

Consolidated Financial Results for the third quarter of fiscal year 2004

January 31, 2005

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

(URL <http://www.shionogi.co.jp>)

Securities code number : 4507

Listed Exchanges : Section 1 of Tokyo, Osaka and Nagoya, and Fukuoka and Sapporo

Representative : Title of Person in Charge *President*

: Name *Motozo Shiono*

Contact responsibility : Title of Person in Charge *General Manager, Public Relations Unit*

: Name *Noriyuki Kishida*

Telephone : 06(6202)-2161

1. Basis of preparation

(1) Adoption of simplified methods of accounting [Yes/No] : Yes

The Company has partially adopted simplified methods of accounting for inventory valuation and others.

(2) Changes in method of accounting [Yes/No] : No

(3) Changes in the scope of consolidation or in the application of the equity method [Yes/No] : Yes

Consolidation (New) 1 subsidiary Aburahi AgroResearch Co., Ltd.

2. Financial Results for the period from April 1, 2004 to December 31, 2004

(1) Results of operations (Note: All amounts are rounded down to the nearest million yen.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2004	151,812	(2.9)	22,697	—	22,056	—	15,192	—
Nine months ended December 31, 2003	156,357	—	—	—	—	—	—	—
Year ended March 31, 2004	200,485		20,292		17,586		2,203	

	Earnings per share		Earnings per share (diluted)	
	Yen	Yen	Yen	Yen
Nine months ended December 31, 2004	43.93		—	
Nine months ended December 31, 2003	—		—	
Year ended March 31, 2004	6.06		—	

(Notes) *The quarterly financial results (except for sales) are presented commencing this quarterly period. Accordingly, the rate of increase or decrease from the corresponding quarter of the previous year has not been presented.*

The percentages shown under net sales in the table above represent the percentage of change from the figures for the corresponding period of the previous year.

[Information on results of operations]

During the nine months ended December 31, 2004, net sales were ¥151,812 million (a 2.9 percent decrease compared with the same period of the previous fiscal year), operating income was ¥22,697 million, ordinary income was ¥22,056 million, and net income was ¥15,192 million.

Sales of ethical drugs decreased due to revision of National Health Insurance (NHI) drug prices and continuing contraction in the market for antibiotics, a core Shionogi product. For this reason, overall sales declined despite increased royalty income.

Despite the decrease in net sales, the cost of sales ratio and the selling, general and administrative expenses ratio improved due to the effect of factors including re-engineering of the business structure, and operating income and ordinary income margins to net sales are changing above the 14 percent level. Net income for the third quarter includes income of ¥3,563 million from the change to a defined contribution pension plan at the beginning of this fiscal year.

(2) Financial position

	Total assets	Shareholders' equity	Ratio of Shareholders' equity to total assets	Shareholders' equity per share
	Million yen	Million yen	%	Yen
As of December 31, 2004	389,069	303,058	77.9	876.54
As of December 31, 2003	—	—	—	—
As of March 31, 2004	376,160	292,187	77.7	844.53

[Cash Flows]

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
	Million yen	Million yen	Million yen	Million yen
Nine months ended December 31, 2004	16,074	(3,677)	(4,217)	76,963
Nine months ended December 31, 2003	—	—	—	—
Year ended March 31, 2004	15,059	(8,044)	(10,340)	68,623

(Notes) *The quarterly financial position and cash flows are presented commencing this quarterly period. Accordingly, the results for corresponding quarter of the previous year have not been presented.*

[Information on changes in financial position]

As of December 31, 2004, total assets increased ¥12,909 million compared with the end of the previous fiscal year, due mainly to an increase in prepaid pension expenses. Shareholders' equity increased ¥10,871 million compared with the end of the previous fiscal year, and the ratio of shareholders' equity to total assets was 77.9 percent.

Cash and cash equivalents at the end of the third quarter totaled ¥76,963 million, an increase of ¥8,340 million compared with the previous fiscal year-end. Net cash provided by operating activities was ¥16,074 million overall, with ¥25,392 million net income before taxes offset by a payment associated with a transfer of assets to the defined contribution pension plan. Net cash used in investing activities totaled ¥3,677, mainly due to purchases of property, plant and equipment. Net cash used in financing activities totaled ¥4,217 million, due to factors including the payment of cash dividends and the repayment of debt.

(Reference) Financial Results (Non-consolidated) for the period from April 1, 2004 to December 31, 2004

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2004	137,528	(4.2)	19,332	—	19,909	—	13,959	—
Nine months ended December 31, 2003	143,604	—	—	—	—	—	—	—
Year ended March 31, 2004	183,274		16,168		15,458		1,335	

	Total assets	Shareholders' equity
	Million yen	Million yen
As of December 31, 2004	379,317	296,230
As of December 31, 2003	—	—
As of March 31, 2004	366,113	286,468

(Notes) *The quarterly financial results (except for sales) are presented commencing this quarterly period. Accordingly, the rate of increase or decrease from the corresponding quarter of the previous year has not been presented.*

The percentages shown under net sales in the table above represent the percentage of change from the figures for the corresponding period of the previous year.

[Reference]

Forecasted results for the year ending March 31, 2005 (April 1, 2004 to March 31, 2005)

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
For the year ending March 31, 2005	200,000	27,000	18,000

(Reference) *Estimated earnings per share for FY 2004:* ¥52.05

[Information on forecasted results]

We have not revised the annual forecasted results which were announced on November 1, 2004.

Forecasted results (Non-consolidated) for the year ending March 31, 2005 (April 1, 2004 to March 31, 2005)

	Net sales	Ordinary income	Net income	Annual dividend per share	
				Year end	
	Million yen	Million yen	Million yen	Yen	Yen
For the year ending March 31, 2005	182,000	25,000	17,000	4 . 25	8 . 50

(Reference) *Estimated earnings per share for FY 2004:* ¥49.16

(Notes) *These estimates on January 31, 2005 include a number of assumptions, forward-looking projections and plans. The actual results may differ substantially depending on the situation of competitors, uncertainties in the market.*

1.Consolidated Statements of Income

(Units: millions of yen)

	Nine months ended December 31, 2004		(Reference) Year ended March 31, 2004	
	Amount	%	Amount	%
Net sales	151,812	100.0	200,485	100.0
Cost of sales	57,171	37.7	79,856	39.8
Gross profit	94,640	62.3	120,629	60.2
Selling, general and administrative expenses	71,943	47.4	100,337	50.1
Operating income	22,697	14.9	20,292	10.1
Non-operating income	1,959	1.3	2,416	1.2
Non-operating expenses	2,600	1.7	5,121	2.5
Ordinary income	22,056	14.5	17,586	8.8
Extraordinary gains	3,835	2.5	16	0.0
Extraordinary losses	499	0.3	12,424	6.2
Income before income taxes and minority interests	25,392	16.7	5,178	2.6
Income taxes, current	5,814	3.8	2,101	1.1
Income taxes, deferred	4,367	2.9	844	0.4
Minority interests	(16)	(0.0)	(28)	(0.0)
Net income	15,192	10.0	2,203	1.1

(Note)

R&D expenses	23,263	15.3	29,807	14.9
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2. Consolidated Balance Sheets

(Units: millions of yen)

	As of December 31, 2004		(Reference) As of March 31, 2004		Increase (decrease)
	Amount	%	Amount	%	
Assets					
Current assets:					
Cash and deposits	81,401		75,044		6,357
Notes and accounts receivable	77,202		71,459		5,743
Marketable securities	22,069		23,059		(990)
Inventories	30,583		33,549		(2,966)
Other current assets	7,494		11,101		(3,607)
Allowance for doubtful accounts	(63)		(64)		1
Total current assets	218,687	56.2	214,150	56.9	4,537
Fixed assets:					
Property, plant and equipment:					
Buildings and structures	32,560		33,035		(475)
Other	36,833		38,957		(2,124)
Property, plant and equipment, net	69,394	17.9	71,993	19.1	(2,599)
Intangible fixed assets:					
Intangible fixed assets	4,766	1.2	5,187	1.4	(421)
Investments and other assets:					
Investments in securities	80,096		80,787		(691)
Prepaid pension expenses	12,435		—		12,435
Other	3,917		4,209		(292)
Allowance for doubtful accounts	(229)		(166)		(63)
Total investments and other assets	96,220	24.7	84,829	22.6	11,391
Total fixed assets	170,381	43.8	162,010	43.1	8,371
Total assets	389,069	100.0	376,160	100.0	12,909

(Units: millions of yen)

	As of December 31, 2004		(Reference) As of March 31, 2004		Increase (decrease)
	Amount	%	Amount	%	
Liabilities					
Current liabilities:					
Note and accounts payable	10,123		10,346		(223)
Short-term bank loans and current portion of long-term debt	114		1,033		(919)
Current portion of bonds	20,000		—		20,000
Accounts payable, other	8,964		6,414		2,550
Reserves:					
Reserve for bonuses	3,031		6,343		(3,312)
Other reserves	919		710		209
Other current liabilities	15,281		9,920		5,361
Total current liabilities	58,434	15.0	34,768	9.2	23,666
Long-term liabilities:					
Bonds	—		20,000		(20,000)
Reserves:					
Accrued retirement benefits for employees	8,438		18,829		(10,391)
Other reserves	254		462		(208)
Long-term accounts payable, other	6,488		—		6,488
Other long-term liabilities	12,179		9,713		2,466
Total long-term liabilities	27,360	7.0	49,005	13.0	(21,645)
Total liabilities	85,795	22.0	83,773	22.2	2,022
Minority interests:					
Minority interests	216	0.1	199	0.1	17
Shareholders' equity:					
Common stock	21,279	5.5	21,279	5.7	0
Additional paid-in capital	20,227	5.2	20,227	5.4	0
Retained earnings	244,736	62.9	232,589	61.8	12,147
Unrealized gain on securities	19,482	5.0	21,023	5.6	(1,541)
Translation adjustments	(1,141)	(0.3)	(1,588)	(0.4)	447
Less treasury stock, at cost	(1,525)	(0.4)	(1,343)	(0.4)	(182)
Total shareholders' equity	303,058	77.9	292,187	77.7	10,871
Total liabilities, minority interests and shareholders' equity	389,069	100.0	376,160	100.0	12,909

3. Consolidated Statements of Cash Flows

(Units: millions of yen)

	Nine months ended December 31, 2004	(Reference) Year ended March 31, 2004
	Amount	Amount
Operating activities:		
Income before income taxes and minority interests	25,392	5,178
Depreciation	6,859	9,623
Decrease (Increase) in notes and accounts receivable, trade	(5,690)	4,705
Decrease in inventories	3,024	7,285
Increase (decrease) in notes and accounts payable, trade	762	(1,631)
Other	(12,855)	(6,606)
Subtotal	17,491	18,555
Interest and dividend income received	991	1,490
Interest paid	(416)	(464)
Income taxes paid	(1,991)	(4,521)
Net cash provided by operating activities	16,074	15,059
Investing activities:		
Purchases of marketable securities or investments in securities	(2,149)	(4,586)
Proceeds from sales of marketable securities or investments in securities	1,284	2,227
Purchases of property, plant and equipment	(4,711)	(4,404)
Proceeds from sales of property, plant and equipment	516	157
Other	1,381	(1,438)
Net cash used in investing activities	(3,677)	(8,044)
Financing activities:		
Short-term loans, net	(186)	(7,086)
Repayment of long-term debt	(918)	(120)
Dividends paid	(2,934)	(2,936)
Other	(179)	(196)
Net cash used in financing activities	(4,217)	(10,340)
Effect of exchange rate changes on cash and cash equivalents	151	456
Increase (decrease) in cash and cash equivalents	8,330	(2,868)
Cash and cash equivalents at beginning of period	68,623	71,496
Decrease in cash and cash equivalents resulting from exclusion from consolidation	—	(50)
Increase in cash and cash equivalents resulting from merger of consolidated and unconsolidated	—	45
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	9	—
Cash and cash equivalents at end of period	76,963	68,623

4. Segment Information

[Business Segment Information]

Nine months ended December 31, 2004

(Units: millions of yen)

Account \ Business Segment	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations	Consolidated
Net sales and operating income:						
Net sales						
(1) Sales to third parties	140,084	8,893	2,834	151,812	—	151,812
(2) Intergroup sales and transfers	—	181	3,360	3,541	(3,541)	—
Total	140,084	9,074	6,194	155,353	(3,541)	151,812
Operating expenses	119,676	7,807	5,188	132,672	(3,558)	129,114
Operating income	20,407	1,267	1,006	22,680	17	22,697

(Notes) 1. *Businesses of the Shionogi & Co., Ltd and consolidated subsidiaries are segmented into Pharmaceuticals and related businesses, Capsule business and Other businesses, considering the types of products/merchandise handled and the similarities in their markets.*

2. *Major products/merchandise and services provided by each segment*

Business Segment	Major products/merchandise and services
Pharmaceuticals and related businesses	Ethical drugs, OTC drugs and Diagnostics
Capsule business	Capsules
Other businesses	Real estate leases, Physical distribution and other services

Third Quarter Financial Overview for the Year Ending March 31, 2005 <Supplement>

January 31, 2005
SHIONOGI & CO., LTD.

Sales by segment

<Consolidated>

(Unit: Yen 100 million)

	2004 1st half (result)	2004 2nd half (forecast)	2004 full year (forecast)	2004 3rd quarter (result)	2003 3rd quarter (result)	For the period from April 1,2004 to December 31,2004 (result)	For the period from April 1,2003 to December 31,2003 (result)	% increase vs previous year result	% progress vs full year forecast
Pharmaceuticals and related businesses	871	978	1,849	530	543	1,401	1,447	3.2	75.8
Ethical drugs	799	890	1,689	485	510	1,285	1,356	5.3	76.1
OTC and quasi-drugs	31	35	66	20	19	50	55	7.4	76.5
Diagnostics	18	17	35	8	9	27	29	7.3	76.1
Royalty income	23	36	59	16	5	39	8	405.7	66.3
Capsule business	59	56	115	30	26	89	85	4.2	77.3
Other businesses	23	13	36	5	7	28	31	9.6	78.7
Industrial Chemicals	0	0	0	0	0	0	10	-	-
Real estate/Logistic service etc.	23	13	36	5	7	28	22	30.6	78.7
Total	953	1,047	2,000	565	576	1,518	1,563	2.9	75.9

<Non-consolidated>

	2004 1st half (result)	2004 2nd half (forecast)	2004 full year (forecast)	2004 3rd quarter (result)	2003 3rd quarter (result)	For the period from April 1,2004 to December 31,2004 (result)	For the period from April 1,2003 to December 31,2003 (result)	% increase vs previous year result	% progress vs full year forecast
Pharmaceuticals and related businesses	854	966	1,820	521	536	1,375	1,426	3.6	75.6
Ethical drugs	782	878	1,660	477	503	1,259	1,335	5.7	75.8
OTC and quasi-drugs	31	35	66	20	19	50	55	7.4	76.5
Diagnostics	18	17	35	8	9	27	29	7.3	76.1
Royalty income	23	36	59	16	5	39	8	400.5	66.3
Industrial Chemicals	0	0	0	0	0	0	10	-	-
Total	854	966	1,820	521	536	1,375	1,436	4.2	75.6

Main Products <Non-consolidated>

Ethical drugs

(Unit: Yen 100 million)

	2004 1st half (result)	2004 2nd half (forecast)	2004 full year (forecast)	2004 3rd quarter (result)	2003 3rd quarter (result)	For the period from April 1,2004 to December 31,2004 (result)	For the period from April 1,2003 to December 31,2003 (result)	% increase vs previous year result	% progress vs full year forecast
Total ethical drugs	782	878	1,660	477	503	1,259	1,335	5.7	75.8
FLOMOX	143	200	343	109	114	251	264	4.9	73.2
FLUMARIN	90	85	175	47	56	137	156	11.9	78.3
VANCOMYCIN	84	80	164	44	53	127	148	14.1	77.7
IMUNACE	54	57	111	29	27	83	73	12.8	74.7
RINDERON	55	49	104	26	26	81	80	1.0	77.7
MS CONTIN	32	31	63	15	23	47	63	25.7	74.9
CLARITIN	24	50	74	22	14	47	35	32.1	62.9
LONGES	26	25	51	14	16	40	45	12.1	77.5
KEFRAL	21	23	44	12	15	33	40	17.1	74.5
DOBUTREX	16	19	35	10	11	26	31	16.0	73.7
OXYCONTIN	12	18	30	10	4	22	6	272.5	73.1

OTC products

	2004 1st half (result)	2004 2nd half (forecast)	2004 full year (forecast)	2004 3rd quarter (result)	2003 3rd quarter (result)	For the period from April 1,2004 to December 31,2004 (result)	For the period from April 1,2003 to December 31,2003 (result)	% increase vs previous year result	% progress vs full year forecast
Total OTC products	31	35	66	20	19	50	55	7.4	76.5
SEDES	13	16	29	8	8	21	24	11.2	73.1
POPON-S	5	7	12	5	4	10	12	13.5	83.0

Royalty income

	2004 1st half (result)	2004 2nd half (forecast)	2004 full year (forecast)	2004 3rd quarter (result)	2003 3rd quarter (result)	For the period from April 1,2004 to December 31,2004 (result)	For the period from April 1,2003 to December 31,2003 (result)	% increase vs previous year result	% progress vs full year forecast
Total Royalty income	23	36	59	16	5	39	8	400.5	66.3
CRESTOR	18	29	47	14	4	31	5	553.2	66.6

Drugs Under Development

31-Jan-05

<in Japan>

Stage/ Code No.	Administration	Indication/Mechanism	Origin	NDA submission
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NDA's filed

NS75A	SC	Prevention of premature ovulation during a controlled ovarian stimulation followed by assisted reproductive technology (ART). Luteinizing hormone-releasing hormone antagonist. Generic name: cetrorelix	Co-developed with Nippon Kayaku Co., Ltd. Licensed from Zentaris AG (Germany)	December, 2000
SR47436	Oral	Antihypertensive Angiotensin II receptor antagonist Not prodrug unlike other antagonists. Cough not found unlike for ACE inhibitors. Generic name: irbesartan	Co-developed with Bristol Pharmaceuticals K.K. Licensed from Sanofi SA (France)	October, 2002
S-4661	Injection	Carbapenem antibiotic Broad spectrum. Low renal toxicity and low incidence of convulsion (central nervous system effect). Generic name: doripenem	Developed in-house	September, 2003
S-8116	Oral	Analgesic for cancer pain. Immediate-release oxycodone preparation Generic name: oxycodone.	Licensed from Mundipharma AG (Netherlands)	May, 2004
SCH29851	Oral	Antiallergic Histamine H1 receptor antagonist. Additional indication: Pediatric use (allergic rhinitis and itch caused by dermatitides) Generic name: loratadine	Co-developed with Schering-Plough K.K. Licensed from Schering-Plough Corp. (USA)	September, 2004

Phase 3

LY248686	Oral	Antidepressant SNRI (serotonin & norepinephrine reuptake inhibitor). Considering the dosage in USA, additional study at higher doses is on-going to confirm the maximum efficacy .	Licensed from Eli Lilly and Company (USA)	Refiling, 2007-2008
S-7701	Oral	Anti-fibrosis (idiopathic interstitial pulmonary fibrosis). Additional indications to other fibrosis may be possible. Generic name: pirfenidone	Licensed from Marnac, Inc. (USA)	Refiling, 2006

Phase 2

NS75A	Injection	Uterine myoma Luteinizing hormone-releasing hormone antagonist. Once a week preparation Generic name: cetrorelix	Co-developed with Nippon Kayaku Co., Ltd. Licensed from Zentaris AG (Germany) Phase 2 (completed)	
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Phase 1

EP-013420 S 013420 (S-numbered)	Oral	Ketolide Antibiotic	Licensed from Enanta Pharmaceuticals, Inc. (USA)	
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Phase 1 in preparation

S-0373	Oral	Spinocerebellar ataxia , Parkinson's disease Non-peptide mimetic of TRH. Good intracerebral transfer and long-action Considering domestic and overseas development	Developed in-house	
NS75B	Injection	Prostatomegaly Luteinizing hormone-releasing hormone antagonist. Generic name: cetrorelix	Co-developed with Nippon Kayaku Co., Ltd. Licensed from Zentaris AG (Germany)	

<Outside Japan>

Stage/ Code No.	Administration	Indication/Mechanism	Origin/Overseas	NDA submission
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Phase 2

S-5751	Oral	Antiallergic Prostaglandin D ₂ receptor antagonist. First-in-class as PGD ₂ receptor antagonists. IND filed as antiasthma.	Developed in-house Japan: Phase 1 USA: Phase 2	
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Phase 1

S-2367	Oral	Anti-obesity agent Central nervous system antagonist Prevention of accumulation of visceral fat, amelioration of blood sugar and serum fat High safety and no rebound are expected. Phase I b (multiple dose studies in healthy obese volunteers)	Developed in-house UK, USA: Phase 1	
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<Shionogi-GlaxoSmithKline>

Code No.	Administration	Indication/Mechanism	Stage	NDA submission
S-0139	Injection	Target indication:Cerebrovascular diseases including acute ischemic stroke Endothelin A receptor antagonist	Japan: Phase 2 Europe: Phase 1	

<Out-Licensing Activity>

Code No.	Administration	Category/Indication	Remarks	NDA submission
S-4522	Oral	Antihyperlipidemia HMG CoA reductase inhibitor. Superior activity to other statins. Generic name: rosuvastatin	Licensed to "AstraZeneca , UK" in April, 1998	June, 2001 (world wide except Japan) April, 2002 (Japan) Jan 19, 2005 Approved (Japan) Approved in 70 countries
S-1153	Oral	Anti-HIV Non-nucleoside reverse transcriptase inhibitor Generic name: capravirine	Licensed to "Pfizer, USA" in June, 1998 Phase 2 trials on-going Phase 3 in preparation	
S-4661	Injection	Carbapenem antibiotic Broad spectrum. Generic name: doripenem	Licensed to "Peninsula, USA" in May, 2003 Phase 3 trials on-going	

<In-Licensing Activity>

Code No.	Administration	Category/Indication	Remarks	NDA submission
BAY12-8039	Oral	New Quinolone antibiotic Generic name: moxifloxacin	Licensed from "Bayer Yakuhin, Japan" in October, 2003	September, 2002 (Japan)

<Discontinued>

Code No.	Remarks
S-6820	Anticancer. Recombinant interleukin-2. Additional indication for metastatic colorectal cancer: superior efficacy found in tumor size but not in survival rate (Indication no longer being pursued).
S-3304	Anticancer. Matrix metalloproteinase inhibitor. Difficult to find superiority to current cancer treatment.
S-8921	Antihyperlipidemia. Bile acid transporter inhibitor. Hard to find benefit over currently available drugs.
S-3013	Antiinflammatory. Phospholipase A2 inhibitor. Suitable indications for rapid development not found.
S-8510	Antidementia. Benzodiazepine receptor partial inverse agonist. Switched to back-up compound with superior pharmacokinetic profile.

<Changes from November 2004>

Discontinued	S-6820, S-3304, S-8921, S-3013, S-8510
Change in stages	S-4522: Registered (Japan) Approved on Jan 19, 2005 (Japan). Number of countries approved(64 70) EP-013420: Numbered as S-013420 and Phase 1 started.
Other changes	S-1153: Phase 2 on-going Phase 2 on-going and Phase 3 in preparation S-5751: IND filed as antiasthma