Financial Statements (Consolidated)
for The Year ended March 31, 2006

May 15 , 2006

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

Listed Exchanges: Section I of Tokyo and Osaka

Code: 4507

Location of Head Office: Osaka Prefecture

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

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

TEL: (06)6202-2161

Date of Meeting of Board of Directors for Approving Financial Statements: May 15 , 2006

Application of U.S. accounting standards: No

1. Financial results for the period from April 1, 2005 to March 31, 2006

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

	Net sales		Operating income		Ordinary income	
	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2006	196,388	(1.5)	29,226	1.7	29,656	6.7
Year ended March 31, 2005	199,364	(0.6)	28,729	41.6	27,804	58.1

	Net income		Earnings per share	Earnings per share (diluted)	Return on Equity	Ordinary income to total assets	Ordinary income to net sales
	Million yen	%	Yen	Yen	%	%	%
Year ended March 31, 2006	22,735	20.0	66.55	----	7.1	7.2	15.1
Year ended March 31, 2005	18,941	759.6	54.64	----	6.4	7.2	13.9

(Notes) ① Equity in losses on investments accounted for by equity method — Year ended March 31, 2006: (5) million yen — Year ended March 31, 2005: (393) million yen

② Average number of shares outstanding during the period (consolidated) — Year ended March 31, 2006: 340,667,236 shares — Year ended March 31, 2005: 345,175,088 shares

③ Changes in accounting method: None

④ The percentages shown under net sales, operating income, ordinary income and net income in the table above represent the change from the corresponding figures for the same period of the prior 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 March 31, 2006	427,682	337,185	78.8	989.76
As of March 31, 2005	396,998	299,847	75.5	879.79

(Note) Shares outstanding as of the period-end (consolidated) — As of March 31, 2006: 340,609,560 shares — As of March 31, 2005: 340,724,204 shares

(3) 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
Year ended March 31, 2006	16,885	(12,047)	(24,796)	76,142
Year ended March 31, 2005	28,551	9,784	(11,209)	95,719

(4) Scope of consolidation and companies accounted for by the equity method

Consolidated subsidiaries: 11 subsidiaries — Unconsolidated subsidiaries accounted for by the equity method: None

Affiliates accounted for by the equity method: 1 affiliate

(5) Changes in scope of consolidation and application of equity method

Consolidation (New): None (Excluded): 4 subsidiaries — Equity Method (New): None (Excluded): None

2. Forecasted results for the year ending March 31, 2007 (April 1, 2006 to March 31, 2007)

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
For the six months ending September 30, 2006	97,000	11,500	6,500
For the year ending March 31, 2007	210,000	31,000	18,000

(Reference) Estimated earnings per share for FY 2006: ¥52.85

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practice generally accepted and applied in Japan.

Note: These estimates on May 15, 2006 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. Refer to page 6.

Companies in the Shionogi Group

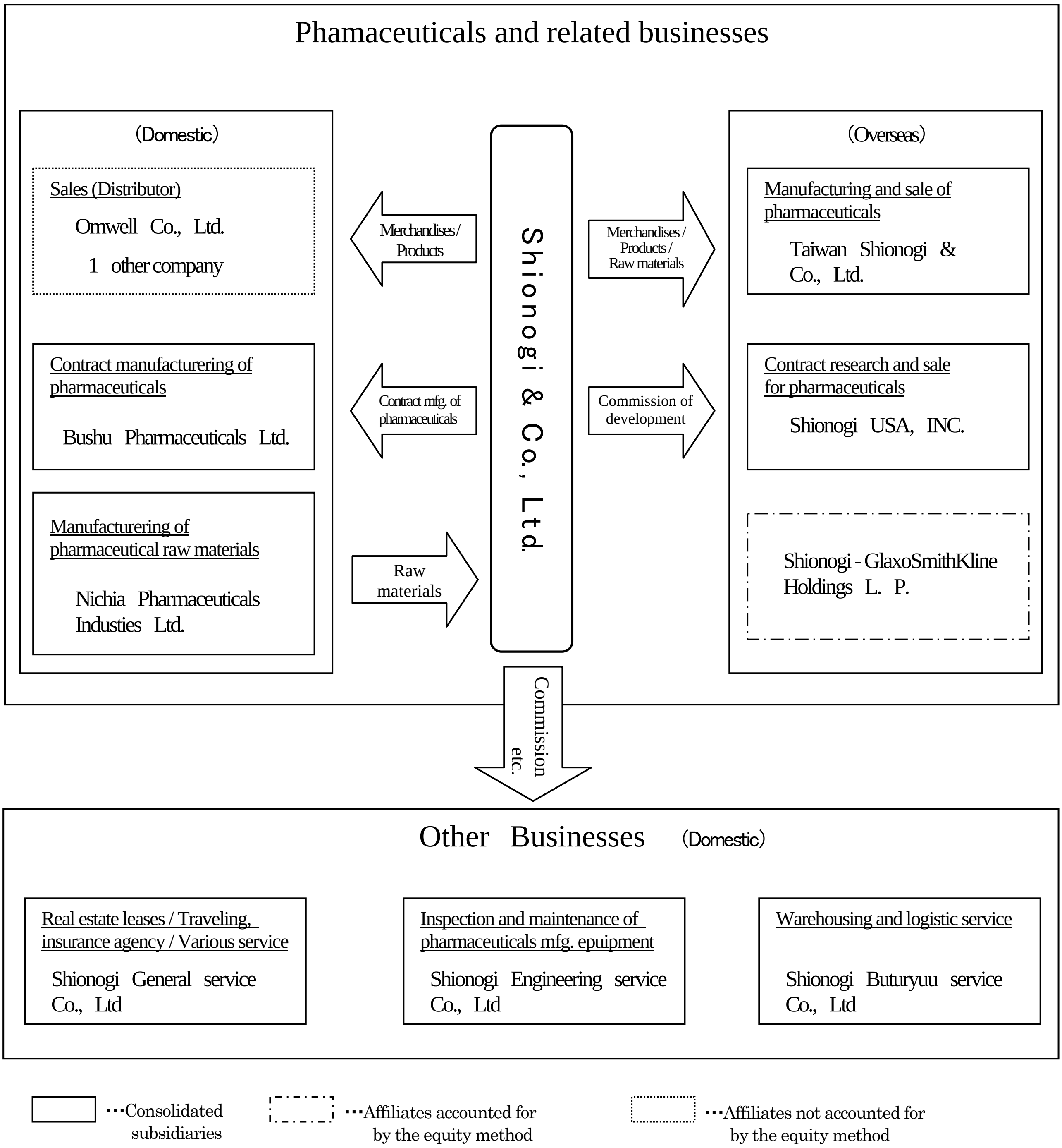
As of March 31, 2006, the Shionogi Group consisted of Shionogi & Co., Ltd. (the “Company”), 11 consolidated subsidiaries and 7 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs, OTC drugs. In addition, they render related services.

The business segments of the Company, and its subsidiaries and affiliates are summarized as follows:

Business segments	Main products/ merchandise and services	Major companies
Pharmaceuticals and related businesses	Ethical drugs, OTC drugs and Diagnostics	Shionogi & Co., Ltd., Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries Ltd., Taiwan Shionogi & Co., Ltd., Omwell Co., Ltd., Shionogi USA, INC., Shionogi-GlaxoSmithKline Holdings L.P., 7 other companies (14 companies in total)
Other businesses	Real estate leasing, Physical distribution and other services	Shionogi General Service Co., Ltd. Shionogi Buturyuu Service Co., Ltd. Shionogi Engineering Service Co., Ltd. 2 other companies (5 companies in total)

(Notes) Companies engaging in more than one business segment are listed separately by segment in the above table.

A business organizational chart illustrating the above-mentioned activities is presented on the next page.



(note) Four consolidated subsidiaries and 4 affiliates are not shown in this chart as the scale of their business is very small.

MANAGEMENT POLICY

1. Fundamental Management Policy

Shionogi's corporate philosophy is to "continually provide the superior medicines essential to people's health." Our objective continues to be creating and marketing pharmaceuticals that effectively improve healthcare and raise the quality of life worldwide. Shionogi approaches drug creation, production and marketing as a unified whole to promote effectiveness in improving healthcare and to earn the trust of healthcare professionals and patients. Our commitment to this approach is essential to strengthening the Company and expanding its operations globally, thus earning the respect of our stakeholders, including customers, society, shareholders and employees.

2. Management Strategy and Challenge Ahead

Under the first medium-term management plan from April 2000 to March 2005, Shionogi largely completed building a foundation supported by business structure reengineering, profit structure reforms and management reforms. However, the operating environment in the pharmaceutical industry is likely to become even more challenging due to strengthened policies to contain rising healthcare costs and increasingly intense competition in the global market. Therefore, by positioning the second medium-term management plan (April 2005 to March 2010), which began in April 2005, as a period for acceleration toward significant strides, Shionogi will further solidify the business foundation it has already established. In addition, Shionogi will step up measures to achieve long-term growth through its contribution to society as a pharmaceutical company.

In research and development, Shionogi will narrow its focus and concentrate on establishing second and third fields of specialization where it can contribute to medical treatment, in addition to the area of infectious diseases that has supported the Company until now. In sales, Shionogi will contribute to hospitals and clinics and establish a robust sales system by cultivating and strengthening medical representatives who consistently think about healthcare needs. In overseas operations, Shionogi aims to contribute globally in the area of infectious diseases, and will steadily develop its business in overseas markets, with a focus on antibiotics in the United States and China.

In addition, results of previously implemented measures, expansion of new product sales and increased license fee as royalty income will absorb expected increases in research and development costs and other expenses as Shionogi works to steadily achieve its numerical management objectives. In order to achieve these objectives, we will reaffirm our Company Policy of striving to "continually provide the superior medicines essential to people's health." Shionogi considers it essential to further enhance its corporate culture, which encourages all employees to work together to contribute to society through medicine, and intends to continue working to realize this objective.

Management indicator targets for the year ending March 2010 are as follows:
They have been revised considering the exclusion of the capsule business.

Net sales	305 billion yen
Operating income	98 billion yen
Net income	59 billion yen
Return on equity	14 %

3. Parent Company Information

N/A

4. Fundamental Policy on Appropriation of Retained Earnings

While the Company invests in future business development aggressively to increase corporate value in the medium to long term perspective, concerning dividends, the Company follows a policy of distributing dividends in proportion to results for each fiscal term, and aims to make stable increases in the dividend. The Company also flexibly uses share repurchases as a means of improving capital efficiency.

5. Approach and Policy for Reducing the Minimum Trading Unit of Shares

The Company acknowledges that it is important for the stock market to encourage participation of new investors, enhance the liquidity of stocks and revitalize the stock market by reducing the minimum unit of shares traded. Factors such as price standards, the market conditions of supply and demand for the Company's shares, and the cost effectiveness of implementation are presently under comprehensive review as the Company considers the reduction of the minimum trading unit of shares.

RESULTS OF OPERATIONS AND FINANCIAL POSITION

1. Results of Operations

(1) Results for the Fiscal Year ended March 31, 2006

1) General Overview

In the Japanese pharmaceutical industry during the year ended March 31, 2006, broad revisions to the Pharmaceutical Affairs Law went into effect in April 2005, and active discussions continued on containing rising healthcare costs. The progress of these and other reforms is causing major changes in the business structure of pharmaceutical companies. Amid this market environment, competition in the areas of sales and R&D, including with global corporations, became increasingly severe and domestic pharmaceutical companies intensified activities such as concentration on the ethical drug business, consolidation and restructuring.

In these conditions, Shionogi formulated its second medium-term management plan (April 2005 – March 2010), which is aimed at long-term growth as a pharmaceutical manufacturer, and began implementing it in April, 2005, based on the business structure established during the first medium-term management plan (April 2000 – March 2005).

The second medium-term management plan reaffirms that Shionogi must enhance its presence through its contribution to healthcare as a pharmaceuticals company. To realize this goal, in the area of research and development, Shionogi will focus its efforts on establishing second and third fields of specialization where it can contribute to healthcare in addition to the field of infectious diseases. In the area of sales, Shionogi will focus its efforts on cultivating and strengthening medical representatives (MRs) who can respond quickly and consistently to healthcare needs. During the year ended March 31, 2006, Shionogi launched three products that will support corporate management in the future: Crestor, an antihyperlipidemia drug; Finibax, a carbapenem antibiotic; and Avelox, a new quinolone antibacterial. Among these, Shionogi believes that the launches of Finibax and Avelox will enhance its lineup of antibacterial drugs, which will further contribute to its treatments for infections. In addition, while Shionogi expects Crestor to be a highly effective treatment for hyperlipidemia, as a result of the paucity of data regarding its safety when used by Japanese people, Shionogi is conducting intensive post-marketing surveillance with Astra Zeneca K.K., which is co-marketing Crestor in Japan. This will allow the Company to build evidence that the drug is safe to take, in order to develop it into a drug that can truly contribute to treatment from a long-term perspective.

The Shionogi Qualicaps Group was a subsidiary that engaged in the capsule business. In October 2005, Shionogi sold all of the shares of this subsidiary to the Carlyle Group with the expectation of increasing the value of the business. As a result, the Shionogi Group made further progress in concentrating on the ethical drug business.

Consolidated Results of Operations

(Units:Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
Year ended 3/06	196,388	29,226	29,656	22,735
Year ended 3/05	199,364	28,729	27,804	18,941
Percentage Increase (Decrease)	(1.5)	1.7	6.7	20.0

Sales

Net sales decreased 1.5 percent year-on-year to ¥196,388 million. Although license fee as royalty income increased substantially, sales of ethical drugs declined slightly due to factors including the effect of a shrinking market for antibiotics, a core Company product. In addition, the capsule business was excluded from the scope of consolidation in the second half of the fiscal year because it was sold.

Income

In addition to increased license fee as royalty income, Shionogi's efforts to reduce production costs resulted in improved operating income. Operating income increased 1.7 percent compared to the previous fiscal year to ¥29,226 million, and ordinary income increased 6.7 percent compared to the previous fiscal year to ¥29,656 million. Shionogi recorded the proceeds from the sale of the capsule business as extraordinary income. Consequently, net income increased 20.0 percent compared to the previous fiscal year to ¥22,735 million.

For the year ended March 31, 2006, the Company plans to pay a year-end dividend of ¥10.00 per share. Combined with the interim dividend, this will bring total cash dividends for the fiscal year to ¥16.00 per share, a ¥4.00 increase over the previous fiscal year.

Research and Development

In research and development, Shionogi has narrowed its focus to the key domains of infectious diseases, pain and metabolic syndrome and has clarified the concentration of resources in these three areas. The Company also implemented an organizational restructuring to support steady implementation of strategy. In Japan, Shionogi is moving forward with the development of various drugs, including an antidepressant, antihypertensive and an antibiotic. Overseas, Shionogi USA, Inc. is the operating base advancing the development of drugs including an anti-obesity agent and a treatment for bronchial asthma. Shionogi had licensed doripenem (generic name), a carbapenem antibiotic, to Peninsula Pharmaceuticals, Inc. in the territories of North America and Europe. In June 2005, Johnson & Johnson acquired Peninsula Pharmaceuticals, and as a result is now moving development forward in Europe and North America. In addition, in January 2006 Shionogi concluded a joint research and co-marketing agreement with Purdue Pharma L.P. for novel analgesic drug compounds in working to enhance its pipeline in the therapeutic area of pain, one of Shionogi's three target domains.

As a result of these activities, research and development expenditures for the Shionogi Group in the fiscal year ended March 31, 2006 were ¥32,256 million, accounting for 16.4 percent of net sales.

Capital Investment

The Shionogi Group's capital investment during the fiscal year totaled ¥11.1 billion, and centered on expanding manufacturing facilities to manufacture new products and increase toll manufacturing, and enhancing research facilities.

2) Segment Information

Pharmaceuticals and Related Businesses

Sales of ethical drugs declined, reflecting a shrinking market for antibiotics, a core Company product. While sales of over-the-counter products increased, sales of diagnostics decreased. License fee as royalty income increased substantially due to expanding sales of Crestor outside Japan by AstraZeneca plc.

As a result, sales of Pharmaceuticals and Related Businesses increased 1.7 percent year-on-year to ¥187,235 million.

Operating income of Pharmaceuticals and Related Businesses increased 3.4 percent compared with the previous fiscal year to ¥26,758 million, reflecting increased license fee as royalty income and improvement in the cost of sales ratio from efforts to reduce costs.

Capsule Business

Shionogi sold the capsule business and excluded it from the scope of consolidation in the second half of the fiscal year. As a result, overall sales decreased 49.1 percent year-on-year to ¥6,060 million, and operating income decreased 52.9 percent to ¥687 million.

Other Businesses

Net sales of Other Businesses decreased 8.9 percent compared with the previous fiscal year to ¥3,092 million.

Total operating income of Other Businesses increased 27.1 percent to ¥1,730 million.

(2) Forecast for the Year Ending March 31, 2007

Projected results for the year ending March 31, 2007 are as follows.

Consolidated Projection

(Units:Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
Year ending 3/07	210,000	32,000	31,000	18,000
Year ended 3/06	196,388	29,226	29,656	22,735
Percentage Increase (Decrease)	6.9	9.5	4.5	(20.8)

In Shionogi's core domestic ethical drug market, a reduction in National Health Insurance (NHI) drug prices averaging 6.7 percent throughout the industry was implemented in April 2006, and the sales environment is projected to become even more challenging. However, the Company forecasts higher revenues from expansion of sales, centered on new products launched during the previous fiscal year, as well as increased license fee as royalty income.

Although expenses are projected to increase due to measures to strengthen research and development and sales capabilities, Shionogi forecasts increases in both operating income and ordinary income due to sales growth and an increase in license fee as royalty income. Net income is projected to decrease due to the absence of the extraordinary income from the sale of the capsule business in the year ended March 31, 2006.

2. Financial Position

(1) Assets, Liabilities and Shareholders' Equity

Total assets at March 31, 2006 were ¥427,682 million, an increase of ¥30,684 million compared with the previous fiscal year-end. The principal factor was an increase in the fair value of investments in securities. Total liabilities decreased ¥6,685 million from the previous fiscal year-end, mainly due to repayment of bonds upon maturity totaling ¥20,000 million. Total shareholders' equity increased ¥37,338 million due to an increase in unrealized gain on securities and retained earnings.

(2) Cash Flow

Net cash provided by operating activities decreased ¥11,666 million compared with the previous fiscal year to ¥16,885 million. While income before income taxes and minority interests increased, income taxes paid also rose in tandem with the increase in income.

Net cash used in investing activities was ¥12,047 million. Factors including investment in production facilities and purchase of investments in securities offset proceeds from the sale of the capsule business subsidiary.

Net cash used in financing activities totaled ¥24,796 million, due to factors including repayment of bonds upon maturity totaling ¥20,000 million and payment of cash dividends.

As a result, cash and cash equivalents at March 31, 2006 stood at ¥76,142 million, a decrease of ¥19,577 million from March 31, 2005.

Trends in Cash Flow Indicators

	Year ended March 2002	Year ended March 2003	Year ended March 2004	Year ended March 2005	Year ended March 2006
The ratio of Shareholders' equity (%)	58.4	73.9	77.7	75.5	78.8
The ratio of shareholder's equity calculated based on market value (%)	144.2	151.5	169.0	126.8	153.8
The term for the redemption of liabilities (years)	1.5	3.7	1.4	0.7	0.2
Interest coverage ratio (times)	40.5	14.9	32.4	68.5	72.1

Notes: Shareholders' equity ratio: Shareholders' equity/Total assets
The ratio of shareholder's equity calculated based on market value: Market value of the Company's shareholders' equity /Total assets
The term for the redemption of liabilities: Interest-bearing liabilities/Net cash provided by operating activities
Interest coverage ratio: Net cash provided by operating activities/Interest payment

1. These figures have been computed on a consolidated basis.
2. Market value of the Company's shareholder's equity is calculated by multiplying the total number of shares outstanding at the end of the period (excluding treasury stocks) by the closing share price at the end of the fiscal year.
3. Net cash provided by operating activities is as stated in the consolidated statements of cash flows. Interest-bearing liabilities refer to all liabilities recorded in the consolidated balance sheets on which interest is paid. Interest payment is as stated on the consolidated statements of cash flows.

(3) Forecast for the Year Ending March 31, 2007

Factors expected to exert a material influence on cash flows during the year ending March 31, 2007 are as follows.

* The Company plans to pay a year-end dividend for the year ended March 31, 2006 of ¥10.00 per share, for a full-year dividend of ¥16.00 per share.
* Capital investment in the year ending March 31, 2007 is expected to total ¥14.0 billion. In addition, depreciation and amortization is expected to total ¥8.9 billion.

3. Business and Other Risks

(1) Health Care System and Regulatory Risk

Trends in the ethical drug industry in Japan, including further revision of the National Health Insurance (NHI) system and its drug pricing system, may exert a material influence on the Shionogi Group's business results.

(2) Risk of Pharmaceutical Side Effects

Possible events such as termination of production or recall of pharmaceutical products due to the occurrence of unforeseen side effects may exert a material influence on the Shionogi Group's business results.

(3) Pharmaceutical Research and Development Risks

Research and development of ethical drugs requires a substantial investment of business resources and time. In addition, various uncertainties exist during the period leading up to the actual launch of a new drug.

(4) Intensifying Global Competition

Competition in the ethical drug industry, including competition with foreign companies, is intensifying in the areas of research and development and sales.

(5) Other Risks

The occurrence of natural disasters or calamities may exert a material influence on the Shionogi Group's business results. Other risks include, but are not limited to, governmental and financial factors.

Consolidated Statements of Income

(Units: millions of yen)

Account \ Period	Year ended March 31, 2006		Year ended March 31, 2005		Increase (decrease)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
		%		%		%
Net sales	196,388	100.0	199,364	100.0	(2,976)	(1.5)
Cost of sales	68,707	35.0	74,069	37.2	(5,362)	(7.2)
Gross profit	127,681	65.0	125,295	62.8	2,386	1.9
Selling, general and administrative expenses	98,455	50.1	96,566	48.4	1,889	2.0
Operating income	29,226	14.9	28,729	14.4	497	1.7
Non-operating income	3,440	1.7	2,726	1.4	714	26.2
Interest income	713		595		118	
Dividend income	541		476		65	
Income from real estate rental	598		637		(39)	
Exchange gain	841		311		530	
Other	745		705		40	
Non-operating expenses	3,010	1.5	3,651	1.9	(641)	(17.6)
Interest expense	128		443		(315)	
Contributions	1,066		1,014		52	
Loss on disposal of inventories	536		564		(28)	
Loss on disposal of property, plant and equipment	387		325		62	
Other	892		1,303		(411)	
Ordinary income	29,656	15.1	27,804	13.9	1,852	6.7
Extraordinary gains	10,647	5.4	4,349	2.2	6,298	144.8
Gain on sales of capsule business	7,452		--		7,452	
Gain on sales of investments in securities	3,053		154		2,899	
Gain on sales of property, plant and equipment	140		115		25	
Gain on reversal of allowance for doubtful accounts	1		--		1	
Gain on change to defined contribution pension plans	--		3,667		(3,667)	
Gain on exchange of a subsidiary’s securities	--		412		(412)	
Extraordinary losses	1,505	0.7	498	0.2	1,007	201.9
Loss on impairment of fixed assets	936		--		936	
Loss on disposal of property, plant and equipment	568		--		568	
Loss on sales of a subsidiary’s securities	--		405		(405)	
Loss on revaluation of investment in securities	--		92		(92)	
Income before income taxes and minority interests	38,798	19.8	31,655	15.9	7,143	22.6
Income taxes, current	16,890	8.6	10,065	5.1	6,825	67.8
Income taxes, deferred	(861)	(0.4)	2,628	1.3	(3,489)	(132.8)
Minority interests	(33)	(0.0)	(18)	(0.0)	(15)	81.6
Net income	22,735	11.6	18,941	9.5	3,794	20.0

Consolidated Statements of Retained Earnings

(Units: millions of yen)

Account \ Period		Year ended March 31, 2006		Year ended March 31, 2005		Increase (decrease)
	(Additional paid in capital)					
I.	Balance at beginning of the period		20,227		20,227	0
II.	Balance at end of the period		20,227		20,227	0
	(Retained Earnings)					
I.	Balance at beginning of the period		248,485		232,589	15,896
II.	Increase					
	Net income	22,735		18,941		
	Increase on consolidated subsidiary's merger of an unconsolidated subsidiary	15	22,750	--	18,941	3,809
III.	Deductions					
	Cash dividends paid	4,684		2,939		
	Bonuses to directors and statutory auditors	82		105		
	(Directors)	(78)		(101)		
	(Statutory auditors)	(3)		(3)		
	Decrease on initial consolidation of subsidiary	--	4,767	0	3,045	1,722
IV	Balance at end of the period		266,469		248,485	17,984

Consolidated Balance Sheets

(Assets)

(Units: millions of yen)

Account \ Period	As of March 31, 2006		As of March 31, 2005		Increase (decrease)
	Amount	Percentage	Amount	Percentage	
(Assets)		%		%	
Current assets:					
Cash and deposits	90,652		105,395		(14,743)
Notes and accounts receivable	69,912		73,458		(3,546)
Inventories	27,184		29,696		(2,512)
Deferred tax assets	6,321		5,238		1,083
Other	14,269		8,339		5,930
Allowance for doubtful accounts	(13)		(63)		50
Total current assets	208,327	48.7	222,064	55.9	(13,737)
Fixed assets:					
Property, plant and equipment:					
Buildings and structures	30,759		32,104		(1,345)
Machinery, equipment and vehicles	9,899		12,742		(2,843)
Land	14,805		17,051		(2,246)
Construction in progress	3,601		1,408		2,193
Other	5,184		4,883		301
Property, plant and equipment, net	64,251	15.0	68,191	17.2	(3,940)
Intangible fixed assets:					
Excess of cost over net assets acquired	--		162		(162)
Other	7,131		6,984		147
Total intangible fixed assets	7,131	1.7	7,146	1.8	(15)
Investments and other assets:					
Investments in securities	129,037		82,067		46,970
Prepaid pension costs	15,360		13,088		2,272
Deferred tax assets	50		247		(197)
Other	3,686		4,393		(707)
Allowance for doubtful accounts	(162)		(200)		38
Total investments and other assets	147,972	34.6	99,596	25.1	48,376
Total fixed assets	219,355	51.3	174,933	44.1	44,422
Total assets	427,682	100.0	396,998	100.0	30,684

Consolidated Balance Sheets

(Liabilities, minority interests and shareholders' equity)

(Units: millions of yen)

Account \ Period	As of March 31, 2006		As of March 31, 2005		Increase (decrease)
	Amount	Percentage	Amount	Percentage	
(Liabilities)		%		%	
Current liabilities:					
Notes and accounts payable	10,227		8,660		1,567
Current portion of bonds	--		20,000		(20,000)
Accrued tax liabilities	12,209		9,659		2,550
Reserves:					
Reserve for bonuses	7,482		7,809		(327)
Other reserves	1,187		807		380
Other	20,771		22,214		(1,443)
Total current liabilities	51,877	12.1	69,151	17.4	(17,274)
Long-term liabilities:					
Deferred tax liabilities	23,276		11,603		11,673
Accrued retirement benefits for employees	8,318		8,321		(3)
Accrued retirement for directors and statutory auditors	240		254		(14)
Long-term accounts payable, other	5,569		6,600		(1,031)
Other	965		1,003		(38)
Total long-term liabilities	38,371	9.0	27,783	7.0	10,588
Total liabilities	90,249	21.1	96,934	24.4	(6,685)
(Minority interests)					
Minority interests	247	0.1	217	0.1	30
(Shareholders' equity)					
Common stock	21,279	5.0	21,279	5.4	0
Additional paid-in capital	20,227	4.7	20,227	5.1	0
Retained earnings	266,469	62.3	248,485	62.6	17,984
Unrealized gain on securities	38,116	8.9	19,964	5.0	18,152
Translation adjustments	(156)	(0.0)	(1,535)	(0.4)	1,379
Less:					
Treasury stock, at cost	(8,750)	(2.1)	(8,574)	(2.2)	(176)
Total shareholders' equity	337,185	78.8	299,847	75.5	37,338
Total liabilities, minority interests and shareholders' equity	427,682	100.0	396,998	100.0	30,684

Consolidated Statements of Cash Flows

(Units: millions of yen)

		Year ended March 31, 2006	Year ended March 31, 2005
		Amount	Amount
I	**Operating activities**		
	Income before income taxes and minority interests	38,798	31,655
	Depreciation and amortization	8,652	9,330
	Amortization of excess of cost over net assets acquired	--	81
	Loss on impairment of fixed assets	936	--
	Loss on disposal of property, plant and equipment	943	310
	Gain on sales of capsule business	(7,452)	--
	Gain on sales of investments in securities	(3,053)	--
	Provision for (reversal of) allowance for doubtful accounts	(4)	34
	Provision for (reversal of) retirement benefits, net of payments	(1,706)	142
	Provision for (reversal of) retirement benefits for directors and statutory auditors	(13)	(207)
	Interest and dividend income	(1,254)	(1,072)
	Interest expense	128	443
	Exchange (gain) loss , net	(878)	(39)
	Gain on change to defined contribution pension plans	--	(3,667)
	Pension assets to be transferred to defined contribution pension plans	--	(17,413)
	Decrease (increase) in notes and accounts receivable, trade	(89)	(2,016)
	Decrease (increase) in inventories	(167)	4,314
	Increase (decrease) in notes and accounts payable, trade	2,657	(1,685)
	Increase (decrease) in accrued expenses	(32)	(111)
	Increase (decrease) in accounts payable, other	(5,415)	9,360
	Bonuses to directors and statutory auditors	(83)	(105)
	Other	(2,613)	613
	Subtotal	29,352	29,965
	Interest and dividend income received	1,471	1,279
	Interest paid	(234)	(416)
	Income taxes paid	(13,704)	(2,276)
	Net cash provided by operating activities	16,885	28,551
II	**Investing activities**		
	Increase in time deposits	(22,538)	(14,757)
	Decrease in time deposits	17,891	11,557
	Purchases of marketable securities	(2,023)	(19)
	Proceeds from sales of marketable securities	2,020	22,960
	Purchases of investments in securities	(21,182)	(3,753)
	Proceeds from sales of investments in securities	3,561	175
	Purchases of property, plant and equipment	(5,386)	(5,424)
	Proceeds from sales of property, plant and equipment	343	533
	Proceeds from collection of loans receivable	3	2
	Payments for purchases of investments in an affiliate	--	(384)
	Proceeds from sales of investments in an affiliate	1,016	177
	Payments for acquisition of business	--	(774)
	Proceeds from sales of subsidiaries' stock, resulting in change in scope of consolidation	18,722	--
	Other	(4,475)	(507)
	Net cash provided by (used in) investing activities	(12,047)	9,784
III	**Financing activities**		
	Short-term loans, net	276	(125)
	Repayment of long-term debt	(0)	(918)
	Redemption of bonds	(20,000)	--
	Repayment of other long-term debt	(218)	--
	Payments for purchase of tresury stock	(176)	(7,231)
	Cash dividends paid to shareholders' of the Company	(4,675)	(2,935)
	Cash dividends paid to minority interests	(2)	--
	Net cash used in financing activities	(24,796)	(11,209)
IV	**Effect of exchange rate changes on cash and cash equivalents**	358	(40)
V	**Increase (decrease) in cash and cash equivalents**	(19,600)	27,085
VI	**Cash and cash equivalents at beginning of period**	95,719	68,623
VII	**Increase in cash and cash equivalents resulting from merger of consolidated subsidiary with unconsolidated subsidiary**	23	--
VIII	**Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary**	--	9
IX	**Cash and cash equivalents at end of period**	76,142	95,719

Notes to Consolidated Financial Statements

1. Scope of consolidation

   Number of consolidated subsidiaries: 11 subsidiaries

   Bushu Pharmaceuticals Ltd.,
   Nichia Pharmaceutical Industries Ltd.,
   Ohmori Group Honsha Co., Ltd.,
   Shionogi Engineering Service Co., Ltd., Shionogi Buturyuu Service Co., Ltd., Shionogi General Service Co., Ltd.,
   Saishin Igaku Co., Ltd., Aburahi AgroResearch Co., Ltd.,
   Taiwan Shionogi & Co., Ltd.,
   Shionogi USA, INC., SG Holding, INC.

   (excluded)
   Shionogi Qualicaps Co., Ltd., Shionogi Europe B.V., Shionogi Qualicaps, INC., Shionogi Qualicaps, S.A.

2. Application of equity method

   No unconsolidated subsidiaries were accounted for by the equity method for the Year ended March 31, 2006.

   Shionogi-GlaxoSmithKline Holdings L.P. was accounted for by the equity method and its closing date differs from the consolidated closing date, therefore the financial statements in its fiscal year have been used.

   That portion of the net profit (loss) of the 6 affiliates not accounted for by the equity method which was attributable to the Company in proportion to its shareholding ratio had no significant effect on the consolidated net income or retained earnings of the Company for the current period.

3. Closing date of consolidated subsidiaries

   One domestic consolidated subsidiary closes its accounts on March 15, and 3 overseas consolidated subsidiaries close their accounts on December 31, for financial reporting purpose. The accompanying consolidated financial statements of the Company have been prepared on the basis of the consolidated subsidiaries' financial statements prepared as of their respective closing dates. The necessary adjustments have been made to reflect any significant transactions occurring between the respective closing dates and the date of the consolidated financial statements.

4. Significant accounting policies

   (1) Basis and method of valuation of significant assets

   ① Securities

   Held-to-maturity securities ---------------- Amortized cost method

   Other securities

   Market value available ---------------- At fair value, based on market price or other appropriate quotation as of period end
   (Unrealized gain is charged directly to capital; cost of sales is accounted for by the moving average method.)

   Market value not available ---------------- At cost determined by the moving average method
   (The securities based on Securities and Exchange Law article 2.2 are evaluated their net profit/loss(equity method).)

   ② Inventories ------------------------------------- Most items are evaluated at cost determined by the average method.

(2) Method of depreciation of significant depreciable assets

① Property, plant and equipment ------------------------------ Most items are depreciated by the declining balance method.

[Buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998 are depreciated by straight-line method.
The useful lives are principally as follows:
Buildings and structures: 2 to 60 years
Machinery and equipment and vehicles: 2 to 17years]

② Intangible fixed assets ------------------------------ Most items are depreciated by the Straight-line method

[Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).]

(3) Basis for providing significant allowances and reserves

① Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.

② Reserve for bonuses

To prepare for payment of bonuses to employees, a reserve for bonuses is provided based on the estimated amount of bonuses to be paid.

③ Accrued retirement benefits for employees

To prepare for the payment of retirement benefits to employees, a reserve for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end.
Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.
Actuarial gain or loss is proportionally amortized in the each year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

④ Accrued retirement benefits for directors and statutory auditors

To prepare for the payment of retirement benefits to directors and statutory auditors, a reserve for their retirement benefits is provided for the estimated amounts as of the year end based on the Company’s internal rules.
The retirement benefits system for directors and statutory auditors was abolished in June 2004, and there is no provision for the year ended March 31, 2006.

(4) Foreign currency translation

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the balance sheet date. Gain or loss on translation is credited or charged to income; however, assets, liabilities, income and expenses of certain overseas consolidated subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Adjustments resulting from the translation of foreign currency financial statements have been reported as Translation adjustments in Shareholders’ equity.

(5) Accounting for significant lease transactions

Finance leases other than those under which the leased property is deemed transferred to the lessee are accounted for as operating leases; however, certain overseas consolidated subsidiaries account for such finance leases as ordinary sales transactions.

(6) Significant hedge accounting

① Method of hedge accounting ----- Gain (loss) resulting from forward foreign exchange contracts relating to transactions denominated in a foreign currency is allocated over the applicable periods.

② Hedging instruments and hedged items

a. Hedging instruments ----- Forward foreign exchange contracts

b. Hedged items ----- Receivables and payables denominated in foreign currencies

③ Hedging policy ----- The Company enters into forward foreign exchange contracts to hedge against the risk of exchange rate fluctuation for receivables and payables denominated in foreign currencies.

(7) Other significant accounting policies

Consumption tax

Amounts reflected in the consolidated financial statements are stated exclusive of consumption tax.

5. Valuation of assets and liabilities in the consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are revalued at their current value.

6. Amortization of excess of cost over net assets acquired

Excess of cost over net assets acquired is amortized by the straight-line method over 5 years. If the amount is immaterial, it is fully charged to income as incurred.

7. Appropriation of retained earnings

Consolidated statements of retained earnings are prepared on the appropriations approved at a shareholders’ meeting held at the close of each fiscal year.

8. Definition of cash and cash equivalents in the consolidated cash flow statements

Cash and cash equivalents reported in the consolidated cash flow statements include cash on hand, bank deposits and deposits in other financial institutions immediately withdrawable upon request, or liquid short-term investments with only a minor risk of any fluctuation in their value which mature within three months of their acquisition dates.

[Accounting for impairment of fixed assets]

The Company has adopted “Accounting Standard for the Impairment of Fixed Assets” (Accounting Standards Board, August 9, 2002) and “Guidelines for the Accounting Standard for the Impairment of Fixed Assets” (Accounting Standards Board Guideline No 6, October 31, 2003). The application of this new accounting standard reduced income before income taxes and minority interests by ¥936 million from the corresponding amount if calculated by the previous method of accounting.
Accumulated impairment losses are deducted directly from the related fixed assets.

[Notes to consolidated statements of income] [Year ended March 31, 2006] [Year ended March 31, 2005]

1. The major items and amounts included in sales, general and administrative expenses are summarized as follows:

	Year ended March 31, 2006	Year ended March 31, 2005
Sales promotional activities	11,744 Million yen	10,999 Million yen
Salaries	20,908	21,728
Provision for reserve for bonuses	4,100	4,208
Provision for retirement benefits	1,449	1,164

	Year ended March 31, 2006	Year ended March 31, 2005
R & D expenses	32,256 Million yen	29,409 Million yen

(R&D expenses above include the following amounts provided as reserves:)

	Year ended March 31, 2006	Year ended March 31, 2005
Provision for reserve for bonuses	2,019 Million yen	1,976 Million yen
Provision for retirement benefits	687	536

2. Impairment of fixed assets

Loss on impairment of fixed assets is summarized as follows:

Place	Description	Classification	Amount	Remarks
Wakabayashi-ku, Sendai and Other	Leased assets	Land	¥277 Million	Leased assets
U.S.A.	--	Goodwill etc.	¥496 Million	--
--	--	Excess of cost over net assets acquired	¥162 Million	--

The Shionogi Group companies classify the assets used for their business operations into groups which are separate for management accounting purposes (product groups), whereas the Shionogi Group companies individually classify leased assets and assets not currently in use.

The book value of leased land whose value has significantly declined has been reduced to the respective recoverable amounts. In addition the carrying amount of the excess of cost over net assets acquired has been reduced, because the carrying amount is deemed not to be recoverable.

The recoverable amounts of leased assets have been determined based on their net realizable value and the carrying value is recorded at its market price.

In addition, goodwill and others of an overseas consolidated subsidiary have been reduced to the amount determined by an external third party based on the test for impairment of U.S. accounting standards.

[Notes to consolidated balance sheets] [As of March 31, 2006] [As of March 31, 2005]

		As of March 31, 2006	As of March 31, 2005
1.	Accumulated depreciation of property, plant and equipment	158,513 Million yen	169,788 Million yen
2.	Guaranteed liabilities	116 Million yen	150 Million yen
3.	Stocks etc, of unconsolidated subsidiaries and affiliates		
	Investments in securities(stocks etc.)	2,484 Million yen	2,868 Million yen

4. Commitments ---- Lines of Credit

The Company entered into line-of-credit commitments with 11 financial institutions in order to enhance its working capital efficiency.

The outstanding balances of these lines of credit is as follows:

	As of March 31, 2006	As of March 31, 2005
Total amount of lines of credit	24,000 Million yen	24,000 Million yen
The amount of borrowing	--	--
Outstanding balances	24,000	24,000

5. Pledged assets and secured liabilities

The assets listed below have been pledged as collateral against borrowings and other debts:

	As of March 31, 2006	As of March 31, 2005
Book value of pledged assets:		
Cash and deposits	5 Million yen	4 Million yen
Liabilities secured by the above assets:		
‘Other’ of current liabilities	5 Million yen	5 Million yen

		As of March 31, 2006	As of March 31, 2005
6.	The number of shares of stocks in issue		
	Common stocks	351,136 Thousand shares	The same as at left
7.	The number of shares of treasury stocks held by the Company		
	Common stocks	10,526 Thousand shares	10,411 Thousand shares

[Notes to consolidated statements of cash flow]

Reconciliation of balance of cash and cash equivalents as of the period end with the amounts reported in the consolidated balance sheets:

	[As of March 31, 2006]		[As of March 31, 2005]	
Cash and deposits	90,652	Million yen	105,395	Million yen
Time deposits with a maturity exceeding three months	(14,510)		(9,676)	
Cash and cash equivalents	76,142	Million yen	95,719	Million yen

[Notes to lease transactions]

Finance leases other than those under which the leased property is deemed transferred to the lessee:

	[As of March 31, 2006]		[As of March 31, 2005]	
1. Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of lease properties				
Acquisition cost equivalent	841	Million yen	1,055	Million yen
Accumulated depreciation equivalent	315		366	
Term-end balance	525	Million yen	689	Million yen

* Machinery, equipmet and vehicles account for most of the above balances.

	[As of March 31, 2006]		[As of March 31, 2005]	
2. Breakdown of period end balance equivalent of unexpired leases				
Within one year	162	Million yen	180	Million yen
Exceeding one year	362		509	
Total	525	Million yen	689	Million yen
3. Lease payments and depreciation equivalent				
Lease payments	183	Million yen	171	Million yen
Depreciation equivalent	183	Million yen	171	Million yen
4. Calculation of depreciation equivalent	The lease period is deemed as the useful life of the leased property. The acquisition cost equivalent is depreciated by the straight-line method over the useful life, assuming a nil residual value.		The same as at left	

(Note) The amounts shown in 1 and 2 above include the interest portion.

[Notes to securities]

1. Bonds to be held until maturity with quoted market prices

(Market value is in excess of the carrying value reported in the consolidated balance sheets)

(Units: millions of yen)

	As of March 31, 2006			As of March 31, 2005		
	Value reported in consolidated balance sheet	Market price	Difference	Value reported in consolidated balance sheet	Market price	Difference
(1) National, local government and other public bonds	10,121	10,143	21	16,177	16,526	348
(2) Corporate bonds	--	--	--	--	--	--
(3) Other bonds	--	--	--	--	--	--
Subtotal	10,121	10,143	21	16,177	16,526	348

(Market value is not in excess of the carrying value reported in the consolidated balance sheets)

(Units: millions of yen)

	As of March 31, 2006			As of March 31, 2005		
	Value reported in consolidated balance sheet	Market price	Difference	Value reported in consolidated balance sheet	Market price	Difference
(1) National, local government and other public bonds	30,051	29,552	(498)	3,994	3,957	(36)
(2) Corporate bonds	--	--	--	--	--	--
(3) Other bonds	19	19	--	19	19	(0)
Subtotal	30,071	29,572	(498)	4,014	3,977	(36)
Total	40,192	39,715	(476)	20,192	20,504	312

2. Other securities; market value available

(Fair value reported in consolidated balance sheets is in excess of the acquisition cost)

(Units: millions of yen)

	As of March 31, 2006			As of March 31, 2005		
	Acquisition cost	Value reported in consolidated balance sheet	Difference	Acquisition cost	Value reported in consolidated balance sheet	Difference
(1) Stocks	16,779	78,348	61,569	14,685	47,419	32,733
(2) Bonds						
① National, local government and other public bonds	--	--	--	--	--	--
② Corporate bonds	--	--	--	--	--	--
③ Other bonds	1,846	2,731	885	1,878	2,629	750
(3) Other securities	5,000	5,078	78	5,000	5,101	101
Subtotal	23,625	86,158	62,532	21,564	55,149	33,585

(Fair value reported in consolidated balance sheets is not in excess of the acquisition cost)

(Units: millions of yen)

	As of March 31, 2006			As of March 31, 2005		
	Acquisition cost	Value reported in consolidated balance sheet	Difference	Acquisition cost	Value reported in consolidated balance sheet	Difference
(1) Stocks	--	--	--	--	--	--
(2) Bonds						
① National, local government and other public bonds	--	--	--	--	--	--
② Corporate bonds	--	--	--	--	--	--
③ Other bonds	--	--	--	--	--	--
(3) Other securities	5	5	(0)	5	5	(0)
Subtotal	5	5	(0)	5	5	(0)
Total	23,631	86,163	62,532	21,569	55,154	33,585

3. Other securities sold in their fiscal year

(Units: millions of yen)

Year ended March 31, 2006			Year ended March 31, 2005		
Sales value	Sales gain	Sales loss	Sales value	Sales gain	Sales loss
4,241	2,589	--	175	154	--

4. Major securities (market value not available) and their value reported in consolidated balance sheets

(Units: millions of yen)

	As of March 31, 2006	As of March 31, 2005
	Value reported in consolidated balance sheet	Value reported in consolidated balance sheet
Other securities		
① Unlisted stocks (excluding OTC stocks)	4,189	5,883
② Certificates of deposits (domestic)	--	1,000

(Note) Certificates of deposits (domestic) are reported as cash and bank deposit on the consolidated balance sheets.

5. Future estimated redemption prices of other securities having maturity and bonds to be held until maturity

(Units: millions of yen)

	As of March 31, 2006			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
(1) Bonds				
① National, local government and other public bonds	4,004	16,111	20,056	--
② Corporate bonds	--	--	--	--
③ Other bonds	19	722	637	1,371
(2) Other securities	--	--	--	--
Total	4,024	16,834	20,693	1,371

(Units: millions of yen)

	As of March 31, 2005			
	Within 1 year	From1 year to 5 years	From5 years to 10 years	Over 10 years
(1) Bonds				
① National, local government and other public bonds	2,006	8,197	9,968	--
② Corporate bonds	--	--	--	--
③ Other bonds	19	716	620	1,292
(2) Other securities	1,000	--	--	--
Total	3,026	8,913	10,589	1,292

(Note) Certificates of deposits (domestic) reported as Cash and bank deposit on the consolidated balance sheets are included in Other securities.

[Notes to derivative transactions]

Derivative transactions for the year from April 1, 2005 to March 31, 2006 and the year from April 1, 2004 to March 31, 2005.

1. Status of derivatives
   The Company enters into forward foreign exchange contracts to hedge against the risk of foreign exchange rate fluctuation for receivables and payables denominated in foreign currencies, but does not use derivative transactions for speculative purposes or for gaining quick profits from sales of financial instruments. As the Company enters into transactions only with reputable banks with high credit ratings, it believes there is little credit risk in dealing with them. The Company utilizes forward foreign exchange contracts within the normal transaction range established for these banks. These forward foreign exchange contracts are entered into and managed by the Accounting and Financial Department which reports the results of settlement of the contracts regularly to the Board of Directors. No consolidated subsidiaries had derivatives positions As of March 31, 2006.

2. Market prices of derivative transactions
   The Company did not have any open derivatives positions other than certain hedges against receivables and payables denominated in foreign currency As of March 31, 2005, and March 31, 2006.

[Information on retirement benefits]

1. Outline of retirement benefit programs

The Company have adopted a cash balance plan (a money market pension plan), a lump-sum payment plan and a defined contribution pension plan. Certain domestic consolidated subsidiaries have adopted lump-sum payment plans and defined contribution pension plans. And certain consolidated subsidiaries have adopted defined contribution pension plans.
In certain cases, premium retirement benefits may be paid to retiring employees which are not included in the retirement benefit obligations determined actuarially in accordance with the accounting standard for retirement benefits.

2. Information on retirement benefit obligations

(Units: millions of yen)

		As of March 31, 2006	As of March 31, 2005
a.	Retirement benefit obligations	(93,509)	(94,855)
b.	Pension assets	122,604	96,948
c.	Unfunded retirement benefit obligations (a + b)	29,094	2,093
d.	Unrecognized actuarial difference	(3,075)	24,325
e.	Unrecognized prior service cost	(18,977)	(21,651)
f.	Net accrued retirement benefits reflected in consolidated balance sheet (c + d + e)	7,041	4,767
g.	Prepaid pension costs	15,360	13,088
h.	Accrued retirement benefits (f – g)	(8,318)	(8,321)

Notes: 1. The above amounts do not include temporary additional retirement benefits.
2. Certain consolidated subsidiaries have adopted a simplified method to calculate retirement benefit obligations.

3. Information on retirement benefit expenses

(Units: millions of yen)

		Year ended March 31, 2006	Year ended March 31, 2005
a.	Service cost	1,979	2,047
b.	Interest cost	1,874	1,841
c.	Expected return on plan assets	(2,264)	(2,183)
d.	Amortization of actuarial difference	3,716	3,089
e.	Amortization of prior service cost	(2,673)	(2,673)
f.	Other cost	878	769
g.	Retirement benefit expenses (a + b + c + d + e + f)	3,510	2,890

Notes: 1. Retirement benefit expenses of consolidated subsidiaries which have the simplified computation methods are included in "a. Service cost".
2. ‘f. Other cost’ presents the contributions to the defined contribution retirement benefit plans.

4. Basis of determining retirement benefit obligations and other expenses

		As of March 31, 2006	As of March 31, 2005
a. Allocation of estimated amount of retirement benefits to be paid to employees	:	Periodic straight-line method	The same as at left
b. Discount rate	:	2.0%	2.0%
c. Expected rate of return on plan assets	:	2.3%	2.2%
d. Years to amortize prior service cost	:	10 years(to be amortized by straight-line method)	The same as at left
e. Years to amortize actuarial difference	:	10 years (to be amortized by straight-line method in the each following year)	The same as at left

[Notes to tax effects]

1. The contents of significant evidences from which deferred income taxes arisen

(Units: millions of yen)

	As of March 31, 2006	As of March 31, 2005
(1) Current :		
Deferred tax assets:		
Reserve for bonuses	3,037	3,168
Accrued enterprise tax	1,081	849
Reserve for sales rebates	384	274
Research and development expenses	679	171
Other	1,185	1,178
Total deferred tax assets	6,368	5,642
Deferred tax liabilities:		
Allowance for doubtful accounts	(1)	(365)
Other	(45)	(37)
Total deferred tax liabilities	(47)	(403)
Net deferred tax assets	6,321	5,238
(2) Non-current:		
Deferred tax assets:		
Research and development expenses	1,349	1,218
Retirement benefits	47	1,104
Loss on revaluation of investments in securities	443	548
Provision for retirement benefits for directors and statutory auditors	97	103
Loss carry forward of consolidated subsidiaries	411	--
Other	984	383
Subtotal	3,334	3,358
Valuation allowance	(411)	--
Total deferred tax assets	2,922	3,358
Deferred tax liabilities:		
Unrealized gain on other securities	(25,388)	(13,558)
The differences between book value and current value of consolidated subsidiaries	--	(532)
Special depreciation	(575)	(420)
Other	(185)	(202)
Total deferred tax liabilities	(26,148)	(14,714)
Net deferred tax liabilities	(23,226)	(11,356)

(Note) Net deferred tax assets and liabilities in the years ended March 31, 2006 and 2005 are included in consolidated balance sheets as follows:

		As of March 31, 2006	As of March 31, 2005
Current assets	--deferred tax assets	6,321	5,238
Fixed assets	--deferred tax assets	50	247
Current liabilities	--‘other’ of current liabilities	(0)	(0)
Long-term liabilities	--deferred tax liabilities	(23,276)	(11,603)

2. The effective tax rates for the years ended March 31, 2006 and 2005 differ from the statutory tax rate above for the following reasons:

	As of March 31, 2006	As of March 31, 2005
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	2.9	3.6
Dividends not taxable for income tax purpose	(0.1)	(0.1)
Amortization of excess of cost over net assets acquired	0.2	0.1
Tax credit	(6.5)	(4.5)
Inhabitants' per capita taxes	0.3	0.5
Loss carry forward of consolidated subsidiaries	1.1	--
Differences between statutory tax rate in Japan and income tax rate applied for overseas consolidated subsidiaries	(0.1)	--
Adjustment of retained earnings by sales of capsule business	3.4	--
Other	(0.5)	(0.1)
Effective tax rates	41.3%	40.1%

[Segment Information]

1. Business Segment Information

Year ended March 31, 2006 (Units: millions of yen)

Account \ Segment	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations and general corporate assets	Consolidated
I Net sales and operating income:						
Net sales						
(1) Sales to third parties	187,235	6,060	3,092	196,388	--	196,388
(2) Inter-group sales and transfers	--	116	8,571	8,687	(8,687)	--
Total	187,235	6,177	11,663	205,075	(8,687)	196,388
Operating expenses	160,476	5,489	9,933	175,899	(8,736)	167,162
Operating income	26,758	687	1,730	29,176	49	29,226
II Assets, depreciation and capital expenditures:						
Total assets	240,914	--	10,676	251,590	176,092	427,682
Depreciation	9,001	413	15	9,430	--	9,430
Capital expenditures	12,228	979	32	13,240	--	13,240

Year ended March 31, 2005 (Units: millions of yen)

Account \ Segment	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations and general corporate assets	Consolidated
I Net sales and operating income:						
Net sales						
(1) Sales to third parties	184,074	11,895	3,394	199,364	--	199,364
(2) Inter-group sales and transfers	--	236	4,726	4,963	(4,963)	--
Total	184,074	12,132	8,121	204,328	(4,963)	199,364
Operating expenses	158,187	10,671	6,759	175,619	(4,983)	170,635
Operating income	25,886	1,460	1,361	28,709	20	28,729
II Assets, depreciation and capital expenditures:						
Total assets	221,289	21,236	13,878	256,405	140,593	396,998
Depreciation	8,329	997	560	9,887	--	9,887
Capital expenditures	10,602	405	89	11,097	--	11,097

(Notes)

1. Businesses of the Group 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

3. Depreciation and capital expenditures include long-term prepaid expenses and their amortized amounts.

4. The amounts of general corporate assets in Eliminations and general corporate assets are 176,978 million yen in the Year ended March 31, 2006, and 141,577 million yen in the Year ended March 31, 2005, respectively. The significant items are enough operating funds (cash and deposits and marketable securities) and long-term investment funds (investments in securities) in the Company.

5. Shionogi sold the capsule business in October 2005, and excluded it from the scope of consolidation in the second half of the fiscal year.

2. Segment Information by Geographic Area

Segment information by geographic area for the year from April 1, 2005 to March 31, 2006 and the year from April 1, 2004 to March 31, 2005.

Because more than 90% of the total sales in all business segments were conducted in Japan, the disclosure of segment information by geographic area has been omitted.

3. Overseas Sales

Overseas sales for the year from April 1, 2005 to March 31, 2006 and the year from April 1, 2004 to March 31, 2005.

Because overseas sales accounted for less than 10% of the total consolidated sales, the disclosure of overseas sales has been omitted.

[Transactions with related party]

Transactions with related party for the year from April 1, 2005 to March 31, 2006, and for the year from April 1, 2004 to March 31, 2005

There were no significant transactions.

[Amounts per share]

(Units: yen)

	Year ended March 31, 2006	Year ended March 31, 2005
Shareholders' equity per share	989.76	879.79
Earnings per share	66.55	54.64

(Notes)

1. Net income after giving effect to the diluted potential of common stock has not been presented since there are no such potential shares to be issued.
2. Information for the computation of net income per share is as follows.

	Year ended March 31, 2006	Year ended March 31, 2005
Net income (millions of yen)	22,735	18,941
The amount which is not attributable to ordinary shareholders (millions of yen)	63	82
(Bonus to directors and statutory auditors to pay as appropriations of retained earnings)	(63)	(82)
Net income related to common stocks (millions of yen)	22,672	18,859
Average number of shares outstanding during the period (thousands of stocks)	340,667	345,175

Status of Production, Orders and Sales

1. Production
The consolidated production results for each business segment for the Year ended March 31, 2006 was as follows:

(Units: millions of yen)

Business Segment		[Amounts]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses		144,546	2.2
	Ethical drugs	134,697	1.5
	OTC drugs	7,126	22.9
	Diagnostics	2,723	(3.1)
Capsule business		6,378	(48.1)
Other businesses		--	--
Total		150,924	(1.7)

(Notes) 1. Amounts are calculated based on net sales prices.
2. Shionogi sold the capsule business in October 2005, and excluded it from the scope of consolidation in the second half of the fiscal year.
3. Amounts are stated exclusive of consumption tax.

2. Purchases
The consolidated purchases for each business segment for the Year ended March 31, 2006 was as follows:

(Units: millions of yen)

Business Segment		[Amounts]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses		18,179	(11.0)
	Ethical drugs	17,589	(7.7)
	OTC drugs	30	(95.2)
	Diagnostics	560	(23.6)
Capsule business		--	--
Other businesses		--	--
Total		18,179	(11.0)

(Notes) 1. Amounts are based on actual purchases.
2. Shionogi sold the capsule business in October 2005, and excluded it from the scope of consolidation in the second half of the fiscal year.
3. Amounts are stated exclusive of consumption tax.

3. Orders
The Shionogi Group companies manufacture products in accordance with their production plan which, in turn, is based on the sales plan. Certain subsidiaries manufacture products upon receipt of orders from customers, but these order amounts and balances do not significantly affect the Group's overall results.

4. Sales
The consolidated sales results for each business segment for the Year ended March 31, 2006 was as follows:

(Units: millions of yen)

Business Segment		[Amounts]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses		187,235	1.7
	Ethical drugs	167,549	(0.3)
	OTC drugs	6,447	1.5
	Diagnostics	3,391	(5.3)
	License fee as royalty income	9,848	61.3
Capsule business		6,060	(49.1)
Other businesses		3,092	(8.9)
Total		196,388	(1.5)

(Notes) 1. Amounts are sales to customers outside the Shionogi Group.
2. Shionogi sold the capsule business in October 2005, and excluded it from the scope of consolidation in the second half of the fiscal year.
3. Amounts are stated exclusive of consumption tax.