.

In fiscal 2007, the Foundation held lectures and celebrations commemorating the 20th anniversary since its establishment and arranged exchanges for young researchers. In addition, 19 researchers were selected to receive grants after strict examinations.

Lecture commemorating the 20th Anniversary of the Cell Science Research Foundation

For details, please refer to the following website.

http://www.shionogi.co.jp/zaidan/

Shionogi Music Fair

Since August 1964, Shionogi has sponsored the music program Shionogi Music Fair, which airs on Saturdays from 6:00 PM to 6:30 PM on 17 Kyoku Net, a television station associated with Fuji Television Network, Inc. To commemorate the 2,200th broadcast on March 15, 2008, the show was taped in front of a live audience at Tokyo International Forum.

Shionogi remains committed to offering this program so that audiences can enjoy songs by top singers in a wonderful environment with the best sound effects, lighting and sets.

Going forward, the Company will continue to sponsor high-quality musical programs that help promote the musical culture of Japan as one way to contribute to society.

The 2,200th broadcast of Shionogi Music Fair was taped in front of a live audience.

Environmental Report

Shionogi's Environmental Activities

Environmental Management

In carrying out its business activities, Shionogi is aware that as a company, it has an important social responsibility to maintain and promote improvement of the global and local environments. To lessen its environmental impact in each of its business activities, Shionogi established the Shionogi Group's Basic Environmental Policy. We set the Shionogi Group Environmental Protection Plan and conduct environmental preservation activities in line with this policy. Although waste and greenhouse gas emissions increased in fiscal 2007 compared to fiscal 2006 due to greater manufacturing and research and development activities, the Company is continually working to reduce the environmental load of all activities.

The Shionogi Group's Basic Environmental Philosophy

Under Shionogi's company policy to "strive constantly to provide medicine of the best possible kind essential for protection of the health of the people," the Shionogi Group is keenly aware that a company is also a member of society. As such, the Group will contribute to building a richer society by placing priority on environmental protection, pollution prevention and human safety in its pharmaceutical-related business activities.

1. Environmental Management System
The Shionogi Group will promote high-quality environmental protection activities by assigning the Director in charge of the environment to the post of Chief Environmental Supervisor and clarifying organizational responsibilities and authority for environmental management.

2. Compliance with Laws and Regulations
The Shionogi Group will work to protect the environment by complying with environmental regulations as well as setting voluntary management standards.

3. Reduction of Environmental Impact
In its research and development, manufacturing, distribution, marketing and other business activities, the Shionogi Group will set and periodically revise targets in areas such as energy and resource conservation, waste reduction and strengthening management of chemical substances, striving for continual improvement.

4. Education and Training
The Shionogi Group will raise the awareness of all employees toward environmental protection by conducting environmental education and training and providing environment-related information.

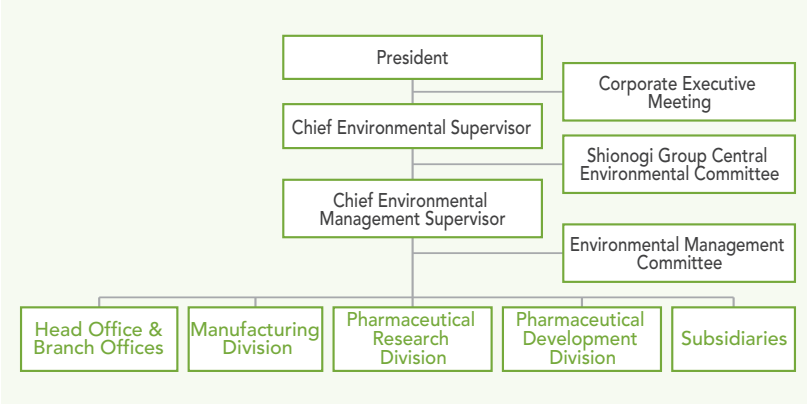
5. Coexistence with Society
From its standpoint as a corporate citizen, the Shionogi Group will cooperate in environmental protection activities of regional communities. In addition, we will disclose our environmental information to promote mutual understanding with society.

6. Disclosure of Our Basic Environmental Policy
The Shionogi Group's Basic Environmental Policy will be disclosed both inside and outside the Group.

April 1, 2008
Isao Teshirogi, President
and Representative Director
Shionogi & Co., Ltd.

Environmental Management Organization

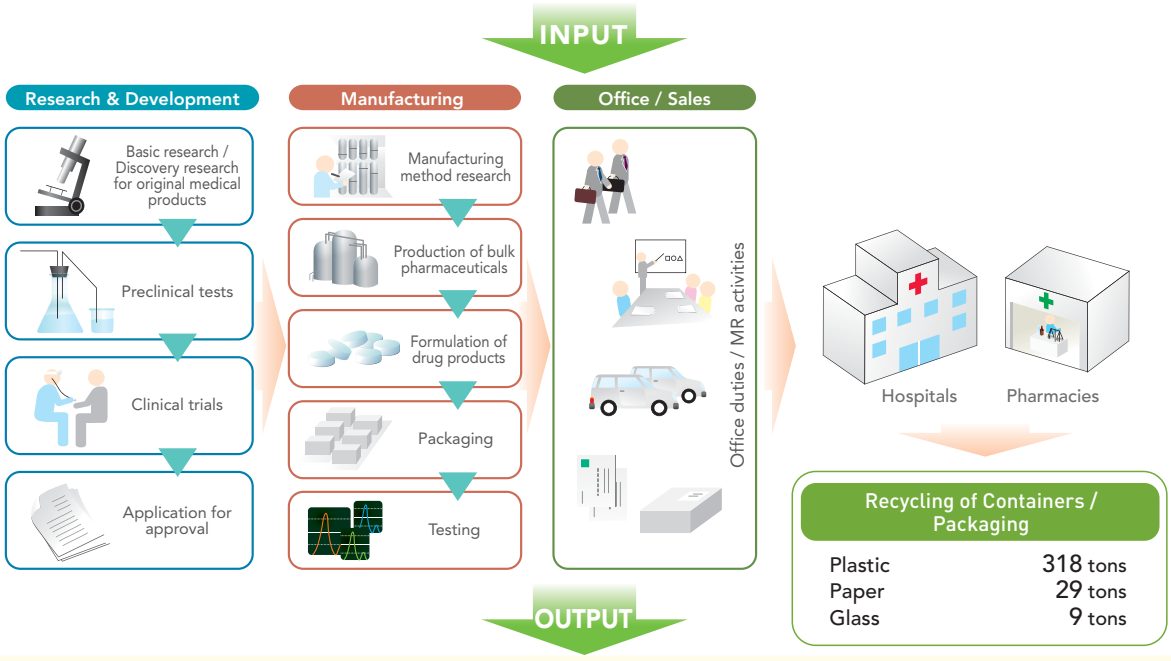
The Shionogi Group promotes environmental preservation activities under the direction of the Chief Environmental Supervisor and the Chief Environmental Management Supervisor, whose authority extends over all of the Shionogi Group. All major business sites have environmental committees chaired by the Environmental Supervisor and composed of the Environmental Management Supervisor, environmental supervisors from each department and others. The committees deliberate on and approve the operations of the environmental management system.



Shionogi and the Environment

Although we believe that we have comparatively low energy input and waste output within the pharmaceutical industry, we are working to reduce our environmental load by setting targets for emission of greenhouse gases, waste output and other indicators. We are also receiving cooperation from related companies in such measures as green procurement and consigning waste disposal to appropriate waste management contractors. In fiscal 2007, electricity use, greenhouse gas emissions, waste output and other categories increased due to expansion of business activities.

Item	Shionogi: Amount Used	Shionogi: Calorific Value (MJ)	Subsidiaries: Amount Used	Subsidiaries: Calorific Value (MJ)	Shionogi Group: Amount Used	Shionogi Group: Calorific Value (MJ)
• Electricity (purchased)	102,360 MWh	1,006,200,176	17,532 MWh	172,337,791	119,892 MWh	1,178,537,967
• Kerosene	9 kl	331,181	0 kl	11,083	9 kl	342,264
• Fuel oil A	11,575 kl	452,582,500	3,513 kl	137,344,224	15,088 kl	589,926,724
• Propane	17 tons	856,161	1 ton	68,272	18 tons	924,433
• City gas	7,954 thousand m³	309,869,200	7 thousand m³	279,607	7,961 thousand m³	310,148,806
• Gasoline (in-house)	3,391 kl	117,313,411	139 kl	4,811,130	3,530 kl	122,124,541
• Diesel oil (in-house)	2 kl	81,481	0 kl	0	2 kl	81,481
• Water intake	1,602 thousand m³		357 thousand m³		1,959 thousand m³	



Recycling of Containers / Packaging

Plastic	318 tons
Paper	29 tons
Glass	9 tons

Item	Shionogi: Amount Released	Subsidiaries: Amount Released	Shionogi Group: Amount Released
• Greenhouse gas emissions	94,278 tons-CO_2	16,169 tons-CO_2	110,447 tons-CO_2
• Environmental emissions of PRTR Class 1 chemical substances	103 tons	2 tons	105 tons
• Waste generated	6,310 tons	1,244 tons	7,555 tons
• Waste sent directly to landfills	1 ton	0 tons	1 ton
• Public sewerage	500 thousand m³	36 thousand m³	536 thousand m³
• Natural waterways	955 thousand m³	263 thousand m³	1,218 thousand m³
• NOx	148 tons	17 tons	165 tons
• SOx	22 tons	9 tons	31 tons
• BOD	11 tons	2 tons	13 tons
• COD	8 tons	3 tons	11 tons

Environmental Management System

Shionogi promotes ongoing environmental activities, and has obtained ISO 14001 certification of the environmental management system in its manufacturing and R&D operations, which have a large environmental impact, and at domestic manufacturing subsidiaries. The Shionogi Group, including branch offices and overseas subsidiaries, is taking action to achieve the targets of the Phase 3 Shionogi Group Environmental Protection Plan, and making progress in monitoring and reducing the environmental load.

ISO 14001

Six Shionogi sites and two on-site subsidiaries involved in R&D and manufacturing obtained ISO 14001 certification, an international environmental management standard, together in March 2002. The Company's domestic manufacturing subsidiaries also obtained certification at about the same time. These sites are audited by an external organization each year to verify the effectiveness of their management systems.

ISO 14001 certification

• External Audits

In fiscal 2007, Japan Chemical Quality Assurance Ltd. (JCQA) conducted audits of Shionogi from January 1– February 7, 2008, Bushu Pharmaceuticals Ltd. from September 11–14, 2007, and Nichia Pharmaceutical Industries Ltd. from September 27–28, 2007. The audits were for the renewal of certification and occur every three years, and all companies were recertified.

Shionogi: The audit found the medium deficiency that poisonous waste was not indicated or locked away. It also pointed out inadequacies in compliance evaluation procedures and recordkeeping, providing information to waste management companies and other areas.

Bushu Pharmaceuticals Ltd.: The audit pointed out that the updated environmental manual "Response in Case of Fire" was stored together with its old version, and that the two versions were not easily distinguishable.

Nichia Pharmaceutical Industries Ltd.: The audit pointed out that there were no revisions to the register of significant environmental aspects following revisions to environmental aspect evaluation, and that the measurement items of industrial wastewater did not meet voluntarily established standards.

	Serious deficiencies	Medium deficiencies	Minor deficiencies	Comments
Kuise Site	0	1	1	0
Settsu Plant	0	0	2	0
Kanegasaki Plant	0	0	1	0
Shionogi Research Laboratories	0	0	1	1
Developmental Research Laboratories	0	0	1	0
Aburahi Laboratories	0	0	1	0
Bushu Pharmaceuticals Ltd.	0	0	1	3
Nichia Pharmaceutical Industries Ltd.	0	0	2	2

Serious deficiencies: Major nonconformance, unable to recommend registration
Medium deficiencies: Nonconformance of a medium degree, recommend registration after correction is confirmed
Minor deficiencies: Deficiencies of a minor degree, will confirm correction in next audit
Comments: Items observed to be effective in improvement of environmental management system

• Internal Audits

Under ISO 14001, Shionogi performs internal audits to ensure that the environmental management system is operating soundly and to improve the system. The internal audit for fiscal 2007 pointed out one serious deficiency, as well as such minor deficiencies as inadequacy in environmental aspect evaluation and delay in Environmental Committee reporting. The serious deficiency was due to inadequacies in areas including communication and document management , and measures were taken to correct these inadequacies.

Environmental Audits

Shionogi conducts environmental audits of business sites and Group companies to verify that they are complying with environmental laws and regulations, properly managing environmental risks and making continual improvements to their management systems.

In fiscal 2007, Shionogi conducted environmental audits of Nichia Pharmaceutical Industries Ltd. and Bushu Pharmaceuticals Ltd. Corrective measures have been taken for inadequacies including revisions to the environmental aspect significance assessment system and environmental documents at Nichia Pharmaceutical Industries and environmental aspects for operations that indirectly impact the environment and clarification of environmental regulation compliance items at Bushu Pharmaceuticals.

Environmental Education and Training

Shionogi conducts environmental education to raise environmental awareness among employees and provides training on subjects such as managing facilities to prevent environmental pollution. Other activities include qualification training of internal auditors to audit operation of the environmental management system and education to raise their skill level. In addition, Shionogi sets procedures and conducts annual drills for responding to events such as natural disasters, fires, chemical leaks and other emergencies, and is revising procedures and emergency equipment and materials.

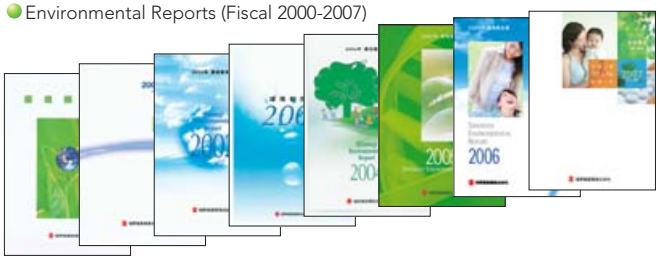
In fiscal 2007, the Kanegasaki Plant invited a member of the Iwate Prefecture Committee to Promote Anti-Global Warming Activities to give a lecture on "Global Warming and What We Should Do About It," and carried out comprehensive disaster drills together with firefighters. The Fukuoka branch office created posters to call for full employee participation in initiatives including recycling copy paper and ending vehicle idling during long stops. Further, our internal auditor qualification training resulted in 25 new auditors.

Posters promoting environmental initiatives (Fukuoka branch office)

Information Disclosure

Shionogi issued an environmental report on its initiatives, both in printed form and on the Web, from 2000 to 2006 to meet its social responsibility and to provide information to stakeholders. We have issued an English version since 2002, and have obtained a third-party evaluation since 2003 to enhance the reliability and transparency of the environmental report. From 2007, we have published the environmental report as a section of the Annual Report.

Environmental Reports (Fiscal 2000-2007)



Compliance, Accidents and Complaints

Environment-related laws and regulations cover a wide range of issues, including atmospheric pollution, water pollution and chemical substance controls. Shionogi has established procedures for complying with each regulation, and uses compliance evaluation sheets once a year to confirm that standards, notifications and controls are being operated properly according to the relevant regulations. In addition, Shionogi operates according to voluntarily established standards for wastewater and other emissions that are stricter than the legal requirements.

- Shionogi has had no environment-related fines or lawsuits for more than five consecutive years.
  In fiscal 2007, Shionogi Research Laboratories had not yet prepared energy management standards related to the Act on the Rational Use of Energy, and the Settsu Plant failed to submit the high-pressure gas production notification document. We are taking steps to correct these issues and prevent their recurrence. In addition, Aburahi Laboratories and Nichia Pharmaceutical Industries exceeded noise level limits, and carried out remedial work.
- Regarding emission of hazardous substances into the air or drainage water, in fiscal 2007 there was one instance of oil content in drainage water exceeding voluntary limits at the Kanegasaki Plant, which was believed to have been caused by a cafeteria drainage outlet. The level was within regulatory standards.
- In complaints regarding the environment, in fiscal 2007, noise from demolition at the Settsu Plant generated one complaint. Although the noise was within agreed-upon levels, care was taken in the operation of heavy machinery.

Emissions Exceeding Regulatory Standards (Incidents)

(FY)	2003	2004	2005	2006	2007
Shionogi	0	1	0	2	0
Subsidiaries	0	0	0	0	0
Group total	0	1	0	2	0

Complaints Regarding the Environment (Incidents)

(FY)	2003	2004	2005	2006	2007
Shionogi	9	0	1	2	1
Subsidiaries	2	0	0	1	0
Group total	11	0	1	3	1

Interaction with Local Communities

Shionogi maintains communication with local communities through participation in cleanup activities around each site and environment related associations, as well as conducting factory tours and other activities. We explain upcoming construction and demolition work to the heads of local residents' associations, school principals and other concerned parties in advance.

In fiscal 2007, the Kanegasaki Plant co-sponsored Iwate Prefecture's CO_2 Diet Point program.

Cleanup activities (Kuise Site)

Green Purchasing

Shionogi promotes green purchasing through measures such as purchasing raw materials that have a low environmental impact and doing business with other companies that are making environmental preservation efforts. Specifically, Shionogi uses a Product Evaluation List for purchases and an Environmental Management Evaluation List to assess the environmental load of the products we purchase and the environmental preservation efforts of suppliers.

In fiscal 2007, Shionogi conducted questionnaire surveys of its 108 main supplying manufacturers.

Environmental Management Evaluation List

The Phase 3 Shionogi Group Environmental Protection Plan

Shionogi established its company-wide Phase 1 (for fiscal years 1995 to 2000) and Phase 2 (for fiscal years 2000 to 2004) Environmental Protection Plans, and has been working to reduce its environmental load.

In fiscal 2005, Shionogi established and began carrying out the Phase 3 Shionogi Group Environmental Protection Plan (for fiscal years 2005 to 2010) to strengthen environmental activities by including Shionogi Group companies as well as the parent company.

Targets and Results of Phase 3 Shionogi Group Environmental Protection Plan

Phase 3 Shionogi Group Environmental Protection Plan Targets	Fiscal 2007 Targets
1. Strengthen conservation of resources and waste disposal measures ● Reduce amount of waste generated by 38% (4,990 tons [reduction of 42% or 4,460 tons]) ● Reduce waste 40% by fiscal 2015 (4,830 tons [reduction of 44% or 4,350 tons])	▶ 27% reduction (5,906 tons [38% reduction to 4,784 tons]) ● Raise environmental efficiency of amount of waste generated. (Kanegasaki Plant) ● Increase recycling rate. (Kuise Site, Kanegasaki Plant, Nichia Pharmaceutical Industries Ltd.)
● Promote zero emissions	▶ Waste sent directly to landfills: 0 tons **[0 tons]** ● Maintain waste sent directly to landfills at zero
● Reduce use of copy paper and printing paper by 5% (36,500,000 sheets [reduction of 7% or 34,300,000 sheets]) ● Reduce 8% in fiscal 2015 (35,300,000 sheets [reduction of 10% or 33,100,000 sheets])	▶ 9.8% reduction (34,659,000 sheets [10.6% reduction to 32,934,000 sheets]) ● Continue to promote paperless work through use of multifunctional machines and other measures.
2. Implement measures to counter global warming ● Maintain greenhouse gas emissions at level of benchmark year (102,500 tons-CO_2 [reduction of 8% or 84,000 tons-CO_2]) ● Reduce 1% in fiscal 2015 (101,500 tons-CO_2 [reduction of 8% or 84,000 tons-CO_2]) ● Promote energy conservation	▶ Limit increase to 1.6% (104,198 tons-CO_2 [2.7% reduction to 89,299 tons-CO_2]) ● Improve environmental efficiency indicators of electricity consumption. (Kanegasaki Plant) ● Upgrade to energy-saving equipment.
3. Strengthen management of chemical substances ● Monitor and reduce use, emissions and transfer of hazardous chemicals	● Continue to monitor use, emissions and transfer of hazardous chemicals. ● Restrain amount of hazardous chemicals to be used. (Kuise Site, Kanegasaki Plant) ● Reduce atmospheric emissions of dichloromethane to less than 78 tons. (Kanegasaki Plant) ● Practice environment-friendly experiment methods. (Shionogi Research Laboratories)
● Completely eliminate specified CFCs (applies to equipment holding more than 20kg)	● Renew one specified CFC equipment unit (0.2 tons). (Settsu Plant)
● Set and manage voluntary control levels for atmosphere, wastewater, soil and underground water	● Continue periodic measurement and evaluation of air, water and soil.
4. Enhance system for evaluating safety of chemical processes	● Conduct safety evaluations based on "Development, Design and Management Rules" and "Equipment Safety Evaluation Rules." (Kuise Site) ● Prepare new thermal analysis equipment, etc., for operation. (Kuise Site)
5. Promote Product Life Cycle Assessment	● Consider selection of packaging materials, etc., and setting of packaging methods from results of environmental impact surveys. (Kuise Site)
6. Implement environmental accounting	● Continue to collect data following environmental accounting guidelines.
7. Expand green purchasing ● Raise rate of green purchasing of office supplies to 75% [75%] ● Raise rate to 80% in fiscal 2015 [80%]	▶ Green purchasing rate 75% **[73%]** ● Promote green procurement
8. Contribute to society	● Promote communication with surrounding communities.
9. Disclose environmental information	● Publish environmental information as part of the Annual Report.

Scope of application: Shionogi Group companies (domestic and overseas)
Benchmark year: Fiscal 1990 (or fiscal 2004) (Figures in [ ] in the table show non-consolidated targets or results for Shionogi.)
Evaluation (○: achieved; △: achievement rate of 80-99%; ×: achievement rate of less than 80%)

Fiscal 2007 Results	Evaluation	Fiscal 2008 Targets
▶ 6% reduction (7,555 tons [19% reduction to 6,310 tons]) ● Environmental efficiency decreased due to start of trial operations of a new manufacturing plant and a change in manufacturing configuration. (Kanegasaki Plant) ● Recycling rate increased due to promotion of activities including recycling of inorganic sludge and waste plastic and separation of waste. (Kuise Site, Kanegasaki Plant) ● Recycling rate decreased due to change in items produced. (Nichia Pharmaceutical Industries) ● Reduced waste by composting cafeteria leftovers. (Kuise Site)	×	▶ **13% reduction** (6,971 tons [25% reduction to 5,794 tons]) ● Raise environmental efficiency of waste. (Kanegasaki Plant) ● Register PCB waste disposal. (Shionogi Research Laboratories, Aburahi Laboratories)
▶ Amount of waste sent directly to landfills: 1.3 tons [1.1 tons] ● Activated charcoal and other material totaling 0.3 tons from Nichia Pharmaceutical Industries and 1.1 tons of general waste from the Nagoya branch office were sent directly to landfill disposal.	×	▶ **Waste sent directly to landfills: 0.95 tons** [0.95 tons] ● Attain zero waste sent directly to landfills through appropriate disposal (Nichia Pharmaceutical Industries Ltd.) ● Make progress in separation of combustible and noncombustible waste (Nagoya branch office)
▶ 5.4% reduction (36,338,000 sheets [8.4% reduction to 33,738,000 sheets]) ● Promoted paperless work using multifunctional printers, etc. ● Paper use increased due to improvement of written standard operation procedures in compliance with inspections. (Kanegasaki Plant)	×	▶ **8.3% reduction** (35,255,000 sheets [10.3% reduction to 33,024,000 sheets]) ● Continue to promote paperless work through use of shared folders, use of multifunctional printers, and other measures.
▶ 7.7% increase (110,447 tons-CO_2 [2.7% increase to 94,278 tons-CO_2]) ● Greenhouse gas emission volumes rose due to increased manufacturing and research and development activities. ● Environmental efficiency decreased due to start of trial operations of a new manufacturing plant, change in manufacturing configuration, and increased production volumes. (Kanegasaki Plant) ● Renewed transformers, elevator hoists, air compressors and small-scale once-through boilers for energy conservation, installed lights that automatically turn off, etc.	×	▶ **Limit to 10.3% increase** (113,086 tons-CO_2 [5.9% increase to 97,207 tons-CO_2]) ● Renew equipment to achieve energy savings. ● Improve environmental efficiency. (Kanegasaki Plant)
● Monitored use, emissions and transfer of hazardous chemicals. ● Reduced amount of chemicals used by preventing overuse of reagents. (Kuise Site) ● Unable to decrease amount of chemicals used due to increase in production. (Kanegasaki Plant) ● Atmospheric emissions were 96 tons due to increase in manufacturing of products using dichloromethane. (Kanegasaki Plant) ● Currently implementing experiment procedures aimed at promoting environmental consciousness and resource conservation in research and analysis of development compounds. (Shionogi Research Laboratories)	×	● Continue to monitor and properly manage use, emissions and transfer of hazardous chemicals. ● Reduce atmospheric emissions of dichloromethane to less than 87 tons. (Kanegasaki Plant) ● Practice environment-friendly experiment methods. (Shionogi Research Laboratories)
● Renewed one specified CFC equipment unit. (Settsu Plant)	○	● Renew three specified CFC equipment units. (Kuise Site)
● Carried out periodic measurement and evaluation of air, discharged water and soil based on voluntary standards.	○	● Continue voluntary periodic measurement and management.
● Conducted safety evaluations of three drugs in development. (Kuise Site) ● Upgraded and began operating thermal analyzers, etc. (Kuise Site) ● Introduced new type of differential scanning calorimeter and added more autosamplers to increase efficiency of safety evaluations. (Kuise Site) ● Implemented risk management of new manufacturing section for drugs for clinical trials. (Kuise Site)	○	● Continue to manage chemical process safety evaluation system. (Kuise Site)
● Carried out two new environmental impact surveys of packaging materials, as well as seven reevaluations due to changes in materials. (Kuise Site) ● Changed packaging materials for drugs in development from double-layer to single-layer film. (Kuise Site)	○	● Consider selection of packaging materials, etc., and setting of packaging methods from results of environmental impact surveys. (Kuise Site)
● Collected environmental accounting data for the Shionogi Group and each site in line with environmental accounting guidelines.	○	● Continue to collect data following environmental accounting guidelines.
▶ Green Purchasing Rate 77% [75%] ● Added 296 green products for a total of 1,520.	○	▶ **Green purchasing rate 78%** [76%]
● Participated in cleanup, environmental and other activities around each site. ● Co-sponsored Iwate Prefecture's CO_2 Diet Point program. (Kanegasaki Plant) ● Lent out facility grounds and cooperated in work experience program for junior high school students. (Aburahi Laboratories)	○	● Promote communication with surrounding communities.
● Made the Annual Report available as a booklet and on the Internet. ● Created "Eco Up Declaration" environmental load reduction plan, and enabled disclosure to those who requested it. (Bushu Pharmaceuticals Ltd.)	○	● Publish environmental information as part of the Annual Report.

Results of Activities

Measures for Resource Conservation and Wastes

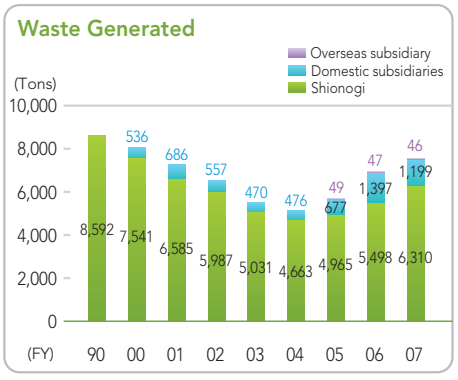
Limiting generation of waste and promoting reuse and recycling are essential in forming an environment-oriented society. In Japan, the landfill crunch and the increase in illegal dumping of waste have become issues of concern.

The Shionogi Group has also set waste reduction targets in the Phase 3 Shionogi Group Environmental Protection Plan.

Amount of Waste Generated

The main wastes included waste oil generated in the manufacturing process, sludge generated in wastewater treatment and plastics used in product containers. Since fiscal 2005, the amount of waste generated has been on an upward trend due to increased production volume, an increase in research and development and other factors. Therefore, we have promoted recycling.

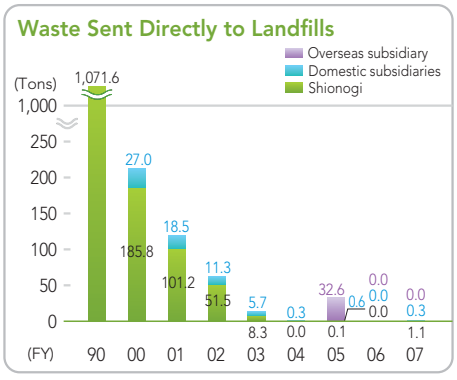
In addition, at the Developmental Research Laboratories and Kuise Site staff cafeterias, we introduced disposal equipment for leftovers and are composting waste.



Zero Emissions

We are working to reduce waste sent directly to landfills, total elimination of which we define as zero emissions.

In fiscal 2007, we were unable to achieve zero emissions because Nichia Pharmaceutical Industries emitted 0.3 tons of materials including activated charcoal due to an error in waste disposal procedures, and the Nagoya branch office emitted 1.1 tons of general waste due to changes in disposal methods with its relocation to a leased building. However, we continue to promote zero emissions.



Prevention of Illegal Dumping

To prevent illegal dumping, when selecting contractors for waste treatment and transport, Shionogi uses an evaluation sheet to verify that they have a current business license and check the condition of their treatment facilities and operations, document management and other matters. We consider the results in making the contracting decision. In addition to appropriately managing contracts, licenses, and manifests, we do on-site verifications of waste treatment contractors at least once a year.

Effective Use of Resources

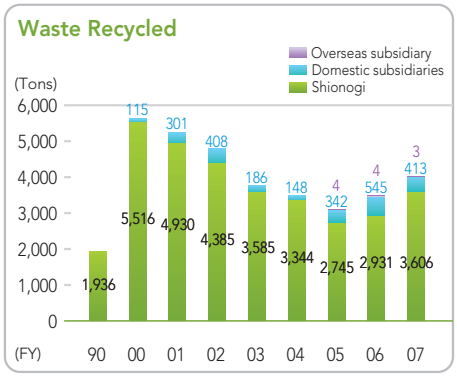
The Developmental Research Laboratories has dramatically reduced new purchases of cool boxes used in storage and delivery of samples by promoting their reuse.

The Aburahi Laboratories chipped the cuttings and wood generated in greenery maintenance, and buried them in weed control areas, which significantly reduced weeding work.

At distribution centers, Shionogi has been promoting reuse with measures including using old newspapers as cushioning materials and repeatedly reusing packaging boxes for product transport. The Kanegasaki Plant achieved cost reductions and higher productivity by improving processes based on knowledge of Material Flow Cost Accounting.

Recycling

As much as possible, Shionogi recovers, purifies and reuses organic solvents used in manufacturing, and contracts with outside companies that carry out heat recovery and recycling of waste solvents that cannot be reused. We also separate and collect metals and paper for recycling. In fiscal 2007, we promoted recycling of inorganic sludge at the Kanegasaki Plant.

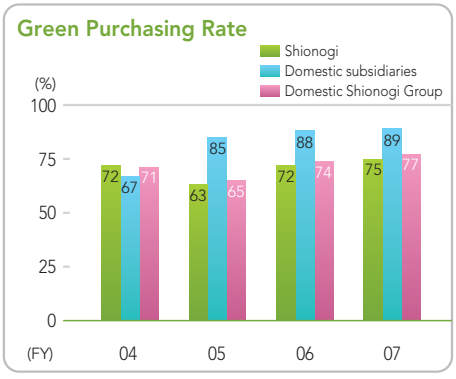


Green Purchasing

In purchasing supplies, Shionogi promotes the purchase and use of products with as little environmental impact as possible. For office supplies, we make efforts to purchase environment-friendly products bearing the Eco Mark, Green Mark or similar labels.

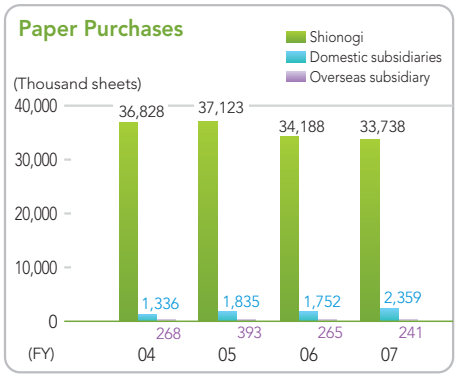
Shionogi has introduced an intranet-based purchasing system that makes green purchasing easier by displaying a mark that allows users to identify eco-friendly products when ordering.

In fiscal 2007, the Shionogi Group's green purchasing rate increased to 77 percent according to the purchase amount of office supplies, partly because the number of products registered as environment-friendly increased.



Copy Paper and Printing Paper

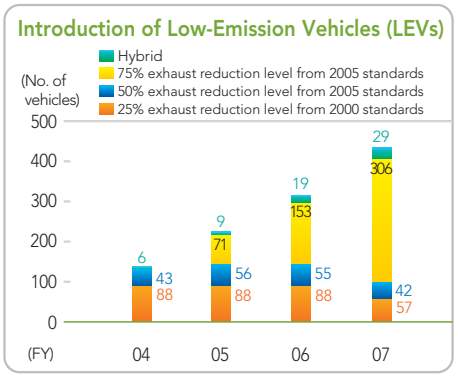
Reducing use of copy paper and printing paper is included as a target in the Phase 3 Shionogi Group Environmental Protection Plan to reduce the amount of paper used. In April 2006, Shionogi made simultaneous renewals of personal computers and printers throughout the Company. As a result, we are reducing the amount of copy paper and printing paper used by initiatives including printing double-sided or multiple pages per sheet, shifting to paperless faxing, increasing the use of LCD projectors by carrying personal computers to meetings, and recommending document management in electronic media using scanners. In fiscal 2007, the amount of paper used was largely unchanged from fiscal 2006.



Low-Emission Vehicles

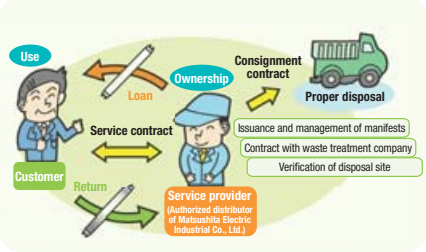
Shionogi is introducing low-emission vehicles for use by its medical representatives (MRs). We are also working to eliminate engine idling and revving.

In fiscal 2007, low-emission vehicles made up 434 of our 444 company cars after we introduced 29 hybrid vehicles as well as low-emission gas vehicles and vehicles that meet our fuel economy standards. We will continue to promote the introduction of low-emission vehicles and vehicles with high fuel efficiency.



Akari Anshin Service

In 2005, Shionogi and its domestic Group companies adopted the Akari Anshin Service devised by Matsushita Electric Industrial Co., Ltd. to promote recycling of used fluorescent lights.



Cafeterias

Shionogi and its domestic Group companies use *musenmai*, a type of rice that requires no washing, at all business sites and dormitories with facilities for providing meals, so that we do not release rice-rinsing water, which is linked to pollution of water environments. In addition, not washing rice reduces our water consumption by 1,700 cubic meters per year.

Note: The residue that is removed when rice is washed contains phosphorus and nitrogen, which cause red tide, water bloom and other problems.

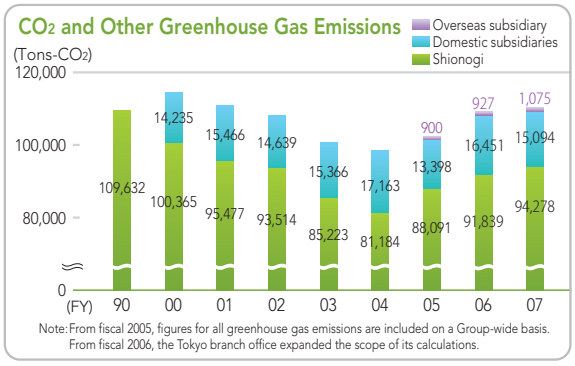
Musenmai pamphlet

Prevention of Global Warming

Global warming is an international environmental issue, and the Law Concerning the Promotion of Measures to Cope with Global Warming, the Revised Law Concerning the Rational Use of Energy and other regulations concerning greenhouse gases have been strengthened. Shionogi has been aggressively working on energy conservation since 1995 in the Manufacturing Division, where a large amount of energy was used. We consider global warming to be an important issue for Group companies as well, and are working to curb greenhouse gas emissions through means including upgrading lighting equipment, air conditioning systems and manufacturing equipment so that they use less energy and changing their operating methods.

In fiscal 2007, we continued to take systematic steps including renewing transformers, elevator hoists, air compressors, small-scale once-through boilers and other equipment to make them more energy efficient, and installing lights that automatically turn themselves off. However, the volume of greenhouse gas emissions increased because of increased manufacturing and research and development activities. We will continue to review equipment operating methods and running times, and will work to curb output of greenhouse gases and improve our environmental efficiency by renewing equipment with high energy efficiency specifications, such as electrical substation equipment, refrigerators and electric motors for pumps.

Once-through boiler (Aburahi Laboratories)



Cogeneration Systems

A cogeneration system is a system in which two or more types of energy are obtained simultaneously from a single fuel source. Such systems use engines or turbines to generate electricity while recovering waste heat from the generation process for air conditioning and water heating (combined heat and power supply), and are installed at the Settsu Plant and Kanegasaki Plant. Cogeneration allows efficient use of input energy – as much as 65-80 percent – thus achieving significant energy savings.

"Cool Biz"

The "Cool Biz" program is a way to comfortably limit greenhouse gas emissions by encouraging employees to work without neckties and business jackets, allowing adjustment of office air conditioning temperatures. Shionogi has carried out this program since fiscal 2005, and extended its period of implementation in fiscal 2007 throughout the Company due to high temperatures nationwide.

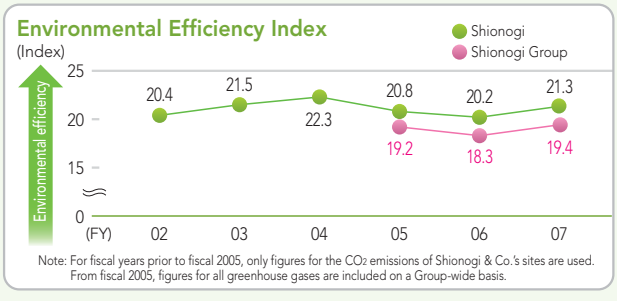
"CO_2 Reduction / Light Down Campaign"

The Ministry of the Environment advocates the "CO_2 Reduction/Light Down Campaign," which calls for lighting facilities and household electricity to be turned off as a measure to prevent global warming. Shionogi has switched off advertising lights and other lights at the Settsu Plant, Kanegasaki Plant, Shionogi Research Laboratories and Developmental Research Laboratories. After participating in this campaign in fiscal 2005, Bushu Pharmaceuticals Ltd. has continued to keep facility lights off at night.

Environmental Efficiency

Environmental efficiency (net sales/greenhouse gas emissions), which is based on greenhouse gas emissions and net sales, currently shows little change, but Shionogi will work to improve environmental efficiency through efficient business activities.

Note: Environmental efficiency is calculated as net sales divided by the amount of greenhouse gas emissions. Therefore, higher numbers indicate more environment-friendly business activities.



Chemical Substance Control

Some chemical substances have an impact on human health, ecosystems and the global environment. Proper management of chemical substances is carried out internationally, and the pharmaceutical industry is also implementing voluntary measures such as surveying the amount of chemical substances used and reducing atmospheric emissions.

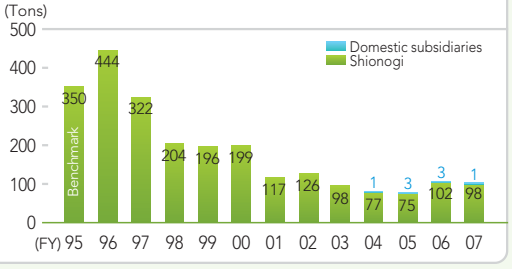
The Shionogi Group properly manages polychlorinated biphenyls (PCBs) and other hazardous substances, including controlling emissions of chemical substances into the atmosphere and water. In addition, we have a reagent control system in place for appropriate inventory and access controls for chemicals used in research and development.

Control of Atmospheric Emissions

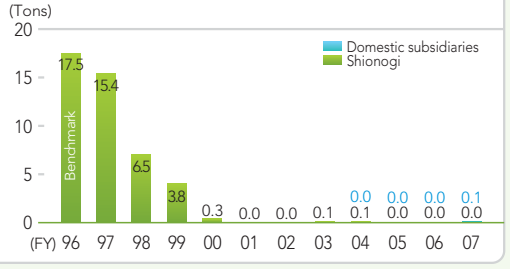
Since 1996, Shionogi has controlled its emissions of dichloromethane and chloroform as a measure to reduce hazardous air pollutants. At the Kanegasaki Plant, we installed two recovery units that substantially reduced atmospheric emissions of dichloromethane. We subsequently formed a project team to consider measures for continuing reductions. Although we were unable to achieve our initial targets for fiscal 2007 due to increased manufacturing activity, we continue to work on controlling atmospheric emissions.

We have dramatically reduced emissions of chloroform since 2000 by discontinuing the manufacture of products that use it.

Atmospheric Emissions of Dichloromethane



Atmospheric Emissions of Chloroform



Environmental Emission Volume

Shionogi files reports under the PRTR (Pollutant Release and Transfer Register) Law, a regulation that requires companies to measure, compile and announce data on their sources of hazardous chemicals and how much of these chemicals were released into the environment. Although the amount of chemical and hazardous substances we use has trended upward with increased manufacturing volumes, we are taking steps to properly manage the amount of such chemicals we purchase and curb their release into the environment.

Substances Reported under the PRTR Law
(kg, mg-TEQ for dioxins)

Site Name	Chemical Substance	Amount Used	Amount Released into Environment			Amount Transferred	
			Atmosphere	Natural waterways	Soil	Sewerage	Off-site
Kuise Site	Acetonitrile	8,854	48	0	0	0	8,806
	Toluene	3,769	20	0	0	0	3,749
Settsu Plant	Dichloromethane (methylene chloride)	1,765	1,449	0	0	0	315
Kanegasaki Plant	Acetonitrile	33,208	3,648	0	0	0	23,343
	Dichloromethane (methylene chloride)	242,061	96,432	1	0	0	91,459
	N,N-dimethylformamide	40,612	261	0	0	0	0
	Pyridine	16,180	1,401	0	0	0	8,445
	Benzene	852	0	0	0	0	0
Shionogi Research Laboratories	Acetonitrile	6,361	1	0	0	4	6,356
	Chloroform	8,465	15	0	0	0	8,450
	Dichloromethane (methylene chloride)	1,034	9	0	0	0	1,025
	Toluene	1,006	2	0	0	0	1,003
Developmental Research Laboratories	Acetonitrile	1,092	0	0	0	0	1,092
	Dioxins	—	0	0	0	0	0
Bushu Pharmaceuticals Ltd.	Acetonitrile	1,854	0	0	0	0	1,854
	Dichloromethane (methylene chloride)	1,230	971	0	0	0	259
Nichia Pharmaceutical Industries Ltd.	Ethylene glycol	1,224	0	0	0	0	0
	Chloroform	1,193	68	0	0	0	1,125
	Dichloromethane (methylene chloride)	11,024	522	0	0	0	10,502
	Toluene	13,382	78	0	0	0	13,304

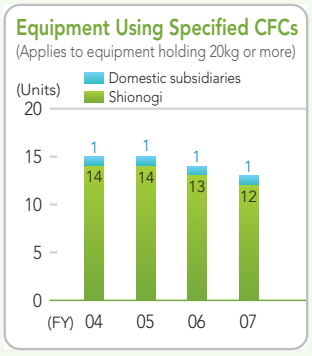
Control of Atmospheric, Wastewater and Soil Pollutants

- Shionogi is reducing its emissions of exhaust gases containing nitrogen oxides (NOx) and sulfur oxides (SOx), which cause photochemical smog and acid rain. Measures include properly managing the daily operation of boilers and diesel engines and selecting sulfur-free fuels. Shionogi complies with related regulations and agreements for these substances.
- Shionogi has set voluntary benchmark levels for water pollutants that are stricter than the regulations and takes periodic measurements to prevent water pollutants from flowing into the sewage system and rivers. At the Kanegasaki Plant, Aburahi Laboratories, Bushu Pharmaceuticals and Nichia Pharmaceutical Industries, wastewater is purified in treatment facilities before being discharged into natural waterways.
- The Kanegasaki Plant, which handles large quantities of chemical substances, sets voluntary standards for soil, and conducts periodic measurements. All measurement results were below the environmental standards.

CFCs

Specified chlorofluorocarbons (CFCs) are restricted internationally as substances hazardous to the ozone layer. Shionogi has a long-term renewal plan for specified CFC equipment, and is moving toward its target of completely eliminating equipment holding more than 20kg of specified CFCs by fiscal 2010. Shionogi renewed one specified CFC equipment unit at the Settsu Plant in fiscal 2007 and plans to renew three units at the Kuise Site in fiscal 2008.

In addition, subsidiary Shionogi Engineering Service Co., Ltd. is registered as a CFC recovery company, and properly treats and disposes of CFCs.



Dioxins

The Shionogi Group operates one waste incinerator. The incinerator is properly managed and the level of dioxins is periodically measured and reported to the government. All measured values are below the regulation levels.

PCBs

PCB (polychlorinated biphenyl) is easily concentrated in organisms in the food chain, and is a global pollution threat because it does not readily break down in the environment. In the past, PCB was used in items such as capacitors, transistors and fluorescent light ballasts, and regulations have been established for proper storage and treatment of these items when they are discarded.

Shionogi assigns administrators to properly manage the volume of PCB waste, keeps it in locked storage and periodically reports to the government. In addition, Shionogi checks for the presence of PCBs during equipment renewals and other times and properly manages PCB waste when it is present.

Product Life Cycle Assessment

Shionogi also must consider the environmental load of the products it manufactures after they are sold. We are considering the material quality and form of product containers and packaging, and taking measures for improvement.

Measures for Product Packaging

Change of Material Quality

- From PVC to polypropylene (avoiding chlorinated materials that could generate dioxins when inadequately incinerated)
- From plastic trays to paper trays (resource conservation)

Change of Form

- From polyethylene bottles to aluminum pouches (resource conservation)
- From boxes to bundling with bands (resource conservation)

Recycling of Product Packaging

In accordance with the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging, some of the containers and packaging used for the products that Shionogi sells are recycled.

Planned Recycling Consignment Costs: ¥22,165 thousand

Material	Volume (tons)
Plastic containers and packaging	318
Paper containers and packaging	29
Glass bottles	9

ID Marks

Labels providing information regarding separation and disposal were added to all packaging based on Regulations Concerning the Promotion of Effective Resource Utilization.

Chemical Process Safety Evaluation

Giving consideration to the environment and safety in chemical processes, Shionogi conducts prior assessments of factors including the safety of chemical substances as well as reactions and mixing hazards during disposal. These assessments are performed during the development of manufacturing and testing methods for pharmaceuticals and products under development, and at the equipment design stage. In addition, Shionogi selects efficient production processes to control the amount of waste generated, and holds in-house lectures on designing environment-friendly experimental methods to raise awareness of Green Chemistry.

Environmental Accounting

Shionogi has been conducting environmental accounting since 2000 based on guidelines from the Ministry of the Environment. The purpose of environmental accounting is to quantitatively manage environmental activities by recognizing their cost and the effect they achieve.

The main environment-related capital expenditures in fiscal 2007 were energy-saving measures including renewal of lighting equipment, transformers, air compressors and other equipment. Environmental maintenance and management costs consisted primarily of preservation of greenery, wastewater management and proper waste disposal. Material economic benefits included revenue from the sale of waste fluid and metals at the Kanegasaki Plant, and more efficient energy use at the Kuise Site and Settsu Plant through measures including equipment renewals that resulted in cost savings. In environmental preservation effects, the amount of waste and greenhouse gases emitted increased because of a new section of the Kuise Site starting operation and an increase in production volume at the Kanegasaki Plant.

Scope of Compilation

- Compiled in compliance with Environmental Accounting Guidelines (Fiscal 2005 Edition) issued by the Ministry of the Environment.
- Period covered: April 1, 2007 to March 31, 2008
  Scope of compilation: Shionogi and its domestic subsidiaries
- Environmental cost is determined by proportionally dividing the amount used for the purpose of environmental preservation.
- Environmental preservation benefits are shown as the difference compared with the previous fiscal year.
- Only results that are calculated based on verifiable grounds (actual results) are presented as the economic benefits of environmental preservation measures.

Environmental Preservation Costs

Type of cost		Investments (thousand yen)	Expenses (thousand yen)
(1) Cost within business area		68,176	833,941
Details	①Pollution prevention	9,478	480,116
	②Global environmental preservation	58,699	33,290
	③Resource recycling	0	320,535
(2) Upstream & downstream		0	22,165
(3) Management activities		0	559,229
(4) Research & development		0	0
(5) Social contribution activities		0	3,542
(6) Environmental damage		0	68
Total		68,176	1,418,945

Economic Benefits from Environmental Preservation Measures (Actual Effect)

Description of economic benefit		Amount (thousand yen)
Revenue	Business revenue from recycling waste	9,364
Expense reduction	Reduction of energy and water costs, etc.	23,052
	Total	32,415

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	102,486	117,656	15,170
Kerosene	kl	9	9	1
Fuel oil A	kl	16,200	15,006	-1,194
Propane	tons	16	17	1
City gas	Thousand m^3	8,668	7,961	-707
Gasoline (in-house)	kl	3,357	3,391	34
Diesel oil (in-house)	kl	3	2	-1
Water intake	Thousand m^3	2,178	1,932	-246

Products for Sale (Amount Used)

Material	Unit	FY 2006	FY 2007	YoY change
Plastic containers and packaging	tons	987	950	37
Paper containers and packaging	tons	621	621	0
Glass bottles	tons	—	58	—

Load from Emissions (Amount Generated)

Output type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	108,290	109,372	1,082
Environmental emissions of PRTR Class 1 chemical substances	tons	111	105	-6
Waste generated	tons	6,895	7,509	614
Waste sent directly to landfills	tons	0	1	1
Public sewerage	Thousand m^3	616	515	-102
Natural waterways	Thousand m^3	1,371	1,218	-153
NOx	tons	185	164	-22
SOx	tons	34	30	-4
BOD	tons	12	12	0
COD	tons	9	9	0

Site Reports

Kuise Site

The Kuise Site is primarily a research base for new drug research and manufacturing of drugs for clinical trials. Although the environmental load of emissions including waste and greenhouse gases increased due to full-fledged operation of a new plant for manufacturing clinical supplies, we continually work to restrain environmental load.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	12,385	14,358	-1,973
Kerosene	kl	0	0	0
Fuel oil A	kl	0	0	0
Propane	tons	0	0	0
City gas	Thousand m³	1,652	1,696	-45
Gasoline (in-house)	kl	0.4	0.2	0.2
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m³	210	149	61

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	7,984	8,818	-834
Waste generated	tons	209	240	-32
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	210	135	75
Natural waterways	Thousand m³	—	—	—
Soot and dust	tons	0.1	0.1	0.0
NOx	tons	1.0	1.1	-0.1
SOx	tons	—	—	—
BOD	tons	1.1	0.9	0.2
COD	tons	1.3	1.0	0.3

Settsu Plant

The Settsu Plant handles formulation and packaging of Shionogi products. Although it is undergoing dismantling, new construction and conversions based on future plans, it continues to conduct effective environmental activities.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	27,670	30,182	2,512
Kerosene	kl	0	0	0
Fuel oil A	kl	0	0	0
Propane	tons	0	0	0
City gas	Thousand m³	5,002	4,175	-827
Gasoline (in-house)	kl	2.3	2.3	0.0
Diesel oil (in-house)	kl	0.4	0.3	-0.1
Water intake	Thousand m³	245	231	-14

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	20,552	19,793	-759
Waste generated	tons	509	523	14
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	201	192	-9
Natural waterways	Thousand m³	—	—	—
Soot and dust	tons	0.1	0.1	0.0
NOx	tons	4.1	2.9	-1.2
SOx	tons	—	—	—
BOD	tons	3.3	3.6	0.3
COD	tons	3.6	3.9	0.4

Kanegasaki Plant

This is Shionogi's main factory, with integrated production equipment that extends from bulk pharmaceuticals to production and packaging. Although the environmental load of emissions including waste, greenhouse gases and chemical products is trending upward due to augmentation and expansion of manufacturing equipment, all employees are working together on environmental preservation.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	26,131	27,850	1,718
Kerosene	kl	0.8	1.3	0.5
Fuel oil A	kl	9,923	10,407	485
Propane	tons	10.5	11.3	0.8
City gas	Thousand m³	0	0	0
Gasoline (in-house)	kl	2.4	4.8	2.4
Diesel oil (in-house)	kl	1.8	1.0	-0.8
Water intake	Thousand m³	992	987	-5

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	36,850	38,826	1,975
Waste generated	tons	3,922	4,727	805
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	—	—	—
Natural waterways	Thousand m³	946	940	-6
Soot and dust	tons	2.8	2.8	0.0
NOx	tons	120	140	20
SOx	tons	22	21	-1
BOD	tons	3.7	3.7	0.0
COD	tons	—	—	—

Shionogi Research Laboratories

Shionogi Research Laboratories actively adopts and uses leading-edge technologies to efficiently generate original pharmaceuticals. In doing so, it is reducing its environmental impact with a focus on design of environment-friendly experiment methods and control of chemical substances.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	10,138	10,181	43
Kerosene	kl	1.7	0.5	-1
Fuel oil A	kl	1	1	0
Propane	tons	0	0	0
City gas	Thousand m³	1,198	1,232	34
Gasoline (in-house)	kl	0	0	0
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m³	75	70	-5

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	6,232	6,314	82
Waste generated	tons	270	270	0
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	75	70	-5
Natural waterways	Thousand m³	—	—	—
Soot and dust	tons	—	—	—
NOx	tons	0.9	0.8	-0.1
SOx	tons	—	—	—
BOD	tons	—	—	—
COD	tons	—	—	—

Developmental Research Laboratories

The Developmental Research Laboratories conducts R&D to develop safe, original new drugs that meet world-class standards. Its work is increasing, and consequently, so is its environmental impact, but the researchers are aware of environmental issues and are continually working to lessen its environmental impact.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	10,864	11,245	381
Kerosene	kl	0	0	0
Fuel oil A	kl	0.5	2	1
Propane	tons	0	0	0
City gas	Thousand m³	795	838	43
Gasoline (in-house)	kl	0	0	0
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m³	90	86	-5

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	5,697	5,930	234
Waste generated	tons	210	204	-5
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	90	86	-5
Natural waterways	Thousand m³	—	—	—
Soot and dust	tons	0.01	0.01	0.00
NOx	tons	0.7	0.6	0.0
SOx	tons	—	—	—
BOD	tons	3.7	3.1	-0.6
COD	tons	3.2	2.9	-0.3

Aburahi Laboratories

The Aburahi Laboratories conducts discovery research for new drugs, centered on search and pharmacological evaluation of prescription drugs. It considers the environment during research activities through means including efficient use of research materials in experiments and adjusting the hours when air conditioning is on.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	4,790	4,801	12
Kerosene	kl	5.8	7.2	1.4
Fuel oil A	kl	1,154	1,166	12
Propane	tons	5.3	5.8	0.5
City gas	Thousand m³	0	0	0
Gasoline (in-house)	kl	9.8	7.5	-2.3
Diesel oil (in-house)	kl	0.5	0.9	0.4
Water intake	Thousand m³	68	61	-7

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	4,993	5,031	38
Waste generated	tons	176	150	-26
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	—	—	—
Natural waterways	Thousand m³	22	16	-6
Soot and dust	tons	0.1	0.1	0.0
NOx	tons	3.7	2.7	-1.1
SOx	tons	1.0	0.9	-0.1
BOD	tons	0.0	0.0	0
COD	tons	0.1	0.1	0

Head Office and Branch Offices

The head office works to raise the environmental awareness of employees and promotes separation of trash and conservation of energy. In addition, it is continually introducing hybrid cars and other low-emission vehicles that emit less atmospheric pollution such as nitrogen oxide (NOx) and particulate matter (PM) and have superior fuel performance, as well as promoting the use of public transportation.

Input type	Unit	Head Office	Tokyo	Nagoya	Fukuoka	Sapporo
		FY 2007				
Waste generated	tons	104	68	11	6	7
Waste recycled	tons	87	36	8	5	6
Waste sent directly to landfills	tons	0	0	1	0	0
Greenhouse gas emissions	tons-CO_2	3,721	3,414	1,169	870	392
Copy and printing paper consumption	thousand sheets	7,961	5,239	1,248	1,152	384
Green purchasing rate	%	61	83	66	81	90
Gasoline consumption	kl	1,104	1,298	464	351	158

Bushu Pharmaceuticals Ltd.

Bushu Pharmaceuticals is a contract manufacturer of pharmaceutical products. Its overall environmental impact is increasing along with a substantial expansion of business activities. It is working to reduce the environmental load by recognizing the impact on the environment from minor workplace errors.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	4,995	13,841	8,846
Kerosene	kl	0.0	0.2	0.2
Fuel oil A	kl	4,971	3,318	-1,653
Propane	tons	0	0	0
City gas	Thousand m³	7	7	0
Gasoline (in-house)	kl	0.4	0.4	-0.1
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m³	117	107	-11

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	15,416	14,237	-1,178
Waste generated	tons	1,089	810	-279
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	21	15	-6
Natural waterways	Thousand m³	42	39	-3
Soot and dust	tons	1	0	-1
NOx	tons	54	15	-39
SOx	tons	6.6	5.6	-1.0
BOD	tons	0.1	0.2	0.0
COD	tons	0.3	0.3	0.0

Nichia Pharmaceutical Industries Ltd.

Nichia Pharmaceutical Industries is a contract manufacturer of bulk drug substances. Its waste generation and energy consumption fluctuate considerably with the type and volume of consigned production, but the company is raising the environmental awareness of its employees and working to reduce its environmental impact by improving production efficiency.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	1,549	1,354	-196
Kerosene	kl	0.2	0.1	-0.1
Fuel oil A	kl	152	113	-38
Propane	tons	0	0	0
City gas	Thousand m³	0	0	0
Gasoline (in-house)	kl	0.1	0.0	-0.1
Diesel oil (in-house)	kl	0.1	0.0	-0.1
Water intake	Thousand m³	361	224	-137

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	997	818	-179
Waste generated	tons	293	375	82
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m³	—	—	—
Natural waterways	Thousand m³	361	224	-137
Soot and dust	tons	0.0	0.0	0.0
NOx	tons	0.6	0.3	-0.3
SOx	tons	4.5	1.7	-2.8
BOD	tons	0.3	0.3	0.0
COD	tons	0.3	0.3	0.0

Shionogi General Service Co., Ltd.

As a travel and insurance agency, this company's primary environmental impact comes from waste and the use of copy paper. It is reducing its environment impact by raising employee awareness of the environment, including green purchasing and electricity conservation.

Input type	Unit	FY 2006	FY 2007	YoY change
Waste generated	tons	4	4	0
Greenhouse gas emissions	tons-CO_2	32	31	-1
Copy and printing paper consumption	thousand sheets	315	276	-39
Green purchasing rate	%	82	80	-1

Saishin Igaku Co., Ltd.

This company is a publisher of medicine-related books, and its main environmental impact is disposal of paper. To reduce this impact, the company re-uses paper and chooses green products when purchasing office supplies.

Input type	Unit	FY 2006	FY 2007	YoY change
Waste generated	tons	11	10	-1
Greenhouse gas emissions	tons-CO_2	7	7	0
Copy and printing paper consumption	thousand sheets	75	75	0
Green purchasing rate	%	46	16	-30

Taiwan Shionogi & Co., Ltd.

This company manufactures and sells pharmaceuticals for the domestic market in Taiwan. Concern about environmental issues is also increasing in Taiwan, and this company conducts its activities with consideration for the environment in areas such as waste disposal, wastewater and emissions, while raising the efficiency of production processes.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2006	FY 2007	YoY change
Electricity (purchased)	MWh	1,871	2,236	365
Kerosene	kl	0	0	0
Fuel oil A	kl	78	82	4
Propane	tons	1.3	1.4	0.1
City gas	Thousand m^3	0	0	0
Gasoline (in-house)	kl	124	139	15
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m^3	27	27	-1

Load from Emissions (Amount Generated)

Input type	Unit	FY 2006	FY 2007	YoY change
Greenhouse gas emissions	tons-CO_2	927	1,075	148
Waste generated	tons	47	46	-1
Waste sent directly to landfills	tons	0	0	0
Public sewerage	Thousand m^3	20	21	1
Natural waterways	Thousand m^3	—	—	—
Soot and dust	tons	—	—	—
NOx	tons	0.8	1.0	0.2
SOx	tons	0.8	1.3	0.5
BOD	tons	1.2	1.2	0.0
COD	tons	3.3	2.4	-0.9

Environmental Management Evaluation Report

Shionogi has requested the opinion of experts at the Institute for Environmental Management Accounting* to improve the reliability and transparency of this Environmental Report and to receive advice on the status of its environmental preservation and management and on its future activities.

*Institute for Environmental Management Accounting (IEMA):
A university-launched venture company that supports corporate environmental management. Participants include academics and certified public accountants who are experts in this field, with a focus on researchers in the fields of environmental accounting and environmental management accounting.

On-site audit at Bushu Pharmaceuticals Ltd.

Environmental Management Evaluation Report

IEMA

To: Shionogi & Co., Ltd.

June 27, 2008
Institute for Environmental Management Accounting (IEMA)

Katsuhiko Kokubu

Professor Katsuhiko Kokubu
(Graduate School of Administration, Kobe University and Director of IEMA)

Eriko Nashioka

Eriko Nashioka
(Director of IEMA and Certified Public Accountant/Certified Tax Accountant)

1. Purpose of the Evaluation Report

As a third party unrelated to Shionogi's business operations, we hereby offer our evaluation of the environmental management activities described in the Annual Report prepared by Shionogi for the purpose of increasing the credibility of the part of its environmental reporting.

2. Procedures Followed

We interviewed managers at Shionogi's head office to establish how environmental performance data was planned, executed and calculated at Shionogi, and how that data is evaluated and used internally, in order to perform our evaluation of the contents of the environmental section of this report. With regard to supporting materials for the disclosed figures, we performed sampling checks based on financial audit methods as necessary to determine whether or not the actual work was conducted according to the prescribed system. We visited the head office and subsidiary Bushu Pharmaceuticals Ltd.

3. Evaluation

Fiscal 2007 was a year of business expansion, and the environmental load increased together with an increase in production compared with the precious fiscal year. Although the Shionogi Group sets overall emission volume targets, production expansion appears to have made attaining the targets difficult. However, it has adopted some emission intensity targets and taken other measures for a flexible and effective response, and we believe the entire Group has a strong commitment to reducing environmental load. We highly evaluate Shionogi's stance in the production and development of pharmaceuticals, including measures to ensure safe use of products while simultaneously reducing waste, and its embrace of environmental safety that extends to chemical reactions during production. We believe that Shionogi's ecological initiatives show one way that pharmaceutical manufacturers can deal with environmental concerns.

We found no serious errors in the calculation of environmental performance data within the scope of our sampling checks.

<Subsidiary Bushu Pharmaceuticals Ltd.>

This company conducts contract manufacturing of pharmaceuticals, which is an unusual form of business in Japan. Waste output has increased together with increased order volume. Energy consumption and waste output are managed on a segmented basis, and the company is analyzing the causes of their generation are studying measures for reduction. Although this business model may produce large volumes of packaging materials and other waste depending on the item ordered, the company is working to reduce its environmental load while maintaining safety and quality through measures including reaching agreements with ordering parties. Going forward, we expect the company to embrace the concepts of material flow cost accounting and take more effective waste reduction measures.

Financial Section

Six-Year Summary of Selected Financial Data

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	2008
For the year ended March 31:							
Net sales	¥ 214,268	¥ 199,759	¥196,389	¥199,365	¥200,485	¥285,232	$2,138,617
Cost of sales	68,594	67,542	68,708	74,069	79,856	153,402	684,639
Selling, general and administrative expenses	105,275	103,354	98,455	96,567	100,337	112,564	1,050,754
Operating income	40,399	28,863	29,226	28,729	20,292	19,266	403,224
Income before income taxes and minority interests	39,963	31,723	38,798	31,655	5,178	9,139	398,872
Net income	25,064	18,595	22,735	18,942	2,204	5,904	250,165
Research and development expenses	40,290	37,456	32,257	29,409	29,808	31,284	402,136
Capital investments	11,661	11,411	5,386	5,424	4,404	9,012	116,389
As of March 31:							
Property, plant and equipment, net	¥ 70,378	¥ 67,815	¥ 64,251	¥ 68,191	¥ 71,993	¥ 75,585	$ 702,445
Total assets	413,704	429,569	427,683	396,999	376,161	371,704	4,129,195
Total long-term liabilities	29,024	36,282	38,371	27,783	49,005	49,145	289,690
Total net assets (Note 2)	342,236	345,752	337,434	300,065	292,387	274,996	3,415,870
Working capital	152,520	161,355	156,449	152,914	179,382	162,926	1,522,308
Number of shares of common stock issued (in thousands)	351,136	351,136	351,136	351,136	351,136	351,136	
Per share amounts (in yen and U.S. dollars):							
Net income	¥ 74.21	¥ 54.61	¥ 66.55	¥ 54.64	¥ 6.06	¥ 16.66	$ 0.74
Net assets	1,020.31	1,014.73	989.76	879.79	844.53	789.91	10.18
Cash dividends applicable to the year	22.00	16.00	16.00	12.00	8.50	8.50	0.22
Financial indicators (%):							
Interest coverage ratio	306.3	225.6	72.1	68.5	32.4	14.9	
Net worth ratio	82.7	80.4	78.8	75.5	77.7	73.9	

Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥100.19 = US$1.00, the approximate rate of exchange on March 31, 2008.
2. From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former shareholders' equity, valuation and translation adjustments, and minority interests as total net assets. Total net assets for prior years has been calculated in conformity with the new standard.

Management's Discussion and Analysis

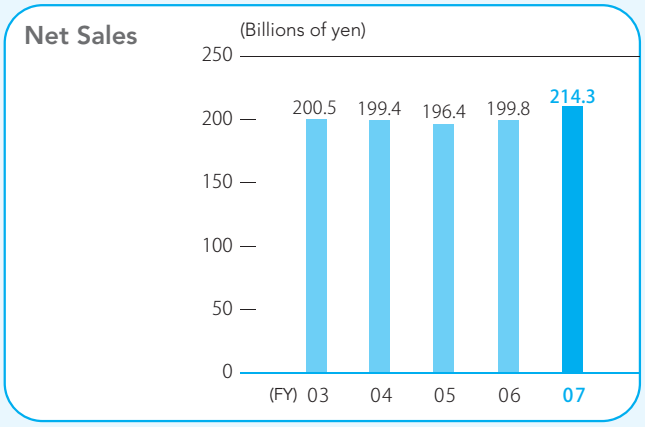
Overview of Results

During fiscal 2007, the fiscal year ended March 31, 2008, the operating environment remained challenging for the Japanese pharmaceutical industry. Measures to restrain drug costs were further strengthened, including promotion of the use of generic products to help restrain rising medical costs and strengthening of the Diagnosis Related Group/Prospective Payment System (DRG/PPS). In addition, competition in sales and marketing and R&D that includes global corporations intensified further.

Under these conditions, the Shionogi Group focused on its core prescription drug business and each division from R&D and manufacturing to sales and marketing actively worked to achieve the goals of the second medium-term management plan covering the period from April 2005 to March 2010, which is positioned as the initial stage of the Group's drive to make a significant leap forward over the long term. In R&D, Shionogi reorganized its operations with the goal of continuously creating internally discovered drug candidates and developing them globally. In addition, Shionogi worked to steadily move products now under development in the United States to the next stage of development. In manufacturing, Shionogi worked to create a quality and production system that can handle global expansion, and moved to further reduce costs by rethinking procurement and raising productivity. In domestic marketing, Shionogi concentrated resources on new products, centered on the hyperlipidemia treatment Crestor®. Shionogi also established the basis for significant future achievements by strengthening systematic sales activities to counter the trend toward lower prescription drug sales.

Net Sales

Net sales increased 7.3 percent compared with the previous fiscal year to ¥214,268 million. Factors supporting the increase included growth in sales of mainstay prescription drugs such as Crestor® and cancer pain drugs. In addition, royalty income from industrial property rights increased substantially because AstraZeneca plc expanded overseas sales of Crestor®, and sales increased in the contract manufacturing business, which includes subsidiaries.



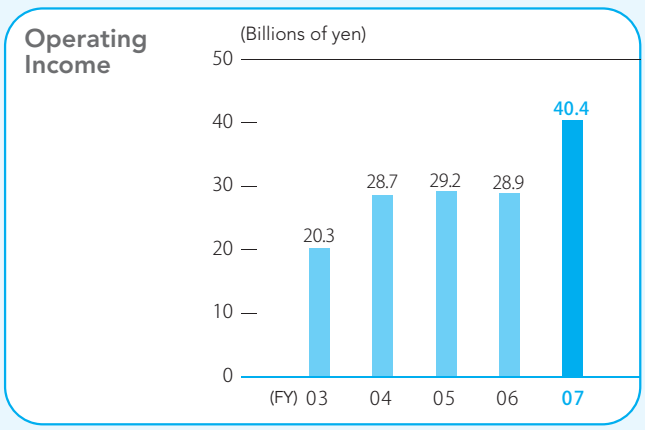
Gross Profit

Cost of sales increased ¥1,052 million compared with the previous fiscal year to ¥68,594 million but decreased to 32.0 percent of net sales from 33.8 percent because sales of prescription drugs and royalty income from industrial property rights increased. As a result, gross profit increased 10.2 percent to ¥145,674 million.

Operating Expenses and Operating Income

Selling, general and administrative (SG&A) expenses increased 1.9 percent compared with the previous fiscal year to ¥105,275 million, but decreased to 49.1 percent of net sales from 51.7 percent for the previous fiscal year. A primary factor in the increase was higher R&D expenses, which are included in SG&A expenses. R&D expenses increased 7.6 percent to ¥40,290 million.

Operating income increased 40.0 percent compared with the previous fiscal year to ¥40,399 million. Increased sales of prescription drugs and royalty income from industrial property rights compensated for higher R&D expenses.



Other Income (Expenses)

Net other expenses totaled ¥436 million, compared with net other income of ¥2,860 million for the previous fiscal year. Net interest and dividend income increased to ¥2,309 million from ¥1,707 million for the previous fiscal year. However, gain on exchange of investments in securities decreased ¥1,722 million from the previous fiscal year, and loss on disposal of inventories increased ¥608 million.

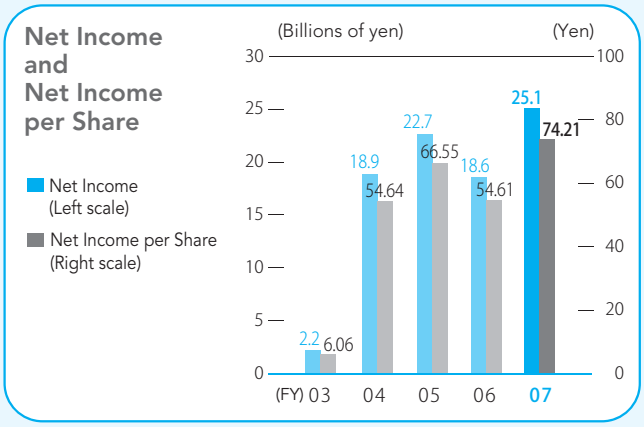
Income before Income Taxes and Minority Interests and Net Income

The increase in operating income more than offset net other expenses. Income before income taxes and minority interests therefore increased 26.0 percent compared with the previous fiscal year to ¥39,963 million. Income taxes increased 13.6 percent to ¥14,873 million, but the effective tax rate decreased to 37.2 percent from 41.3 percent for the previous fiscal year.

As a result, net income increased 34.8 percent compared with the previous fiscal year to ¥25,064 million, and increased to 11.7 percent of net sales from 9.3 percent for the previous fiscal year. Net income per share increased to ¥74.21 from ¥54.61 for the previous fiscal year.

Costs, Expenses and Income as Percentages of Net Sales

Years ended March 31	2008	2007	2006
Cost of sales	32.0	33.8	35.0
Gross profit	68.0	66.2	65.0
SG&A expenses	49.1	51.7	50.1
R&D expenses	18.8	18.8	16.4
Operating income	18.9	14.4	14.9
Income before income taxes and minority interests	18.7	15.9	19.8
Net income	11.7	9.3	11.6



Results by Segment

■ Pharmaceuticals Segment

In prescription drug sales, Crestor® market share expanded steadily and sales increased substantially. In addition, sales of Claritin® and cancer pain drugs increased. On the other hand, sales of existing products including Flomox®, Flumarin® and Vancomycin decreased due to factors including market contraction and expanded use of generic drugs. Overall sales of prescription drugs increased 2.7 percent compared with the previous fiscal year as increased sales of Crestor® and other new products compensated for lower sales of existing products. In addition, sales of over-the-counter (OTC) drugs decreased due to challenging market conditions, while sales of diagnostics increased slightly. Sales of contract manufacturing services, centered on subsidiary Bushu Pharmaceuticals Ltd., increased due to an increase in orders from customers outside the Shionogi Group. Royalty income from industrial property rights increased substantially because of growth in overseas sales of Crestor®.

As a result, sales of the Pharmaceuticals segment increased 8.6 percent compared with the previous fiscal year to ¥208,431 million. Segment operating income increased 42.9 percent to ¥38,819 million, with the substantial increase in royalty income from industrial property rights more than offsetting higher R&D expenses.

■ Other Segment

Sales of the Other segment decreased 25.6 percent compared with the previous fiscal year to ¥5,837 million, primarily because of a decrease in construction contracts at Shionogi Engineering Service Co., Ltd.

Segment operating income decreased 7.4 percent to ¥1,580 million.

Sales by Segment
(Billions of yen)

Years ended March 31	2008	2007	2006
Pharmaceuticals	208.4	191.9	187.2
Prescription drugs	155.1	151.9	159.7
Flomox®	28.6	30.6	34.1
Flumarin®	12.2	13.3	15.6
Imunace®	11.7	11.7	11.1
Vancomycin	10.6	12.9	16.1
Crestor®	10.4	2.5	0.1
Rinderon®	10.0	10.1	10.2
Claritin®	9.0	7.2	8.0
OxyContin®	6.6	5.2	4.3
Finibax®	2.5	2.0	0.8
Avelox®	1.9	2.4	1.8
Export/Overseas operations	6.3	5.3	5.8
Doripenem	0.4	—	—
Contract manufacturing	5.8	4.0	2.1
OTC and quasi-drugs	5.6	6.1	6.4
Sedes®	2.4	2.6	2.6
Popon®-S	1.1	1.1	1.2
Diagnostics	3.3	3.3	3.4
Royalty income	32.0	21.3	9.8
Crestor®	29.8	19.4	8.1
Capsules	—	—	6.1
Other	5.8	7.8	3.1
Total	214.2	199.7	196.3

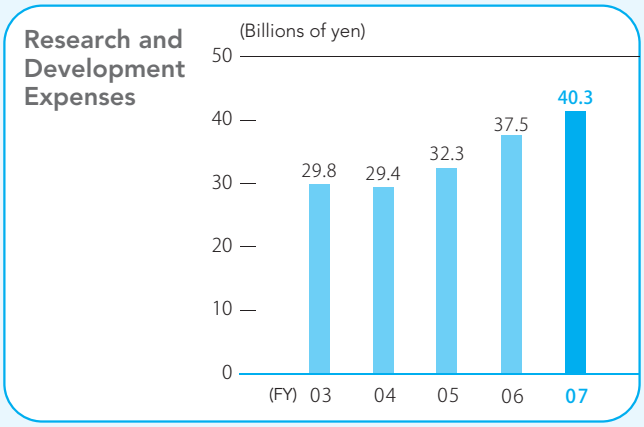
Note: Figures for individual product sales are non-consolidated.

Research and Development Expenses

In Japan, Shionogi conducted joint development with Schering Plough Corporation to develop an additional pediatric indication for allergy treatment Claritin®, which was approved in October 2007. In addition, Shionogi launched a dry syrup formulation in January 2008. Moreover, Shionogi received manufacturing and marketing approval for hypertension treatment Irbetan® in April 2008 and began sales in July 2008. In addition, in January 2008 Shionogi submitted an application for manufacturing and marketing approval for antidepressant duloxetine hydrochloride. Thus, along with idiopathic pulmonary fibrosis treatment pirfenidone, Shionogi currently has two new drug applications pending approval. Drugs under development include a treatment for obesity, antibiotics, an influenza drug and a treatment for atopic dermatitis. Of note, Shionogi is developing drugs including treatments for obesity and atopic dermatitis globally through Shionogi USA, Inc. Shionogi has also licensed carbapenem antibiotic doripenem for marketing in Europe and the United States to Johnson & Johnson, which received approval in the United States in October 2007. Shionogi expects Johnson & Johnson to expand sales of this drug, which will increase income from product supply and royalty income.

In January 2008, Shionogi moved to create a globally competitive research environment with its decision to construct a laboratory in Toyonaka City, Osaka Prefecture that will serve as the new central laboratory. Shionogi believes that concentrating currently dispersed research functions and constructing a cutting-edge facility is essential to maintaining and enhancing the global competitiveness of research operations, and that doing so will further enhance Shionogi's ability to create world-class drugs.

As a result of these activities, overall Group R&D expenses were ¥40,290 million, and represented 18.8 percent of net sales.



Cash Flows

Net cash provided by operating activities increased ¥1,503 million compared with the previous fiscal year to ¥15,619 million. Contributing factors in this change included increases in income before income taxes and minority interests and depreciation and amortization, and a decrease in income taxes paid.

Net cash used in investing activities totaled ¥5,336 million, mainly due to investment in manufacturing facilities.

Net cash used in financing activities totaled ¥17,124 million due to cash dividends paid and purchases of treasury stock.

As a result, cash and cash equivalents at the end of the year decreased ¥6,937 million from a year earlier to ¥67,609 million.

Statements of Cash Flows Highlights (Millions of yen)

Years ended March 31	2008	2007	2006
Net cash provided by operating activities	¥ 15,619	¥ 14,116	¥ 16,885
Net cash used in investing activities	(5,336)	(8,418)	(12,048)
Net cash used in financing activities	(17,124)	(7,181)	(24,796)
Cash and cash equivalents at end of year	67,609	74,546	76,142

Capital Investments

Capital investments by the Shionogi Group during fiscal 2007 totaled ¥13,069 million. The Group invested aggressively, focusing on expansion of research facilities and expansion of manufacturing facilities to increase production of new products.

Capital investments in the Pharmaceuticals segment totaled ¥12,133 million for Shionogi & Co., Ltd., and centered on manufacturing and research facilities.

Capital investments for drug manufacturing facilities at Bushu Pharmaceuticals and other consolidated subsidiaries totaled ¥929 million.

As a result, capital investments in the Pharmaceuticals segment increased ¥1,959 million compared with the previous fiscal year to ¥13,063 million. Capital investments in the Other segment totaled ¥6 million.

Assets, Liabilities and Net Assets

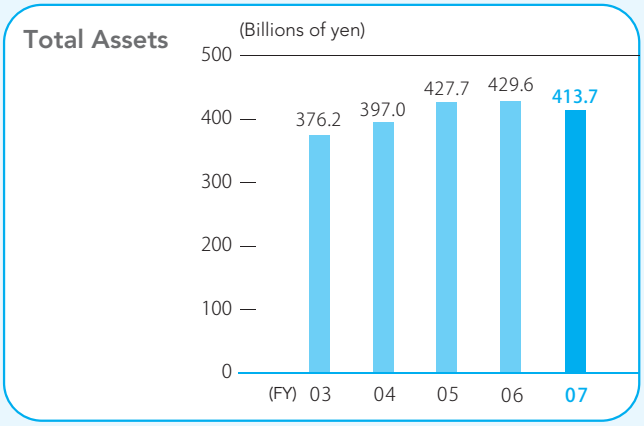
As of March 31, 2008, total assets were ¥413,704 million, a decrease of ¥15,865 million from a year earlier. Key factors included a decrease of ¥13,926 million in current assets due to the use of cash and cash equivalents to repurchase shares, and a decrease of ¥4,502 million in investments and other assets due to factors such as a decrease in investments in securities reflecting lower stock prices. Domestic certificates of deposit formerly included in cash and cash equivalents are included in short-term investments from March 31, 2008.

Total liabilities decreased ¥12,349 million from a year earlier to ¥71,468 million due to factors including a decrease in deferred income taxes resulting from a reduction in unrealized gain on securities. Total net assets decreased ¥3,516 million from a year earlier to ¥342,236 million. While retained earnings increased, an increase in treasury stock and a decrease in net unrealized holding gain on securities reduced net assets.

As a result, the net worth ratio, defined as the ratio of total net assets to total assets, was 82.7 percent, compared to 80.4 percent a year earlier.

Balance Sheet Highlights (Millions of yen)

As of March 31	2008	2007	% change 2008/2007
Current assets	¥194,964	¥208,890	(6.7)
Property, plant and equipment	70,378	67,815	3.8
Investments and other assets	148,362	152,864	(2.9)
Current liabilities	42,444	47,535	(10.7)
Long-term liabilities	29,024	36,282	(20.0)
Net assets	342,236	345,752	(1.0)



Dividends

Shionogi aims to steadily increase dividends in line with performance while investing aggressively in its businesses to increase corporate value with a medium-to-long-term perspective. Appropriation of internal capital resources emphasizes the demand for capital for future business development including investment in R&D to develop new drugs. Shionogi's target for the consolidated dividend payout ratio for fiscal 2009 is 35 percent.

Shionogi's Articles of Incorporation stipulate the distribution of retained earnings twice each year as interim and year-end dividends when possible. The General Meeting of Shareholders held after the close of each fiscal year determines the year-end dividend, and the Board of Directors determines the interim dividend.

The year-end dividend for fiscal 2007 was ¥12.00 per share. The total of the interim dividend and the year-end dividend was ¥22.00 per share, an increase of ¥6.00 compared with total dividends for the previous fiscal year. Consequently, the consolidated dividend payout ratio for fiscal 2007 was 29.6 percent.

Business and Other Risks

① **Systemic and Administrative Risk**

In the Japanese pharmaceutical industry, revisions to the National Health Insurance (NHI) system are under review, including the NHI drug price system. These trends could affect the results of the Shionogi Group.

② **Risk of Adverse Drug Reactions**

Pharmaceuticals entail the risk of unanticipated adverse drug reactions that could involve termination of sales, product recalls and other outcomes that could affect the results of the Shionogi Group.

③ **Pharmaceutical R&D Risk**

Pharmaceutical R&D requires substantial commitment of resources and time. In addition, new drugs are subject to numerous uncertainties prior to the start of actual sales.

④ **Intellectual Property Risk**

The Shionogi Group uses patents as intellectual property to protect the pharmaceuticals it discovers and generate income from them. However, the various types of intellectual property may be unable to provide adequate protection, or may infringe on the intellectual property of third parties.

⑤ **Intensifying Global Competition**

Global competition that includes non-Japanese companies is intensifying further in pharmaceutical industry R&D and sales.

⑥ **Plant Closure and Shutdown Risk**

The sudden occurrence of natural disasters or other unforeseen incidents could result in the closure or shutdown of plants, which could affect the results of the Shionogi Group.

⑦ **Capital Market and Foreign Exchange Risk**

Fluctuations in stock and foreign exchange markets that exceed the projected range could affect the results and financial position of the Shionogi Group.

⑧ **Other Risks**

The Shionogi Group is subject to various regulatory and economic risks other than those listed above.

Consolidated Balance Sheets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Current assets:			
Cash and cash equivalents (Note 9)	¥ 67,609	¥ 74,546	$ 674,808
Short-term investments (Note 5)	6,540	16,355	65,276
Notes and accounts receivable:			
Affiliates	4,160	2,974	41,521
Trade	66,945	67,432	668,181
Allowance for doubtful accounts	(13)	(13)	(130)
	71,092	70,393	709,572
Inventories (Note 6)	34,081	32,395	340,164
Deferred income taxes (Note 13)	4,450	5,326	44,416
Other current assets	11,192	9,875	111,708
Total current assets	194,964	208,890	1,945,944
Property, plant and equipment, at cost:			
Land	14,812	14,812	147,839
Buildings and structures	98,346	97,222	981,595
Machinery, equipment and vehicles	84,691	80,918	845,304
Furniture and fixtures	32,037	31,149	319,762
Construction in progress	5,022	5,173	50,125
Accumulated depreciation	(164,530)	(161,459)	(1,642,180)
Property, plant and equipment, net	70,378	67,815	702,445
Investments and other assets:			
Investments in securities (Note 5)	102,554	120,230	1,023,595
Investments in and advances to affiliates	2,899	3,432	28,935
Prepaid pension costs (Note 15)	23,338	20,168	232,937
Intangible assets	5,618	6,135	56,073
Long-term prepaid expenses	13,188	2,074	131,630
Deferred income taxes (Note 13)	18	50	180
Other assets	747	775	7,456
Total investments and other assets	148,362	152,864	1,480,806
Total assets	¥ 413,704	¥ 429,569	$ 4,129,195

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 3) 2008
Current liabilities:			
Notes and accounts payable (Note 7):			
Affiliates	¥ 1,986	¥ —	$ 19,822
Trade	9,315	12,190	92,973
Construction	3,092	2,526	30,862
Allowance for employees' bonuses	6,715	5,958	67,022
Accrued expenses	6,196	5,686	61,843
Accrued income taxes (Note 13)	7,416	7,352	74,019
Other current liabilities (Notes 8 and 9)	7,724	13,823	77,094
Total current liabilities	42,444	47,535	423,635
Long-term liabilities:			
Accrued retirement benefits for employees (Note 15)	7,949	8,353	79,339
Accrued retirement benefits for directors and corporate auditors	169	186	1,687
Deferred income taxes (Note 13)	18,561	24,698	185,258
Installment accounts payable (Note 8)	1,321	2,066	13,185
Other long-term liabilities	1,024	979	10,221
Total long-term liabilities	29,024	36,282	289,690
Contingent liabilities (Note 11)			
Net assets:			
Shareholders' equity (Note 12):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2008 and 2007	21,280	21,280	212,397
Capital surplus	20,227	20,227	201,886
Retained earnings	297,812	278,871	2,972,472
Less treasury stock, at cost	(19,281)	(9,088)	(192,444)
Total shareholders' equity	320,038	311,290	3,194,311
Valuation and translation adjustments:			
Net unrealized holding gain on securities	22,068	34,263	220,262
Translation adjustments	(178)	(84)	(1,777)
Total valuation and translation adjustments	21,890	34,179	218,485
Minority interests	308	283	3,074
Total net assets	342,236	345,752	3,415,870
Total liabilities and net assets	¥413,704	¥429,569	$4,129,195

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Net sales (Note 18)	¥214,268	¥199,759	$2,138,617
Cost of sales	68,594	67,542	684,639
Gross profit	145,674	132,217	1,453,978
Selling, general and administrative expenses (Note 16)	105,275	103,354	1,050,754
Operating income (Note 18)	40,399	28,863	403,224
Other income (expenses):			
Interest and dividend income	2,393	1,803	23,885
Interest expense	(84)	(96)	(839)
Loss on disposal of property, plant and equipment	(880)	(558)	(8,783)
Loss on disposal of inventories	(1,666)	(1,058)	(16,628)
Gain on sales of investments in securities	276	186	2,755
Gain on exchange of investments in securities	1,044	2,766	10,420
Gain on compensation of development cost incurred in the previous year	—	658	—
Impairment loss on investments in securities	(415)	—	(4,142)
Loss on sale of investment in an affiliate	(25)	—	(250)
Other, net	(1,079)	(841)	(10,770)
	(436)	2,860	(4,352)
Income before income taxes and minority interests	39,963	31,723	398,872
Income taxes (Note 13):			
Current	11,766	8,702	117,437
Deferred	3,107	4,387	31,011
	14,873	13,089	148,448
Income before minority interests	25,090	18,634	250,424
Minority interests	(26)	(39)	(259)
Net income	¥ 25,064	¥ 18,595	$ 250,165

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	¥21,280	¥20,227	¥266,470	¥ (8,751)	¥299,226	¥ 38,116	¥ (156)	¥ 37,960	¥248	¥337,434
Net income for the year	—	—	18,595	—	18,595	—	—	—	—	18,595
Dividends	—	—	(6,130)	—	(6,130)	—	—	—	—	(6,130)
Bonuses to directors and corporate auditors	—	—	(64)	—	(64)	—	—	—	—	(64)
Purchases of treasury stock	—	—	—	(337)	(337)	—	—	—	—	(337)
Other changes	—	—	—	—	—	(3,853)	72	(3,781)	35	(3,746)
Balance at March 31, 2007	21,280	20,227	278,871	(9,088)	311,290	34,263	(84)	34,179	283	345,752
Net income for the year	—	—	25,064	—	25,064	—	—	—	—	25,064
Dividends	—	—	(6,123)	—	(6,123)	—	—	—	—	(6,123)
Purchases of treasury stock	—	—	—	(10,193)	(10,193)	—	—	—	—	(10,193)
Other changes	—	—	—	—	—	(12,195)	(94)	(12,289)	25	(12,264)
Balance at March 31, 2008	¥21,280	¥20,227	¥297,812	¥(19,281)	¥320,038	¥ 22,068	¥ (178)	¥ 21,890	¥308	¥342,236

	Thousands of U.S. dollars (Note 3)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007	$212,397	$201,886	$2,783,421	$ (90,707)	$3,106,997	$ 341,981	$ (839)	$ 341,142	$2,824	$3,450,963
Net income for the year	—	—	250,165	—	250,165	—	—	—	—	250,165
Dividends	—	—	(61,114)	—	(61,114)	—	—	—	—	(61,114)
Purchases of treasury stock	—	—	—	(101,737)	(101,737)	—	—	—	—	(101,737)
Other changes	—	—	—	—	—	(121,719)	(938)	(122,657)	250	(122,407)
Balance at March 31, 2008	$212,397	$201,886	$2,972,472	$(192,444)	$3,194,311	$ 220,262	$ (1,777)	$ 218,485	$3,074	$3,415,870

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Operating activities			
Income before income taxes and minority interests	¥ 39,963	¥ 31,723	$ 398,872
Adjustments for:			
Depreciation and amortization	10,666	8,798	106,458
Gain on sales of investments in securities	(276)	(186)	(2,755)
Reversal of retirement benefits, net of payments	(3,591)	(4,829)	(35,842)
Bonuses to directors and corporate auditors	—	(64)	—
Interest and dividend income	(2,393)	(1,803)	(23,885)
Interest expense	84	96	839
Other	1,233	(657)	12,307
Changes in operating assets and liabilities:			
Notes and accounts receivable	(76)	2,331	(758)
Inventories	(1,712)	(5,198)	(17,087)
Other current assets	(8,368)	(3,265)	(83,521)
Notes and accounts payable	(861)	1,957	(8,594)
Accrued expenses	556	586	5,549
Other current liabilities	(10,567)	(3,859)	(105,471)
Subtotal	24,658	25,630	246,112
Interest and dividends received	2,598	1,972	25,931
Interest paid	(51)	(63)	(509)
Income taxes paid	(11,586)	(13,423)	(115,640)
Net cash provided by operating activities	15,619	14,116	155,894
Investing activities			
Increase in short-term investments	(4,835)	(31,427)	(48,258)
Proceeds from sales of short-term investments	18,554	37,669	185,188
Increase in investments in securities	(7,209)	(4,316)	(71,953)
Proceeds from sales of investments in securities	1,071	862	10,690
Purchases of property, plant and equipment	(11,661)	(11,411)	(116,389)
Increase in investments in affiliates	(634)	(1,693)	(6,328)
Proceeds from sales of investments in affiliates	443	129	4,421
Proceeds from exchange of investment in securities	—	3,159	—
Other	(1,065)	(1,390)	(10,630)
Net cash used in investing activities	(5,336)	(8,418)	(53,259)
Financing activities			
Repayment of installment accounts payable	(802)	(718)	(8,005)
Purchases of treasury stock	(10,205)	(338)	(101,856)
Cash dividends paid	(6,114)	(6,123)	(61,024)
Cash dividends paid to minority shareholders	(3)	(2)	(30)
Net cash used in financing activities	(17,124)	(7,181)	(170,915)
Effect of exchange rate changes on cash and cash equivalents	(96)	(113)	(958)
Net decrease in cash and cash equivalents	(6,937)	(1,596)	(69,238)
Cash and cash equivalents at beginning of year	74,546	76,142	744,046
Cash and cash equivalents at end of year	¥ 67,609	¥ 74,546	$ 674,808

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2008

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. The Company has applied the equity method to its investment in an affiliate for the years ended March 31, 2008 and 2007.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The fiscal year-end date of the overseas consolidated subsidiaries is December 31, a year end which differs from that of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these subsidiaries and that of the Company.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

The financial statements of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding minority interests are translated at their historical exchange rates. Adjustments resulting from translating the foreign currency financial statements are not included in the determination of net income and are reported as "Translation adjustments" and "Minority interests" in net assets in the consolidated balance sheets.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(d) Short-term investments and investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(e) Inventories

Inventories are stated at cost determined principally by the period average method.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation of buildings (except for structures attached to the buildings) acquired on or subsequent to April 1, 1998 is calculated principally by the straight-line method over the estimated useful lives of the respective assets. Depreciation of other property, plant and equipment is computed by the declining-balance method over the useful lives of the respective assets.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	2 to 60 years
Machinery, equipment and vehicles	2 to 17 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 based on an amendment to the Corporation Tax Law of Japan. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥498 million ($4,971 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

In addition, effective the year ended March 31, 2008, the salvage value of property, plant and equipment acquired before April 1, 2007 which have been fully depreciated to their respective depreciable limits under the Corporation Tax Law is to be depreciated to nil over a period of five years. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥850 million ($8,484 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

(g) Intangible assets

Intangible assets are amortized by the straight-line method.

(h) Leases

Non-cancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases), except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. Certain overseas subsidiaries principally account for finance lease agreements as puschase transactions.

(i) Research and development expenses and computer software

Research and development expenses are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income as incurred unless these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(j) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

(k) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(l) Allowance for employees' bonuses

Allowance for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year.

(m) Retirement benefits

The Company has a defined benefit pension plan known as a "cash balance plan," which allows pension benefits to fluctuate in accordance with market interest rates, and also has a lump-sum payment plan and a defined contribution pension plan. Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In addition, certain consolidated subsidiaries have defined contribution pension plans.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the year end.

Prior service cost is amortized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized each year following the year in which the gain or loss is recognized, principally by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.

In addition, directors and corporate auditors of the Company who held their positions as of June 29, 2004 are customarily entitled to lump-sum payments under an unfunded retirement benefit plan, because the retirement benefits system for directors and corporate auditors was abolished in June 2004. The provision for retirement allowances for these officers has been made at estimated amounts based on the Company's internal rules and no new provision has been made for the year ended March 31, 2008.

(n) Derivatives

Derivative financial instruments are utilized by the Company principally to reduce the risk arising from fluctuation in foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of derivatives transactions. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

The Company is exposed to certain market risk arising from its forward foreign exchange contracts. The Company is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency contracts; however, the Company does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high credit ratings.

(o) Distribution of retained earnings

Under the Companies Act of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 21).

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥100.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2008. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. CHANGES IN ACCOUNTING POLICIES

(a) Accounting standard for directors' bonuses

Effective April 1, 2006, the Company adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan (ASBJ) Statement No. 4, issued on November 29, 2005). As a result of the adoption of this accounting standard, operating income, and income before income taxes and minority interests decreased by ¥44 million for the year ended March 31, 2007 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(b) Accounting standard for business combinations and accounting standard for business divestitures

Effective the year ended March 31, 2007, the Company adopted "Accounting Standard for Business Combinations," (issued on October 31, 2003 by the Business Accounting Council of Japan), and "Accounting Standard for Business Divestitures" and "Guidance on

Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 and ASBJ Guidance No. 10, respectively, both of which were issued on December 27, 2005).

5. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

(1) Marketable securities classified as held-to-maturity debt securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	2008			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Bonds and debentures	¥40,093	¥1,174	¥0	¥41,267

	Millions of yen			
	2007			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Bonds and debentures	¥40,137	¥108	¥(138)	¥40,107

	Thousands of U.S. dollars			
	2008			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Bonds and debentures	$400,169	$11,718	$0	$411,887

(2) Marketable securities classified as other securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	2008			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities	¥20,928	¥36,819	¥(118)	¥57,629
Bonds and debentures	1,291	540	—	1,831
Other securities	5,000	—	(89)	4,911
	¥27,219	¥37,359	¥(207)	¥64,371

	Millions of yen			
	2007			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities	¥17,054	¥56,656	¥ (10)	¥73,700
Bonds and debentures	1,811	915	—	2,726
Other securities	5,005	121	(0)	5,126
	¥23,870	¥57,692	¥ (10)	¥81,552

	Thousands of U.S. dollars			
	2008			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities	$208,883	$367,492	$(1,178)	$575,197
Bonds and debentures	12,885	5,390	—	18,275
Other securities	49,905	—	(888)	49,017
	$271,673	$372,882	$(2,066)	$642,489

(3) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Proceeds from sales	¥288	¥76	$2,875
Gross realized gain	276	66	2,755
Gross realized loss	0	—	0

(4) The carrying value of investments in nonmarketable securities at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Other securities:			
Unlisted equity securities	¥2,118	¥2,567	$21,140

(5) The redemption schedule of held-to-maturity debt securities and debt securities classified as other securities with maturities at March 31, 2008 is summarized as follows:

	Millions of yen	
	2008	
	Bonds and debentures	Other
Due within one year	¥ 4,020	¥ 20
Due after one year through five years	16,030	575
Due after five years through ten years	20,023	—
Due after ten years	—	1,256

	Thousands of U.S. dollars	
	2008	
	Bonds and debentures	Other
Due within one year	$ 40,124	$ 200
Due after one year through five years	159,996	5,739
Due after five years through ten years	199,850	—
Due after ten years	—	12,536

6. INVENTORIES

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise	¥ 3,467	¥ 5,070	$ 34,605
Finished goods	9,374	9,365	93,562
Semifinished goods and work in process	15,344	12,876	153,149
Raw materials and supplies	5,896	5,084	58,848
	¥34,081	¥32,395	$340,164

7. NOTES PAYABLE

The balance sheet date for the year ended March 31, 2007 fell on a bank holiday. Consequently, notes payable–trade of ¥7 million with due dates of March 31, 2007 were included in the balance of notes payable–trade and were settled on the next business day.

8. INSTALLMENT ACCOUNTS PAYABLE

The current portion of installment accounts payable was included in "Other current liabilities" at March 31, 2008 and 2007. The current and long-term portions of installment accounts payable at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current portion	¥ 745	¥ 800	$ 7,436
Long-term portion	1,321	2,066	13,185
	¥2,066	¥2,866	$20,621

The annual maturities of installment accounts payable subsequent to March 31, 2008 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2009	¥ 745	$ 7,436
2010	748	7,466
2011	573	5,719
	¥2,066	$20,621

9. PLEDGED ASSETS

Assets pledged as collateral at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents	¥7	$70

The corresponding liabilities secured by such collateral at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deposits received from employees (included in "other current liabilities")	¥6	$60

10. LINE-OF-CREDIT COMMITMENTS

At March 31, 2008, the Company had unused line-of-credit commitments with 10 financial institutions for short-term financing arrangements totaling ¥24,000 million ($239,545 thousand).

11. CONTINGENT LIABILITIES

The Company was contingently liable for the guarantee of employees' housing loans of ¥65 million ($649 thousand) at March 31, 2008.

12. SHAREHOLDERS' EQUITY

The Companies Act (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2008 and 2007 amounted to ¥5,388 million ($53,778 thousand).

Under the Act, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

The Board of Directors of the Company at a meeting held on September 18, 2007 approved a resolution to acquire up to a maximum of 5,500,000 of its own shares of common stock. Under this acquisition plan, the Company has acquired 5,232,000 of its own shares of common stock for a total amount of ¥9,998 million ($99,792 thousand). The Company has also purchased 97,369 of its own shares of common stock from shareholders who had fractional shares of less than one unit.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2008 and 2007 are summarized as follows:

	Number of shares			
	2008			
	March 31, 2007	Increase	Decrease	March 31, 2008
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	10,683,759	5,329,369	—	16,013,128

	Number of shares			
	2007			
	March 31, 2006	Increase	Decrease	March 31, 2007
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	10,526,605	157,154	—	10,683,759

13. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2008 and 2007.

The overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates for the years ended March 31, 2008 and 2007 differ from the above statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	3.1	4.8
Dividends not taxable for income tax purposes	(0.6)	(0.4)
Inhabitants' per capita taxes	0.3	0.4
Tax credits	(4.4)	(3.9)
Tax loss carryforward of a consolidated subsidiary	—	0.4
Difference in statutory tax rates of overseas subsidiaries	(0.2)	(0.2)
Revaluation of investment in an affiliate	(1.1)	—
Other	(0.5)	(0.4)
Effective tax rates	37.2%	41.3%

The tax effects of temporary differences at March 31, 2008 and 2007 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Allowance for employees' bonuses	¥ 2,726	¥ 2,420	$ 27,208
Retirement benefits	68	75	679
Accrued enterprise taxes	688	705	6,867
Research and development expenses	1,964	2,182	19,603
Reserve for sales rebates	342	364	3,413
Loss on revaluation of investments in securities	437	448	4,362
Tax loss carryforwards of a consolidated subsidiary	353	321	3,523
Other	2,110	2,354	21,060
Valuation allowance	(742)	(776)	(7,406)
Total deferred tax assets	7,946	8,093	79,309
Deferred tax liabilities:			
Unrealized gain on other securities	(15,083)	(23,419)	(150,544)
Specially recognized depreciation reserve fund	(315)	(393)	(3,144)
Prepaid pension costs	(5,956)	(3,333)	(59,447)
Other	(685)	(270)	(6,837)
Total deferred tax liabilities	(22,039)	(27,415)	(219,972)
Net deferred tax liabilities	¥(14,093)	¥(19,322)	$(140,663)

14. LEASES

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and its consolidated subsidiaries at March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) had been capitalized:

	Millions of yen		
	2008		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 741	¥ 554	¥187
Other	1,325	659	666
Total	¥2,066	¥1,213	¥853

	Millions of yen		
	2007		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 735	¥405	¥ 330
Other	1,260	332	928
Total	¥1,995	¥737	¥1,258

	Thousands of U.S. dollars		
	2008		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	$ 7,396	$ 5,529	$1,867
Other	13,225	6,578	6,647
Total	$20,621	$12,107	$8,514

Finance lease payments of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease payments	¥479	¥456	$4,781

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥439	$4,382
Due after one year	414	4,132
Total	¥853	$8,514

15. RETIREMENT BENEFITS

The following table sets forth the retirement benefit obligation, plan assets and the funded status of the Company's and its consolidated subsidiaries' defined benefit pension plans at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Retirement benefit obligation at end of year	¥ (89,438)	¥ (91,839)	$ (892,684)
Fair value of plan assets at end of year	108,811	126,512	1,086,047
Plan assets in excess of retirement benefit obligation	19,373	34,673	193,363
Unrecognized prior service cost	(13,630)	(16,304)	(136,042)
Unrecognized actuarial gain (loss)	9,646	(6,554)	96,277
Net retirement benefit obligation	15,389	11,815	153,598
Prepaid pension costs	23,338	(20,168)	232,937
Accrued retirement benefits for employees	¥ (7,949)	¥ (8,353)	$ (79,339)

The Company and a certain domestic consolidated subsidiary transferred a portion of their retirement benefit plans to defined contribution pension plans in April 2004 and March 2005, respectively. The related pension assets were transferred to the defined contribution pension plans as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year (presented as "other current liabilities")	¥ —	¥2,886	$ —

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 1,851	¥ 1,908	$ 18,475
Interest cost	1,836	1,869	18,325
Expected return on plan assets	(2,786)	(2,710)	(27,807)
Amortization of actuarial loss	1,135	1,348	11,328
Amortization of prior service cost	(2,674)	(2,674)	(26,689)
Other	813	831	8,115
Retirement benefit expenses	¥ 175	¥ 572	$ 1,747

"Other" in the above table represents contributions to the defined contribution retirement benefit plans.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.2%	2.2%

16. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2008 and 2007 amounted to ¥40,290 million ($402,136 thousand) and ¥37,456 million, respectively.

17. AMOUNTS PER SHARE

Amounts per share as of and for the years ended March 31, 2008 and 2007 were as follows:

	Yen		U.S. dollars
	2008	2007	2008
Net income	¥ 74.21	¥ 54.61	$ 0.74
Net assets	1,020.31	1,014.73	10.18
Cash dividends applicable to the year	22.00	16.00	0.22

Diluted net income per share has not been presented since no potentially dilutive securities have been issued.

Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The financial data for the computation of basic net income per share for the years ended March 31, 2008 and 2007 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Information used in computation of basic net income per share:			
Net income	¥25,064	¥18,595	$250,165

	Thousands of shares	
	2008	2007
Weighted-average number of shares of common stock outstanding	337,744	340,519

The financial data used in the computation of net assets per share at March 31, 2008 and 2007 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Total net assets	¥342,236	¥345,752	$3,415,870
Amounts deducted from total net assets:	308	283	3,074
(Amounts attributed to minority interests in total net assets)	(308)	(283)	(3,074)
Net assets used in the calculation of net assets per share	¥341,928	¥345,469	$3,412,796

	Thousands of shares	
	2008	2007
Number of shares used in the calculation of net assets per share	335,123	340,452

18. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are engaged primarily in the manufacture and sale of pharmaceutical products and in related marketing activities in Japan and overseas, principally in North America and Europe, in two major segments.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is outlined as follows:

	Millions of yen				
	Year ended March 31, 2008				
	Pharmaceuticals	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income					
Sales to third parties	¥208,431	¥ 5,837	¥214,268	¥ —	¥214,268
Intergroup sales and transfers	—	3,730	3,730	(3,730)	—
Net sales	208,431	9,567	217,998	(3,730)	214,268
Operating expenses	169,612	7,987	177,599	(3,730)	173,869
Operating income	¥ 38,819	¥ 1,580	¥ 40,399	¥ 0	¥ 40,399
II. Total assets, depreciation and capital expenditures					
Total assets	¥270,751	¥11,092	¥281,843	¥131,861	¥413,704
Depreciation	11,844	9	11,853	—	11,853
Capital expenditures	25,586	9	25,595	—	25,595

	Millions of yen				
	Year ended March 31, 2007				
	Pharmaceuticals	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income					
Sales to third parties	¥191,914	¥ 7,845	¥199,759	¥ —	¥199,759
Intergroup sales and transfers	—	4,883	4,883	(4,883)	—
Net sales	191,914	12,728	204,642	(4,883)	199,759
Operating expenses	164,757	11,022	175,779	(4,883)	170,896
Operating income	¥ 27,157	¥ 1,706	¥ 28,863	¥ 0	¥ 28,863
II. Total assets, depreciation and capital expenditures					
Total assets	¥247,236	¥11,332	¥258,568	¥171,001	¥429,569
Depreciation	9,633	12	9,645	—	9,645
Capital expenditures	12,361	4	12,365	—	12,365

	Thousands of U.S. dollars				
	Year ended March 31, 2008				
	Pharmaceuticals	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income					
Sales to third parties	$2,080,357	$ 58,260	$2,138,617	$ —	$2,138,617
Intergroup sales and transfers	—	37,229	37,229	(37,229)	—
Net sales	2,080,357	95,489	2,175,846	(37,229)	2,138,617
Operating expenses	1,692,903	79,719	1,772,622	(37,229)	1,735,393
Operating income	$ 387,454	$ 15,770	$ 403,224	$ 0	$ 403,224
II. Total assets, depreciation and capital expenditures					
Total assets	$2,702,376	$110,710	$2,813,086	$1,316,109	$4,129,195
Depreciation	118,215	90	118,305	—	118,305
Capital expenditures	255,375	90	255,465	—	255,465

As described in Note 2(f), "Summary of Significant Accounting Policies – Property, plant and equipment," effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 based on an amendment to the Corporation Tax Law. The effect of this change was to increase operating expenses by ¥498 million ($4,971 thousand) in the "Pharmaceuticals" segment and by ¥0 million ($0 thousand) in the "Other" segment, respectively and to decrease operating income in both segments by the same amounts for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

As described in Note 2(f), "Summary of Significant Accounting Policies – Property, plant and equipment," effective the year ended March 31, 2008, the salvage value of property, plant and equipment acquired before April 1, 2007 which have been fully depreciated to their respective depreciable limits under the Corporation Tax Law is

to be depreciated to nil over a period of five years. The effect of this change was to increase operating expenses by ¥850 million ($8,484 thousand) in the "Pharmaceuticals" segment and by ¥0 million ($0 thousand) in the "Other" segment, respectively, and to decrease operating income in both segments by the same amounts for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

As more than 90% of consolidated net sales for the years ended March 31, 2008 and 2007 were made in Japan, the disclosure of geographical segment information has been omitted.

Overseas sales for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		
	Year ended March 31, 2008		
	Europe	Other	Total
I. Overseas sales	¥32,336	¥5,322	¥ 37,658
II. Consolidated net sales	—	—	214,268
III. Overseas sales as a percentage of consolidated net sales	15.1%	2.5%	17.6%

	Millions of yen		
	Year ended March 31, 2007		
	Europe	Other	Total
I. Overseas sales	¥20,404	¥5,659	¥ 26,063
II. Consolidated net sales	—	—	199,759
III. Overseas sales as a percentage of consolidated net sales	10.2%	2.8%	13.0%

	Thousands of U.S. dollars		
	Year ended March 31, 2008		
	Europe	Other	Total
I. Overseas sales	$322,747	$53,119	$ 375,866
II. Consolidated net sales	—	—	2,138,617

Overseas sales represent those of the Company and consolidated subsidiaries outside Japan and include royalty revenue. The above categories are based on geographic proximity. Main countries and regions included in each category were as follows:

(1) Europe: United Kingdom, Switzerland, Germany and other
(2) Other: North America, Asia and other

19. BUSINESS COMBINATION

On April 1, 2006, Ohmori Group Honsha Co., Ltd., (Ohmori) was merged into the Company as a result of restructuring of the Shionogi Group, and Ohmori was liquidated.

Prior to the merger, Ohmori was a holding company and had five subsidiaries engaged in the pharmaceutical wholesale business.

During 2002, these subsidiaries merged with other companies and the main business focus of Ohmori turned to managing assets such as securities issued by the other companies as a result of these mergers.

The Company accounted for this business combination as a merger under common control which has been eliminated as an internal transaction. Consequently, there was no effect on the consolidated financial statements.

20. LITIGATION

In March 2007, a lawsuit was filed against the Company with the Osaka District Court by a former employee who is one of the inventors of "Crestor," one of the main products of the Company, for which the Company obtained a patent, requesting the Company to pay approximately ¥870 million ($8,683 thousand) as compensation pursuant to Article 35 of the Patent Act with reference to approximately ¥20,300 million ($202,615 thousand) of revenues which the Company received up to September 30, 2006 from AstraZeneca PLC, the Company's licensee of "Crestor." This lawsuit is currently pending in court.

In December 2007, the Company filed a patent infringement action jointly with AstraZeneca PLC against seven generic drug companies, such as Cobalt Pharmaceuticals, Inc., Apotex, Inc. and so forth, which filed a New Drug Application for the generic drugs of "Crestor." The purpose of the patent infringement action is to prevent the seven generic drug companies from selling any generic drugs under the patent owned by the Company in the United States of America. The discovery procedure has been initiated and it is anticipated that it will take a long time for the trial to begin and a judgment to be taken.

21. SUBSEQUENT EVENT

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at a shareholders' meeting held on June 27, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥12.00 = U.S.$0.12 per share)	¥4,021	$40,134

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

The Board of Directors
Shionogi & Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shionogi & Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shionogi & Co., Ltd. and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 27, 2008

Ernst & Young ShinNihon LLC

Corporate Data (As of March 31, 2008)

Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,279,742,717
Website	http://www.shionogi.co.jp/
Head Office	1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan Tel: +81-6-6202-2161 Fax: +81-6-6229-9596

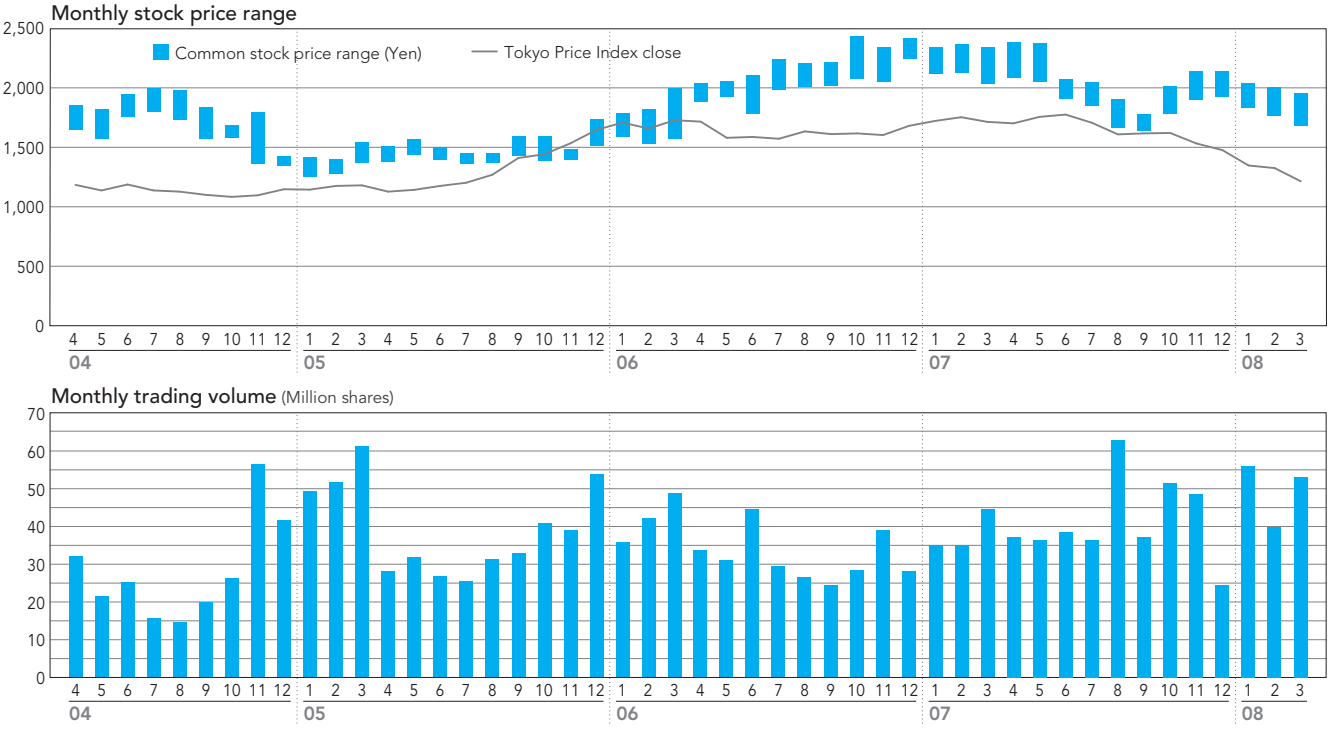
Number of Employees	Consolidated: 4,982 Non-consolidated: 4,233
Type of Business	Manufacture and sale of pharmaceutical products, diagnostics, and other related products
Fiscal Year-End	March 31
Net Sales	Consolidated: ¥214,268 million, Non-consolidated: ¥201,002 million (Year ended March 31, 2008)

Stock (Securities) Listings	Osaka, Tokyo (#4507)
Common Stock	Authorized: 1,000,000,000 shares Issued: 351,136,165 shares Number of shareholders: 21,399
Transfer Agent	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department, 5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

Major Shareholders

	Number of shares (Thousands)	Percentage of total shares
The Master Trust Bank of Japan, Ltd. (trust account)	22,542	6.42
Sumitomo Life Insurance Company	18,604	5.30
Japan Trustee Services Bank, Ltd. (trust account)	17,460	4.97
State Street Trust and Banking Company, Limited	16,845	4.80
Shionogi & Co., Ltd.	16,013	4.56
Nippon Life Insurance Company	13,138	3.74
The Chase Manhattan Bank NA, London SL Omnibus Account	11,815	3.36
JP Morgan Chase Oppenheimer Funds JASDEC Account	9,723	2.77
Japan Trustee Services Bank, Ltd. (Trust Account Re-entrusted by The Sumitomo Trust & Banking Co., Ltd., The Sumitomo Mitsui Banking Corporation Retirement Trust Account)	9,485	2.70
NIPPONKOA Insurance Co., Ltd.	7,538	2.15

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Offices / Consolidated Subsidiaries (As of March 31, 2008)

Corporate Directory

Head Office / Branch Offices

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Nagoya Branch Office
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Fukuoka City, Fukuoka 810-0072, Japan
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Laboratories

Shionogi Research Laboratories
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Toyonaka, Osaka 561-0825, Japan
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Aburahi Laboratories
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Kanegasaki Plant
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Site

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Amagasaki, Hyogo 660-0813, Japan
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Settsu, Osaka 566-0022, Japan
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Shionogi Tokyo Distribution Center
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Overseas Offices

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Taipei 10457, Taiwan
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Shionogi & Co., Ltd. Shanghai Office
Far East International Plaza 3F, 306A,
No. 319 Xian Xia Road, Shanghai 200051,
People's Republic of China
Tel: +86-21-6235-1311

Consolidated Subsidiaries

1. **Bushu Pharmaceuticals Ltd.**
   1, Ooaza-Takeno, Kawagoe, Saitama 350-0801, Japan
   Tel: +81-49-233-4651
2. **Nichia Pharmaceutical Industries Ltd.**
   224-20, Ebisuno Hiraishi, Kawauchi-cho,
   Tokushima 771-0132, Japan
   Tel: +81-88-665-2312
3. **Shionogi Analysis Center Co., Ltd.**
   1-3, Kuise Terajima 2-chome, Amagasaki, Hyogo 660-0813, Japan
   Tel: +81-6-6381-7271
4. **Saishin Igaku Co., Ltd.**
   Shionogi Doshomachi Bldg., 7-6, Doshomachi 4-chome,
   Chuo-ku, Osaka 541-0045, Japan
   Tel: +81-6-6222-2876
5. **Shionogi Engineering Service Co., Ltd.**
   1-3, Kuise Terajima 2-chome, Amagasaki, Hyogo 660-0813, Japan
   Tel: +81-6-6401-1227
6. **Shionogi Buturyuu Service & Co., Ltd.**
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   Tel: +81-6-6381-7345
7. **Shionogi General Service Co., Ltd.**
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8. **Aburahi AgroResearch Co., Ltd.**
   1405, Gotanda, Koka-cho, Koka, Shiga 520-3423, Japan
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9. **Taiwan Shionogi & Co., Ltd.**
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   Tel: +886-2-2551-6336
10. **Shionogi USA, Inc.**
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    Tel: +1-973-966-6900
11. **SG Holding, Inc.**
    1209 Orange Street, Wilmington, New Castle, DE 19801, U.S.A.

SHIONOGI & CO., LTD.

http://www.shionogi.co.jp/

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