

Consolidated Financial Results for the third quarter of fiscal year 2006

January 29, 2007

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

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

Securities code number : 4507

Listed Exchanges : Section 1 of Tokyo and Osaka

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 (Excluded) 1 subsidiary (Ohmori Group Honsha Co., Ltd.)

2. Financial Results for the period from April 1, 2006 to December 31, 2006

(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, 2006	149,387	(1.7)	21,264	(13.5)	21,327	(15.3)	12,691	(39.4)
Nine months ended December 31, 2005	151,899	0.1	24,590	8.3	25,172	14.1	20,949	37.9
Year ended March 31, 2006	196,388	(1.5)	29,226	1.7	29,656	6.7	22,735	20.0

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
Nine months ended December 31, 2006	37.27		—	
Nine months ended December 31, 2005	61.49		—	
Year ended March 31, 2006	66.55		—	

(Notes) *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 previous year.*

[Information on results of operations]

During the nine months ended December 31, 2006, net sales were ¥149,387 million, operating income was ¥21,264 million, ordinary income was ¥21,327 million, and net income was ¥12,691 million.

With regard to net sales, royalty income increased, and among prescription drugs Finibax and Avelox contributed to sales, as did Crestor, which Shionogi stepped up to regular promotional activities in September 2005. However, sales of Flumarin, Flomox, Vancomycin and other core products declined compared with the same period of the previous year, reflecting in part the effects of the National Health Insurance (NHI) drug price revision in April 2006. In addition, Shionogi sold the capsule business in October 2005 and removed it from consolidation. As a result, overall net sales declined 1.7 percent compared with the same period of the previous fiscal year.

With regard to profit, the increase in royalty income and improvement in the cost of sales ratio resulting from cost-cutting efforts offset negative factors associated with the NHI drug price revision. Despite substantial improvement in the cost of sales ratio, operating income and ordinary income decreased 13.5 percent and 15.3 percent, respectively, compared with the same period of the previous fiscal year because of a steady 18.4 percent increase in research and development expenses and because selling, general and administrative expenses increased due to promotion of measures for sales expansion. Net income decreased 39.4 percent, partly because Shionogi recorded an extraordinary gain on the sale of the capsule business in the same period of the previous fiscal year.

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2006	426,365	342,984	80.4	1,006.54
As of December 31, 2005	417,253	333,673	80.0	979.56
As of March 31, 2006	427,682	337,185	78.8	989.76

[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, 2006	2,272	(8,114)	(6,925)	63,338
Nine months ended December 31, 2005	8,207	3,224	(24,616)	82,941
Year ended March 31, 2006	16,885	(12,047)	(24,796)	76,142

[Information on changes in financial position]

Regarding the financial position as of December 31, 2006, total assets decreased ¥1,317 million compared with the previous fiscal year-end. The decrease was due to a decrease in cash and deposits resulting from payment of income taxes and bonuses, although property, plant and equipment increased due to capital investment. Total liabilities decreased ¥6,868 million, mainly due to decreases in accrued income taxes and the reserve for bonuses. Net assets increased ¥5,799 million from the previous fiscal year-end due to an increase in retained earnings and other factors. As a result, the shareholders' equity ratio was 80.4 percent.

Net cash provided by operating activities was ¥2,272 million. Income before income taxes and minority interests was ¥22,106 million, a decrease compared with the same period of the previous fiscal year. In addition, income taxes paid ¥12,909 million. Net cash used in investing activities was ¥8,114 million due to factors including purchases of property, plant and equipment. Net cash used in financing activities was ¥6,925 million, due to factors including payment of cash dividends. As a result, cash and cash equivalents as of December 31, 2006 were ¥63,338 million, a decrease of ¥12,804 million compared with the end of the previous fiscal year.

(Reference) Financial Results (Non-consolidated) for the period from April 1, 2006 to December 31, 2006

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2006	139,870	(0.5)	18,214	(15.7)	19,486	(17.6)	11,412	(52.9)
Nine months ended December 31, 2005	140,519	2.2	21,596	11.7	23,647	18.8	24,232	73.6
Year ended March 31, 2006	183,388	1.5	25,770	4.9	28,107	10.2	26,663	49.9

	Total assets	Net assets
	Million yen	Million yen
As of December 31, 2006	412,475	337,652
As of December 31, 2005	405,952	328,424
As of March 31, 2006	415,740	332,426

(Notes) 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 previous year.

[Reference]

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 year ending March 31, 2007	205,000	31,000	18,000

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

[Information on forecasted results]

We have not revised the annual forecasted results which were announced on November 6, 2006

Forecasted results (Non-consolidated) for the year ending March 31, 2007 (April 1, 2006 to March 31, 2007)

	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, 2007	193,000	29,000	17,000	8 . 00	16 . 00

(Reference) *Estimated earnings per share for FY 2006:* ¥49.91

(Notes) *These estimates on January 29, 2007 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, 2006		Nine months ended December 31, 2005		Increase (Decrease)	(Reference) Year ended March 31, 2006	
	Amount	%	Amount	%		Amount	%
Net sales	149,387	100.0	151,899	100.0	(2,512)	196,388	100.0
Cost of sales	50,521	33.8	53,991	35.5	(3,470)	68,707	35.0
Gross profit	98,866	66.2	97,908	64.5	958	127,681	65.0
Selling, general and administrative expenses	77,601	52.0	73,318	48.3	4,283	98,455	50.1
<i>R&D expenses</i>	[27,673]	[18.5]	[23,394]	[15.4]	[4,279]	[32,256]	[16.4]
Operating income	21,264	14.2	24,590	16.2	(3,326)	29,226	14.9
Non-operating income	2,359	1.6	2,718	1.8	(359)	3,440	1.7
Non-operating expenses	2,296	1.5	2,136	1.4	160	3,010	1.5
Ordinary income	21,327	14.3	25,172	16.6	(3,845)	29,656	15.1
Extraordinary gains	778	0.5	11,449	7.5	(10,671)	10,647	5.4
Extraordinary losses	—	—	972	0.6	(972)	1,505	0.7
Income before income taxes and minority interests	22,106	14.8	35,649	23.5	(13,543)	38,798	19.8
Income taxes, current	4,402	3.0	12,898	8.5	(8,496)	16,890	8.6
Income taxes, deferred	4,981	3.3	1,761	1.2	3,220	(861)	(0.4)
Minority interests	(30)	(0.0)	(39)	(0.0)	9	(33)	(0.0)
Net income	12,691	8.5	20,949	13.8	(8,258)	22,735	11.6

2. Consolidated Balance Sheets

(Units: millions of yen)

	As of December 31, 2006		(Reference) As of March 31, 2006		Increase (Decrease)	As of December 31, 2005	
	Amount	%	Amount	%	Amount	Amount	%
(Assets)							
Current assets:							
Cash and deposits	75,597		90,652		(15,055)	84,918	
Notes and accounts receivable	72,414		69,912		2,502	74,084	
Inventories	32,361		27,184		5,177	28,195	
Other current assets	20,040		20,590		(550)	15,346	
Allowance for doubtful accounts	(12)		(13)		1	(19)	
Total current assets	200,401	47.0	208,327	48.7	(7,926)	202,525	48.5
Fixed assets:							
Property, plant and equipment:							
Buildings and structures	30,617		30,759		(142)	29,097	
Other	37,284		33,491		3,793	34,158	
Property, plant and equipment, net	67,901	15.9	64,251	15.0	3,650	63,255	15.2
Intangible fixed assets	6,475	1.5	7,131	1.7	(656)	7,369	1.8
Investments and other assets:							
Investments in securities	129,320		129,037		283	126,096	
Prepaid pension expenses	18,982		15,360		3,622	14,807	
Other	3,449		3,736		(287)	3,360	
Allowance for doubtful accounts	(165)		(162)		(3)	(161)	
Total investments and other assets	151,586	35.6	147,972	34.6	3,614	144,102	34.5
Total fixed assets	225,964	53.0	219,355	51.3	6,609	214,727	51.5
Total assets	426,365	100.0	427,682	100.0	(1,317)	417,253	100.0

(Units: millions of yen)

	As of December 31, 2006		(Reference) As of March 31, 2006		Increase (Decrease)	As of December 31, 2005	
	Amount	%	Amount	%	Amount	Amount	%
(Liabilities)							
Current liabilities:							
Note and accounts payable	14,301		10,227		4,074	13,095	
Reserves:							
Reserve for bonuses	3,612		7,482		(3,870)	3,502	
Other reserves	1,064		1,187		(123)	940	
Other current liabilities	26,741		32,981		(6,240)	28,939	
Total current liabilities	45,720	10.7	51,877	12.1	(6,157)	46,478	11.2
Long-term liabilities:							
Reserves:							
Accrued retirement benefits for employees	8,436		8,318		118	8,235	
Other reserves	185		240		(55)	240	
Other long-term liabilities	29,039		29,811		(772)	28,371	
Total long-term liabilities	37,661	8.9	38,371	9.0	(710)	36,847	8.8
Total liabilities	83,381	19.6	90,249	21.1	(6,868)	83,326	20.0
(Minority interests)							
Minority interests	—	—	247	0.1	—	253	0.0
(Shareholders' equity)							
Common stock	—	—	21,279	5.0	—	21,279	5.1
Additional paid-in capital	—	—	20,227	4.7	—	20,227	4.9
Retained earnings	—	—	266,469	62.3	—	264,683	63.4
Unrealized gain on securities	—	—	38,116	8.9	—	36,542	8.8
Translation adjustments	—	—	(156)	(0.0)	—	(355)	(0.1)
Less: treasury stock, at cost	—	—	(8,750)	(2.1)	—	(8,704)	(2.1)
Total shareholders' equity	—	—	337,185	78.8	—	333,673	80.0
Total liabilities, minority interests and shareholders' equity	—	—	427,682	100.0	—	417,253	100.0
(Net Assets)							
Owners' equity:							
Common stock	21,279	5.0	—	—	—	—	—
Additional paid-in capital	20,227	4.7	—	—	—	—	—
Retained earnings	272,968	64.0	—	—	—	—	—
Less treasury stock, at cost	(9,016)	(2.1)	—	—	—	—	—
Total owners' equity	305,458	71.6	—	—	—	—	—
Valuation and translation adjustments:							
Unrealized gain on securities	37,409	8.7	—	—	—	—	—
Translation adjustments	(157)	(0.0)	—	—	—	—	—
Total valuation and translation adjustments	37,251	8.7	—	—	—	—	—
Minority interests:	274	0.1	—	—	—	—	—
Total net assets	342,984	80.4	—	—	—	—	—
Total liabilities and net assets	426,365	100.0	—	—	—	—	—

3. Consolidated Statements of Cash Flows

(Units: millions of yen)

	Nine months ended December 31, 2006	Nine months ended December 31, 2005	(Reference) Year ended March 31, 2005
	Amount	Amount	Amount
Operating activities:			
Income before income taxes and minority interests	22,106	35,649	38,798
Depreciation and amortization	6,414	6,378	8,652
Increase in notes and accounts receivable, trade	(2,511)	(4,284)	(89)
Increase in inventories	(5,177)	(922)	(167)
Increase in notes and accounts payable, trade	4,073	5,531	2,657
Other	(11,135)	(21,457)	(20,499)
Subtotal	13,769	20,894	29,352
Interest and dividend income received	1,459	1,141	1,471
Interest paid	(48)	(219)	(234)
Income taxes paid	(12,909)	(13,609)	(13,704)
Net cash provided by operating activities	2,272	8,207	16,885
Investing activities:			
Purchases of marketable securities or investments in securities	(4,023)	(21,014)	(23,205)
Proceeds from sales of marketable securities or investments in securities	2,524	19,930	25,320
Purchases of property, plant and equipment	(7,811)	(3,982)	(5,386)
Proceeds from sales of property, plant and equipment	12	335	343
Other	1,182	7,954	(9,120)
Net cash provided by (used in) investing activities	(8,114)	3,224	(12,047)
Financing activities:			
Short-term loans, net	—	276	276
Redemption of bonds	—	(20,000)	(20,000)
Cash dividends paid to shareholders of the Company	(6,126)	(4,680)	(4,675)
Other	(799)	(212)	(397)
Net cash used in financing activities	(6,925)	(24,616)	(24,796)
Effect of exchange rate changes on cash and cash equivalents	(35)	382	358
Decrease in cash and cash equivalents	(12,804)	(12,801)	(19,600)
Cash and cash equivalents at beginning of period	76,142	95,719	95,719
Increase in cash and cash equivalents resulting from merger of consolidated subsidiary with unconsolidated subsidiary	—	23	23
Cash and cash equivalents at end of period	63,338	82,941	76,142

4. Segment Information

[Business Segment Information]

Nine months ended December 31, 2006

(Units: millions of yen)

Business Segment Account	Pharmaceuticals and related businesses	Other businesses	Total	Eliminations	Consolidated
Net sales and operating income:					
Net sales					
(1) Sales to third parties	144,597	4,790	149,387	—	149,387
(2) Inter-group sales and transfers	—	3,999	3,999	(3,999)	—
Total	144,597	8,789	153,387	(3,999)	149,387
Operating expenses	124,520	7,602	132,122	(3,999)	128,123
Operating income	20,077	1,187	21,264	0	21,264

Nine months ended December 31, 2005

(Units: millions of yen)

Business Segment Account	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations	Consolidated
Net sales and operating income:						
Net sales						
(1) Sales to third parties	143,369	6,060	2,468	151,899	—	151,899
(2) Inter-group sales and transfers	—	163	5,545	5,708	(5,708)	—
Total	143,369	6,223	8,014	157,608	(5,708)	151,899
Operating expenses	120,794	5,536	6,735	133,066	(5,756)	127,309
Operating income	22,575	687	1,279	24,542	48	24,590

(Reference) Year ended March 31, 2006

(Units: millions of yen)

Business Segment Account	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations	Consolidated
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

(Notes) 1. *Businesses of the Shionogi & Co., Ltd and consolidated subsidiaries are segmented into "Pharmaceuticals and related businesses" and "Other businesses", considering the types of products/merchandise handled and the similarities in their markets. Previously, the business segments were "Pharmaceuticals and related businesses", "Capsule business" and "Other businesses". However, the capsule business was removed from consolidation with the sale of that business in the previous fiscal year, and therefore businesses for this quarter are segmented into "Pharmaceuticals and related businesses" and "Other businesses".*

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
Other businesses	Real estate leases, Physical distribution and other services

Third Quarter Result for the year ending March 31, 2007 <Supplement>

January 29, 2007
SHIONOGI & CO., LTD.

①Sales by segment

(Unit: Yen 100 million)

	FY2006 2H (forecast)	FY2006 (forecast)	Oct. 2006– Dec. 2006	Oct. 2005– Dec. 2005	Apr. 2006– Dec. 2006	Apr. 2005– Dec. 2005	Progress % vs FY2006 forecast
Pharmaceuticals and related businesses	1,085 (10.8)	1,994 (6.5)	537 (Δ 0.6)	540 (2.0)	1,446 (0.9)	1,434 (2.3)	72.5
Ethical drugs	889 (3.6)	1,650 (Δ 0.3)	443 (Δ 8.2)	483 (0.1)	1,204 (Δ 5.8)	1,279 (0.3)	73.0
FLOMOX	182	320	94	107	232	259	72.6
FLUMARIN	70	144	38	44	112	131	77.6
VANCOMYCIN	65	137	31	44	103	126	74.9
IMUNACE	58	115	34	33	90	86	78.7
RINDERON	47	100	27	27	80	80	79.7
CLARITIN	55	80	17	19	42	52	52.3
OXYCONTIN	45	70	16	13	40	34	58.0
LONGES	21	40	10	12	29	35	72.7
KEFRAL	15	30	8	10	23	28	77.1
MS CONTIN	9	22	8	10	21	29	96.1
RHYTHMY	13	26	7	8	20	21	75.3
LANDEL	15	24	5	5	14	15	60.3
CRESTOR	29	40	3	0	14	1	34.6
FINIBAX	26	35	6	3	15	4	43.2
AVELOX	19	30	11	16	22	16	74.3
CETROTIDE	5	5	1	-	1	-	21.7
Contract manufacturing	23 (51.5)	40 (89.9)	14 (89.4)	7 (140.5)	31 (133.5)	13 (36.8)	77.1
OTC and quasi-drugs	33 (3.2)	64 (Δ 0.7)	18 (Δ 1.4)	18 (Δ 6.2)	49 (Δ 3.5)	51 (0.7)	76.7
SEDES	15	28	7	7	21	21	73.6
POPON-S	6	12	3	3	9	10	76.8
Diagnostics	18 (11.1)	35 (3.2)	8 (Δ 2.8)	8 (Δ 1.5)	25 (Δ 3.7)	26 (Δ 2.9)	71.2
Royalty income	122 (113.4)	205 (108.2)	54 (130.5)	23 (45.1)	137 (111.6)	65 (65.8)	66.9
CRESTOR	111	185	52	22	126	54	67.8
Capsule business	- (-)	- (-)	- (-)	- (-)	- (-)	61 (Δ 31.9)	- (-)
Other businesses	43 (165.6)	56 (81.3)	35 (249.0)	10 (90.6)	48 (94.0)	25 (Δ 12.9)	85.4
Total	1,129 (13.4)	2,050 (4.4)	572 (4.0)	550 (Δ 2.5)	1,493 (Δ 1.7)	1,518 (0.1)	72.9

() = UP % vs previous year

Sales of ethical drugs are shown on a non-consolidation basis.

Drugs Under Development

Jan 2007

<In Japan>

Code No. (Generic name)	Category (Administration)	Indication	Stage	Origin	Development
S-8116 (Oxycodone hydrochloride)	Immediate-release oxycodone (Oral)	Cancer pain	Approval (October, 2006)	Mundipharma AG (Netherlands)	In-house
SCH29851 (Loratadine)	Histamine H1 receptor antagonist (Oral)	Additional indication: Pediatric use (allergic rhinitis and itch caused by various dermatitis)	NDA submission (September, 2004: Schering-Plough K.K.)	Schering-Plough Corp. (USA)	Co-development: Schering-Plough K.K.
SR47436 (Irbesartan)	Angiotensin II receptor antagonist (Oral)	Hypertension	NDA submission (December, 2006)	Sanofi-Aventis (France)	Co-development: Dainippon Sumitomo Pharma Co., Ltd.
S-7701 (Pirfenidone)	Anti-fibrosis (Oral)	Idiopathic pulmonary fibrosis	NDA submission (in preparation)	Marnac, Inc. (USA) &KDL, Inc. (Japan)	In-house
LY248686 (Duloxetine hydrochloride)	SNRI (serotonin & norepinephrine reuptake inhibitor) (Oral)	Depression	Phase 3	Eli Lilly and Company (USA)	In-house
NS75A (Cetrorelix acetate)	Gonadotropin releasing hormone antagonist (Injection)	Uterine myoma	Phase 2	Zentaris AG (Germany)	Co-development: Nippon Kayaku Co., Ltd.
S-013420	Novel macrolide antibiotic (Oral)	Bacterial infection	Phase 2b	Enanta Pharmaceuticals, Inc. (USA)	In-house
LY248686 (Duloxetine hydrochloride)	SNRI (serotonin & norepinephrine reuptake inhibitor) (Oral)	Diabetic Peripheral neuropathic pain	Phase 2	Eli Lilly and Company (USA)	In-house
NS75B (Cetrorelix pamoate)	Gonadotropin releasing hormone antagonist (Injection)	Benign Prostatic Hypertrophy	Phase 2b	Zentaris AG (Germany)	In-house
S-777469	Antipruritic agent (Oral)	Pruritus with atopic dermatitis	Phase 1	In-house	In-house

<Outside Japan>

Code No.	Category (Administration)	Indication	Stage	Origin	Development
S-2367	Central nervous system antagonist (Oral)	Obesity	USA: Phase 2b (in preparation)	In-house	In-house
S-0139	Endothelin A receptor antagonist (Injection)	Cerebrovascular diseases	Japan: Phase 2a Europe: Phase 1	In-house	In-house

<Shionogi-GlaxoSmithKline>

Code No.	Category (Administration)	Indication	Stage	Origin	Development
S-364735	HIV integrase inhibitor (Oral)	HIV infection	USA: Phase 2	Shionogi-GlaxoSmithKline Pharmaceuticals LLC (USA)	Shionogi-GlaxoSmithKline Pharmaceuticals LLC

<Out-Licensing Activity>

Code No. (Generic name)	Category (Administration)	Indication	Stage	Origin	Development
S-4661 (Doripenem hydrate)	Carbapenem antibiotic (Injection)	Bacterial infection	USA: NDA submission(December, 2006) EU: NDA submission (in preparation)	In-house	Peninsula (USA) ↓ Johnson & Johnson (USA)

<In-Licensing Activity>

Generic name	Category (Administration)	Indication	Stage	Origin	Development
Adapalene gel	Retinoic acid nuclear receptor agonist (Topical)	Acne vulgaris	NDA submission (June, 2006)	Galderma (France)	Galderma K.K.