Financial Statements (Consolidated) for The Year ended March 31, 2007

May 14 , 2007

Name of Listed Company: **SHIONOGI & CO., LTD.** Listed Exchanges: Section I of Tokyo and Osaka
Code: 4507 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 an Annual General Meeting Shareholders (scheduled): June 28, 2007 Starting date of dividend payment (scheduled) : June 29 ,2007
Date of the filing of annual securities report (scheduled): June 29, 2007

1. Consolidated results for the period from April 1, 2006 to March 31, 2007

(Note: All amounts are rounded down to the nearest million yen.)

(1) Results of operations

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2007	199,759	1.7	28,863	(1.2)	28,113	(5.2)	18,594	(18.2)
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)	Return on equity	Ordinary income to total assets	Operating income to net sales
	yen	yen	%	%	%
Year ended March 31, 2007	54 . 61	—	5.4	6.6	14.5
Year ended March 31, 2006	66 . 55	—	7.1	7.2	14.9

Reference: Equity in losses of affiliates: Year ended March 31, 2007: 1,100 million yen Year ended March 31, 2006 : 5 million yen

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	yen
As of March 31, 2007	429,569	345,752	80.4	1,014 . 73
As of March 31, 2006	427,682	337,185	78.8	989 . 76

Reference: Shareholders' equity Year ended March 31, 2007: 345,468 million yen Year ended March 31, 2006: — million yen

(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, 2007	14,115	(8,418)	(7,180)	74,546
Year ended March 31, 2006	16,885	(12,047)	(24,796)	76,142

2. Dividends

	Cash dividends per share			Total amounts of dividends (Annual)	Dividends payout ratio (Consolidated)	Dividends on equity (Consolidated)
(Date of record)	Interim	Year-end	Annual			
	yen	yen	yen	Million yen	%	%
Year ended March 31, 2006	6 . 00	10 . 00	16 . 00	5,450	24.0	1.6
Year ended March 31, 2007	8 . 00	8 . 00	16 . 00	5,447	29.3	1.6
Year ending March 31, 2008 (Forecast)	10 . 00	10 . 00	20 . 00		28.4	

3. Forecasted consolidated results for the year ending March 31, 2008 (April 1, 2007 to March 31, 2008)

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
For the six months ending September 30, 2007	105,000	13.9	17,500	59.3	17,500	59.4	10,000	56.4	29 . 37
For the year ending March 31, 2008	215,000	7.6	40,000	38.6	40,000	42.3	24,000	29.1	70 . 49

4. Others

(1)Significant changes to consolidated subsidiaries during the fiscal year: Yes
Decrease 1（Company name : Ohmori Group Honsha Co., Ltd.）
Note: For details, please see page 8 "Companies in the Shionogi Group".

(2)Changes in the accounting principles, procedure, and indication method regarding the preparation of consolidated financial statement
a) Changes and amendments of accounting standards : Yes
b) Other changes : None
Note: For details, please see page 20 "Changes in basic of presentation of consolidated financial statements "

(3)Number of shares issued (common stock)

a) Number of shares outstanding (including treasury stock)	As March 31, 2007	351,136,165shares	As March 31, 2006	351,136,165shares
b) Treasury stock	As March 31, 2007	10,683,759shares	As March 31, 2006	10,526,605shares

Note: For details, please see page 29 "Amounts per share".

（Reference）Summary non-consolidated results

1. Non-consolidated results for the period from April 1, 2006 to March 31, 2007

(1) Results of operations *(% of change from previous year）*

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2007	185,686	1.3	24,893	(3.4)	25,985	(7.6)	17,324	(35.0)
Year ended March 31, 2006	183,388	1.5	25,770	4.9	28,107	10.2	26,663	49.9

	Earnings per share	Earnings per share (diluted)
	yen	yen
Year ended March 31, 2007	50 . 88	―
Year ended March 31, 2006	78 . 11	―

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	yen
As of March 31, 2007	414,992	340,346	82.0	999 . 69
As of March 31, 2006	415,740	332,426	80.0	975 . 81

Reference: Shareholders' equity Year ended March 31, 2007: 340,346 million yen Year ended March 31, 2006: ― million yen

2. Forecasted non-consolidated results for the year ending March 31, 2008 (April 1, 2007 to March 31, 2008)

(% of change from previous year）

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
For the six months ending September 30, 2007	97,000	10.2	16,000	76.3	17,000	68.3	9,700	71.6	28 . 49
For the year ending March 31, 2008	202,000	8.8	37,000	48.6	38,500	48.2	23,000	32.8	67 . 56

Note: These estimates on May 14, 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. Refer to page 5.

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Results of Operations

(1) Analysis of Results of Operations

Results for the Fiscal Year ended March 31, 2007

a) General Overview

During the fiscal year ended March 31, 2007, against the backdrop of discussions on containing rising healthcare costs, National Health Insurance (NHI) drug prices were reduced by an average of 6.7 percent across the industry in April 2006 and the market environment became increasingly severe due to factors including the promotion of use of generic drugs and strengthening of DRG/PPS (Diagnosis Related Group/Prospective Payment System) for medical expenses. In the global market, competition in sales and R&D also further intensified, and domestic pharmaceutical companies stepped up activities such as business concentration, consolidation and restructuring. Under these conditions, the Shionogi Group formulated its second medium-term management plan (April 2005 to March 2010) with the aim of long-term growth as a pharmaceutical company. In the fiscal year ended March 31, 2007, the second year of the plan, the Group steadily promoted measures to achieve the plan's targets.
In the area of research and development, Shionogi launched three products and filed applications to market two others. In addition, drugs under development, including those being developed overseas, generally progressed smoothly through their respective stages. In the area of manufacturing, while further raising product quality and cutting costs, Shionogi worked to expand its manufacturing capabilities in preparation for future sales increases and new product launches. Moreover, in the area of sales, Shionogi further strengthened its information provision activities in order to expand its presence in the field of antibacterials, where it added new products in the previous fiscal year, and to relieve the pain and improve the quality of life of cancer patients. For the antihyperlipidemia drug Crestor, which will become a core product, Shionogi and AstraZeneca K.K. conducted post marketing surveillance on a scale of about 10,000 patients based on pharmacovigilance planning guidelines, which was completed six months ahead of schedule. With the favorable results of the interim analysis, Shionogi stepped up Crestor to regular promotional activities in late September 2006, and is steadily increasing its market share with activities to provide information about Crestor's efficacy, safety and economy. However, the increase in the severity of the domestic market environment for prescription drugs is exceeding forecasts, and results are below Shionogi's planned performance targets. Consequently, recognizing its laxity and issues regarding its measures in this severe market environment, Shionogi revised its approach to future operating activities and worked to reinforce its activities during the remaining three years of its second medium-term management plan.

Consolidated Results of Operations

(Units：Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Year ended 3/07	199,759	28,863	28,113	18,594
Year ended 3/06	196,388	29,226	29,656	22,735
Percentage Increase(Decrease)	1.7	(1.2)	(5.2)	(18.2)

Sales

Factors decreasing sales of mainstay prescription drugs included the revision of NHI drug prices, the effect of a shrinking market for antibiotics, and sales of new products below sales expansion plan targets, although royalty income from industrial property rights increased substantially. Net sales totaled ¥199,759 million, an increase of 1.7 percent compared with the previous fiscal year, when Shionogi sold its capsule business in the first half.

Income

In addition to the increase in royalty income from industrial property rights, an improved cost of sales ratio due to efforts to cut manufacturing costs reduced the impact on gross profit of the negative factor of the NHI drug price revisions. However, research and development expenses increased 16.1 percent compared with the previous fiscal year in tandem with steady progress in R&D activities. As a result, operating income decreased 1.2 percent from the previous fiscal year to ¥28,863 million, and ordinary income decreased 5.2 percent to ¥28,113 million. Net income was ¥18,594 million, a decrease of 18.2 percent compared with the previous year, when the Company recorded extraordinary income from the sale of the capsule business.

Research and Development

In research and development, Shionogi launched Cetrotide for prevention of premature ovulation and OxiNorm, an analgesic for cancer pain, and filed applications to market irebesartan (generic name) for hypertension and pirfenidone (generic name) for idiopathic interstitial pulmonary fibrosis. Other drugs currently under development include an antidepressant, an antibacterial, an anti-obesity agent and an antipruritic treatment. In particular, development of anti-obesity and anti-pruritic treatments is being conducted globally, with Shionogi USA, Inc. as the development base. Johnson & Johnson has filed a New Drug Application (NDA) in the United States for doripenem (generic name), a carbapenem antibiotic that Shionogi has outlicensed in the territories of North America and Europe. In October 2006, Shionogi and Hokkaido University agreed to establish a joint research facility to promote research exchanges with each other, and construction work is scheduled to begin in June 2007. This initiative will improve the drug discovery technology platform by facilitating joint research on Hokkaido University's glyco-engineering technology, protein conformation analysis technologies and other areas. As a result, Shionogi expects it to contribute to the discovery of more new drug seeds.
As a result of these activities, research and development expenditures for the Shionogi Group during the fiscal year were ¥37,455 million, equivalent to 18.8 percent of net sales.

Capital Investment

The Shionogi Group's capital investment in the fiscal year ended March 31, 2007 totaled ¥11.1 billion, and centered on expanding manufacturing and research facilities.

b) Segment Information

Pharmaceuticals and Related Businesses

Regarding prescription drugs, sales increased of Crestor, Finibax, a carbapenem antibiotic, and Avelox, a new quinolone antibiotic. However, for existing products, particularly antibiotics, the impact of NHI drug price revisions, the shrinking market and other factors decreased sales, and overall sales of prescription drugs declined. In addition, sales of over-the-counter products and diagnostics decreased as market competition intensified. On the other hand, contract manufacturing sales increased due to an increase in manufacturing contracts received from outside the Shionogi Group, and royalty income from industrial property rights increased substantially.
As a result, sales of Pharmaceuticals and Related Businesses increased 2.5 percent compared with the previous fiscal year to ¥191,914 million.
Despite the increase in royalty income from industrial property rights and the improvement in the cost of sales ratio as a result of efforts to reduce costs, because research and development expenditures increased 16.1 percent compared with the previous fiscal year, operating income of Pharmaceuticals and Related Businesses increased 1.5 percent compared with the previous fiscal year to ¥27,157 million.

Other Businesses

Net sales of Other Businesses increased 153.7 percent compared with the previous fiscal year to ¥7,844 million due to the increase in contract manufacturing at Shionogi Engineering Service Co., Ltd.
Total operating income of Other Businesses decreased 1.4 percent to ¥1,706 million.

Shionogi sold the capsule business, and it has been removed from the scope of consolidation as of the second half of the previous fiscal year.

Forecast for the Year Ending March 31, 2008

Projected results for the year ending March 31, 2008 are as follows.

Projected Consolidated Results (Units: Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Year ending 3/08	215,000	40,000	40,000	24,000
Year ended 3/07	199,759	28,863	28,113	18,594
Percentage Increase	7.6	38.6	42.3	29.1

In Shionogi's core business of prescription drugs, the business environment is forecast to become even more challenging against a backdrop of discussions on containing healthcare costs. However, the Company forecasts overall higher revenues from expanded sales of new products, centered on Crestor, as well as increased royalty income from industrial property rights.
Although expenses are projected to increase due to advancement of research and development, they are expected to be offset by sales growth and an increase in royalty income from industrial property rights, and Shionogi forecasts increases in operating income, ordinary income and net income.

(2) Analysis of Financial Position

Assets, Liabilities and Net Assets

Total assets at March 31, 2007 were ¥429,569 million, an increase of ¥1,887 million compared with the end of the previous fiscal year. The principal factors in the increase were increases in property, plant and equipment and inventories, while a decrease in investments in securities due to lower market values was a factor decreasing assets. Total liabilities decreased ¥6,432 million from the previous fiscal year-end, mainly due to a decrease in accrued income taxes. Net assets increased ¥8,319 million due to a decrease in unrealized gain on securities, an increase in retained earnings and other factors.

Cash Flow

Net cash provided by operating activities decreased ¥2,770 million compared with the previous fiscal year to ¥14,115 million, due to a decrease in inventories and other factors.
Net cash used in investing activities was ¥8,418 million, primarily for capital expenditures for manufacturing facilities.
Net cash used in financing activities totaled ¥7,180 million, due to factors including cash dividends paid to shareholders of the Company.
As a result, cash and cash equivalents at March 31, 2007 stood at ¥74,546 million, a decrease of ¥1,596 million from March 31, 2006.

Trends in Cash Flow Indicators

	Year ended March 2003	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007
Net worth ratio (%)	73.9	77.7	75.5	78.8	80.4
Net worth ratio calculated based on market value (%)	151.5	169.0	126.8	153.8	168.0
Interest-bearing liabilities/ Cash flow ratio	3.7	1.4	0.7	0.2	0.2
Interest coverage ratio (times)	14.9	32.4	68.5	72.1	225.6

Notes: Net worth ratio: Net worth/Total assets
Net worth ratio on market value basis: Total market value of stock/Total assets
Interest-bearing liabilities/cash flow ratio: Interest-bearing liabilities/cash flow
Interest coverage ratio: Net cash provided by operating activities/Interest expense

1. All indicators are calculated on a consolidated basis.
2. Total market value of stock is calculated based on the total number of shares outstanding excluding treasury stock.
3. Cash flow is net cash provided by operating activities as reported in the consolidated statement of cash flows.
4. Interest-bearing liabilities are liabilities stated on the consolidated balance sheets on which interest is paid.

(3) Fundamental Policy on Appropriation of Retained Earnings

In order to increase corporate value from a medium-to-long-term perspective, Shionogi aggressively invests in its business. Moreover, while Shionogi follows a policy of distributing dividends in proportion to results for each fiscal term, it aims to make stable increases. Internal capital reserves are mainly earmarked for capital demands for future business development, including investment in research and development of new products. Shionogi has set a target of raising its payout ratio to 35 percent by the fiscal year ending March 31, 2010.

Shionogi plans to propose a year-end dividend of ¥8 per share for the fiscal year ended March 31, 2007, for total cash dividends of ¥16 per share for the fiscal year. For the year ending March 31, 2008, Shionogi plans to pay cash dividends of ¥20 per share, a year-on-year increase of ¥4 per share.

(4) Business and Other Risks

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.

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.

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. There also exist possible risks that our various intellectual property rights may fail to fully protect our products and/or infringe intellectual property rights of a third party.

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.

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.

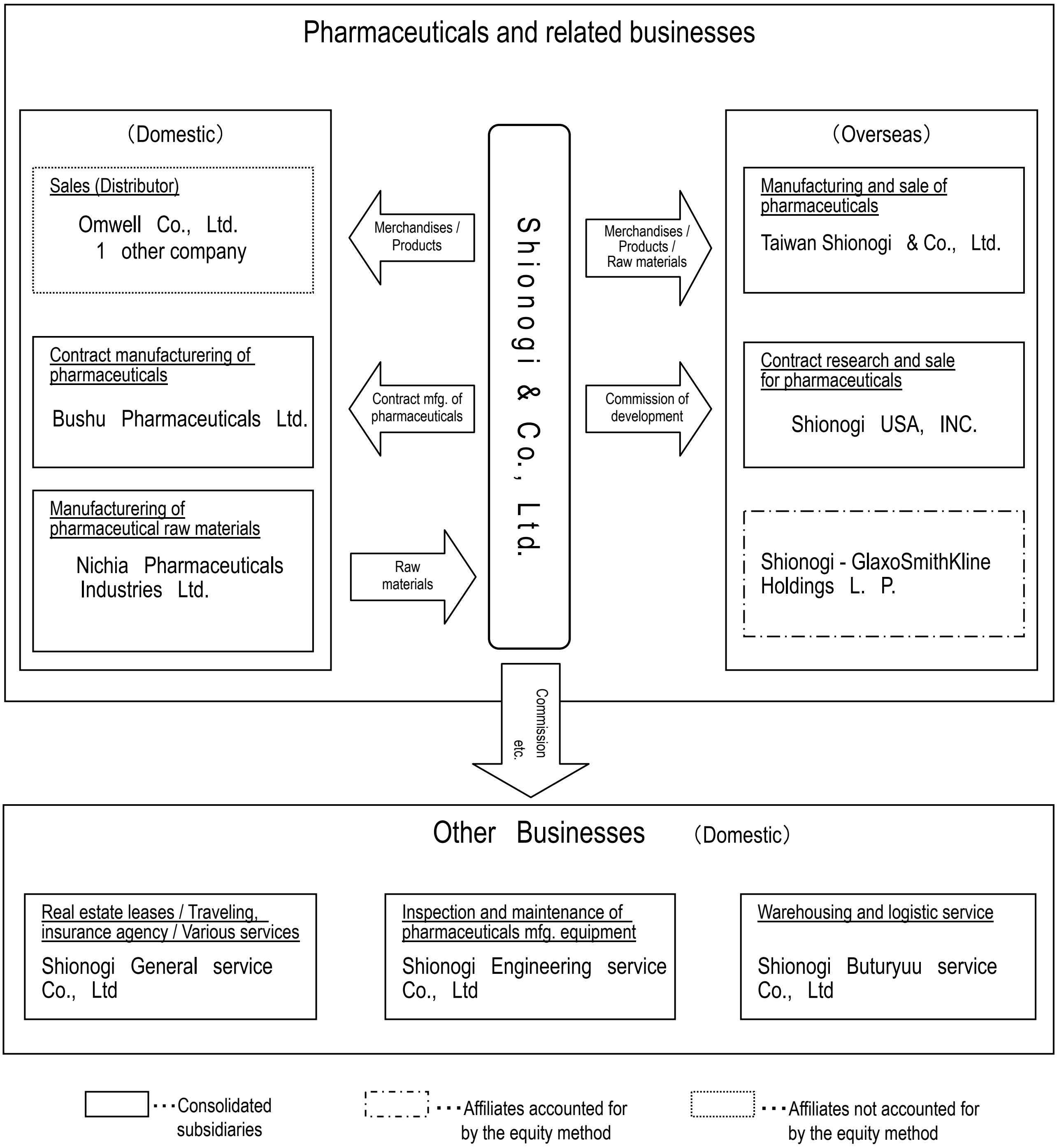
Companies in the Shionogi Group

As of March 31, 2007, the Shionogi Group consisted of Shionogi & Co., Ltd. (the "Company"), 10 consolidated subsidiaries and 6 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs. In addition, they render related services.
In addition, As of April 1, 2007, the Company merged with and dissolved Ohmori Group Honsha Co., Ltd., a specified subsidiary of the Company, with the Company as the surviving company.

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. 5 other companies (12 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)

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



Note: Three consolidated subsidiaries and 3 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 for protection of people's health." For this purpose, we must create and manufacture better and better pharmaceuticals, while ensuring that as many people as possible know about and use them. To accomplish this goal, we believe that having all of Shionogi's people improve technologies day by day enables us to contribute to expanding the benefits we offer to our customers, shareholders, business partners, society, our employees and all our other stakeholders.

(2) Management Strategy and Challenges Ahead

The operating environment of the pharmaceutical industry is expected to become increasingly severe due to further progress in the consideration of healthcare system reforms, together with rising research and development expenditures, intensifying international competition and other factors.
Under these conditions, the Shionogi Group will focus on steadily implementing its second medium-term management plan, which actively promotes measures for long-term development, with the prescription drug business at the core. In addition to strengthening efforts in sales and marketing, where Shionogi has revised its plan due to the market environment and strategic issues, Shionogi will focus on the following themes in particular during the three years to March 2010, the final year of the second medium-term management plan.

・ In research and development, Shionogi will enhance its framework for continuously discovering and developing world-class drugs. In addition to working on compounds currently under development, the Company will focus on building an organizational framework and educating personnel for simultaneous development of internationally competitive drugs in Japan, the United States and the European Union. Shionogi will also concentrate on strategic alliances.
・In sales and marketing, Shionogi will work to expand market share by concentrating resources on Crestor, Finibax, Avelox and other new products, and will strengthen activities to relieve the pain and improve the quality of life of cancer patients. Taking market structure into account, Shionogi will enhance efforts at advanced treatment hospitals, and will also take steps to strengthen its sales organization. This will include creating positions for marketing plan promoters who have a detailed understanding of medical needs.
・ In "preparing for a significant leap forward," Shionogi will strengthen drug discovery research for drug "seeds," aggressively in-license and enhance its organization for overseas business development. In addition, over the next three years the Company plans to make strategic investments totaling more than ¥60 billion in manufacturing, research, development and other areas.

"Shionogi strives constantly to provide medicine of the best possible kind essential for protection of the health of the people." By implementing the second medium-term business plan, the Company is working to realize this mission and further increase its presence as a pharmaceutical company.

Management indicator targets for the year ending March 2010 are as follows:

Net sales	270 billion yen
Operating income	80 billion yen
Net income	48 billion yen

Consolidated Statements of Income

(Units : Millions of yen)

Account \ Period	Year ended March 31, 2007		Year ended March 31, 2006		Increase (Decrease)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
		%		%		%
Net sales	199,759	100.0	196,388	100.0	3,371	1.7
Cost of sales	67,542	33.8	68,707	35.0	(1,165)	(1.7)
Gross profit	132,216	66.2	127,681	65.0	4,535	3.6
Selling, general and administrative expenses	103,353	51.7	98,455	50.1	4,898	5.0
Operating income	28,863	14.5	29,226	14.9	(363)	(1.2)
Non-operating income	3,368	1.7	3,440	1.7	(72)	(2.1)
Interest income	1,141		713		428	
Dividends income	661		541		120	
Real estate rent	597		598		(1)	
Foreign exchange gains	58		841		(783)	
Other	909		745		164	
Non-operating expenses	4,118	2.1	3,010	1.5	1,108	36.8
Interest expenses	95		128		(33)	
Contribution	1,272		1,066		206	
Loss on disposal of inventories	1,057		536		521	
Loss on disposal of fixed assets	558		387		171	
Other	1,134		892		242	
Ordinary income	28,113	14.1	29,656	15.1	(1,543)	(5.2)
Extraordinary income	3,610	1.8	10,647	5.4	(7,037)	(66.1)
Gain on exchange of investment securities	2,765		–		2,765	
Gain on reversal of co-development cost of previous years	657		–		657	
Gain on sales of investment securities	186		3,053		(2,867)	
Gain on sales of fixed assets	–		140		(140)	
Gain on reversal of allowance for doubtful accounts	–		1		(1)	
Gain on sales of capsule business	–		7,452		(7,452)	
Extraordinary loss	–	–	1,505	0.7	(1,505)	–
Impairment loss	–		936		(936)	
Loss on disposal of fixed assets	–		568		(568)	
Income before income taxes	31,723	15.9	38,798	19.8	(7,075)	(18.2)
Income taxes-current	8,702	4.4	16,890	8.6	(8,188)	(48.5)
Income taxes-deferred	4,387	2.2	(861)	(0.4)	5,248	(609.5)
Minority interests in income	(39)	(0.0)	(33)	(0.0)	(6)	16.4
Net income	18,594	9.3	22,735	11.6	(4,141)	(18.2)

Consolidated Balance Sheets

（Units : millions of yen）

Account \ Period	As of March 31,2007 Amount	As of March 31,2007 Percentage	As of March 31,2006 Amount	As of March 31,2006 Percentage	Increase (Decrease)
（Assets）		%		%	
Current Assets					
Cash and deposits	86,853		90,652		(3,799)
Notes and accounts receivable-trade	67,575		69,912		(2,337)
Inventories	32,395		27,184		5,211
Deferred tax assets	5,325		6,321		(996)
Other	16,753		14,269		2,484
Allowance for doubtful accounts	(12)		(13)		1
Total Current assets	208,890	48.6	208,327	48.7	563
Fixed assets					
Property, plant and equipment					
Buildings and structures	31,142		30,759		383
Machinery, equipment and vehicles	10,837		9,899		938
Land	14,812		14,805		7
Construction in progress	5,172		3,601		1,571
Other	5,850		5,184		666
Property, plant and equipment, net	67,815	15.8	64,251	15.0	3,564
Intangible fixed assets	6,135	1.4	7,131	1.7	(996)
Investments and other assets					
Investment securities	123,368		129,037		(5,669)
Prepaid pension cost	20,168		15,360		4,808
Deferred tax assets	49		50		(1)
Other	3,310		3,686		(376)
Allowance for doubtful accounts	(168)		(162)		(6)
Total investments and other assets	146,728	34.2	147,972	34.6	(1,244)
Total fixed assets	220,679	51.4	219,355	51.3	1,324
Total assets	429,569	100.0	427,682	100.0	1,887

(Units : millions of yen)

Account / Period	As of March 31,2007		As of March 31,2006		Increase (Decrease)
	Amount	Percentage	Amount	Percentage	
(Liabilities)		%		%	
Current liabilities					
Notes and accounts payable-trade	12,189		10,227		1,962
Income taxes	7,563		12,209		(4,646)
Reserves					
Reserve for bonuses	5,958		7,482		(1,524)
Other reserves	1,088		1,187		(99)
Other	20,735		20,771		(36)
Total current liabilities	47,535	11.1	51,877	12.1	(4,342)
Non-current liabilities					
Deferred tax liabilities	24,698		23,276		1,422
Reserves					
Reserve for retirement benefits	8,352		8,318		34
Other reserves	185		240		(55)
Long-term accounts payable-other	2,066		5,569		(3,503)
Other	978		965		13
Total non-current liabilities	36,281	8.4	38,371	9.0	(2,090)
Total liabilities	83,817	19.5	90,249	21.1	(6,432)
(Minority interests)					
Minority interests	–	–	247	0.1	–
(Shareholders' equity)					
Common stock	–	–	21,279	5.0	–
Additional paid-in capital	–	–	20,227	4.7	–
Retained earnings	–	–	266,469	62.3	–
Unrealized gain on securities	–	–	38,116	8.9	–
Translation adjustment	–	–	(156)	(0.0)	–
Less: Treasury stock, at cost	–	–	(8,750)	(2.1)	–
Total shareholders' equity	–	–	337,185	78.8	–
Total liabilities, minority interests and shareholders' equity	–	–	427,682	100.0	–
(Net assets)					
Owners' equity					
Capital stock	21,279	5.0	–	–	–
Capital surplus	20,227	4.7	–	–	–
Retained earnings	278,871	64.9	–	–	–
Treasury stock	(9,088)	(2.1)	–	–	–
Total owners' equity	311,289	72.5	–	–	–
Valuation and translation adjustments					
Valuation difference on available-for-sale securities	34,262	7.9	–	–	–
Translation adjustment	(83)	(0.0)	–	–	–
Total Valuation and translation adjustments	34,178	7.9	–	–	–
Minority interests	283	0.1	–	–	–
Total net assets	345,752	80.5	–	–	–
Total liabilities and net assets	429,569	100.0	–	–	–

Consolidated Statements of Changes in Net Assets

[Year ended March 31,2007] (Units : Millions of yen)

	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Balance at March 31,2006	21,279	20,227	266,469	(8,750)	299,226
Changes of items during the period					
Dividends from surplus *			(3,406)		(3,406)
Dividends from surplus			(2,724)		(2,724)
Directors' bonuses *			(63)		(63)
Net income			18,594		18,594
Purchase of treasury stock				(337)	(337)
Net changes of items other than owners' equity					–
Total changes of items during the period	–	–	12,401	(337)	12,063
Balance at March 31,2007	21,279	20,227	278,871	(9,088)	311,289

	Valuation and translation adjustments			Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Translation adjustment	Total valuation and translation adjustments		
Balance at March 31,2006	38,116	(156)	37,959	247	337,433
Changes of items during the period					
Dividends from surplus *					(3,406)
Dividends from surplus					(2,724)
Directors' bonuses *					(63)
Net income					18,594
Purchase of treasury stock					(337)
Net changes of items other than owners' equity	(3,853)	72	(3,780)	35	(3,745)
Total changes of items during the period	(3,853)	72	(3,780)	35	8,318
Balance at March 31,2007	34,262	(83)	34,178	283	345,752

* *Item for appropriation of unappropriated retained earnings at the Annual General Meeting of shareholders held in June 2006.*

Consolidated Statements Retained Earnings

(Units : Millions of yen)

Account / Period	Year ended March 31,2006	
(Additional paid in capital)		
Ⅰ Balance at beginning of the period		20,227
Ⅱ Balance at end of the period		20,227
(Retained Earnings)		
Ⅰ Balance at beginning of period		248,485
Ⅱ Increase		
Net income	22,735	
Increase on consolidated subsidiary's merger of an unconsolidated subsidiary	15	22,750
Ⅲ Deductions		
Cash dividends paid	4,684	
Bonuses to directors and statutory auditors	82	4,767
(Directors)	(78)	
(Statutory auditors)	(3)	
Ⅳ Balance at end of the period		266,469

Consolidated Statements of Cash Flows

(Units : Millions of yen)

	Year ended March 31,2007	Year ended March 31,2006
	Amount	Amount
Ⅰ Net cash provided by operating activities		
Income before income taxes and minority interests	31,723	38,798
Depreciation and amortization	8,797	8,652
Impairment loss	—	936
Loss on disposal of property, plant and equipment	556	943
Gain on sales of capsule business	—	(7,452)
Gain on sales of investment securities	(186)	(3,053)
Gain on exchange of investment securities	(2,765)	—
Increase (decrease) in allowance for doubtful accounts	5	(4)
Decrease in reserve for retirement benefits	(4,773)	(1,706)
Decrease in reserve for directors' retirement benefits	(55)	(13)
Interest and dividends income	(1,802)	(1,254)
Interest expenses	95	128
Foreign exchange gain	(45)	(878)
Decrease(increase) in notes and accounts receivable-trade	2,330	(89)
Increase in inventories	(5,198)	(167)
Increase in notes and accounts payable-trade	1,956	2,657
Increase(decrease) in accrued expenses	585	(32)
Decrease in accounts payable-other	(2,890)	(5,415)
Directors' bonus paid	(64)	(83)
Other	(2,641)	(2,613)
Subtotal	25,629	29,352
Interest and dividends income received	1,971	1,471
Interest expenses paid	(62)	(234)
Income tax paid	(13,423)	(13,704)
Net cash provided by operating activities	14,115	16,885
Ⅱ Net cash used in investment activities		
Payments into time deposits	(31,407)	(22,538)
Proceeds from withdrawal of time deposits	33,649	17,891
Purchase of marketable securities	(19)	(2,023)
Proceeds from sales and redemption of marketable securities	4,020	2,020
Purchase of investment securities	(4,316)	(21,182)
Proceeds from sales of investment securities	861	3,561
Purchases of property, plant and equipment	(11,410)	(5,386)
Proceeds from sales of property, plant and equipment	28	343
Collection of loans receivable	3	3
Purchase of stock of affiliates	(1,693)	—
Proceeds from sales of stock of affiliates	129	1,016
Proceeds from exchange of investment securities	3,158	—
Proceeds from sales of investments in subsidiaries resulting in change of scope of consolidation	—	18,722
Other	(1,420)	(4,475)
Net cash used in investment activities	(8,418)	(12,047)

(Units : Millions of yen)

	Year ended March 31,2007	Year ended March 31,2006
	Amount	Amount
Ⅲ Net cash used in financing activities		
Decrease(increase) in short-term loans receivable	—	276
Repayment of long-term loans payment	—	(0)
Redemption of bonds	—	(20,000)
Repayments of installment payables	(718)	(218)
Purchase of treasury stock	(337)	(176)
Cash dividends paid	(6,122)	(4,675)
Cash dividends paid to minority shareholders	(2)	(2)
Net cash used in financing activities	(7,180)	(24,796)
Ⅳ Effect of exchange rate change on cash and cash equivalents	(113)	358
Ⅴ Decrease in cash and cash equivalents	(1,596)	(19,600)
Ⅵ Cash and cash equivalents at beginning of period	76,142	95,719
Ⅶ Increase in cash and cash equivalents resulting from merger of consolidated subsidiary with unconsolidated subsidiary	—	23
Ⅷ Cash and cash equivalents at end of period	74,546	76,142

Notes to Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 10
Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries, Ltd., Saishin Igaku Co., Ltd.,
Shionogi Engineering Service Co., Ltd., Shionogi Butsuryuu Service Co., Ltd., Shionogi General Service Co., Ltd.,
Aburahi AgroResearch Co., Ltd., Taiwan Shionogi & Co., Ltd., Shionogi USA, Inc., SG Holding Inc.
(Excluded) Ohmori Group Honsha Co., Ltd

2. Application of equity method

No unconsolidated subsidiaries were accounted for by the equity method for the Year ended March 31, 2007.
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 5 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

Three 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
   - A) Held-to-maturity securities
     - Amortized cost method
   - B) Other securities
     - a) 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.)
     - b) 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) Depreciation Method 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 17 years

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. Reserve for directors' bonuses
To prepare for payment of bonuses to directors and statutory auditors, a reserve for bonuses is provided based on the estimated amount of bonuses to be paid.
4. Reserve for retirement benefits
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.
5. Reserve for directors' retirement benefits
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. 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.

Change in basic of presentation of consolidated financial statements

1. Accounting Standard for Presentation of Net Assets in the Balance Sheet
   Effective April 1, 2006, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standard Board of Japan Guidance No. 8, December 9, 2005). The amount corresponding to conventional "Total shareholders' equity" in the balance sheet was ¥339,090 million. "Net assets" in the balance sheet at March 31, 2007 has been presented in accordance with the revised "Regulations Concerning the Terminology, Form and Preparation Methods of consolidated Financial Statements" dated April 25, 2006.

2. Accounting Standard for Directors' Bonus
   Effective April 1, 2006, the Company has adopted "Accounting Standard for Directors' Bonus "(Accounting Standards Board of Japan Statement No. 4, November 29, 2005). The application of this new accounting standard reduced operating income, ordinary income and income before income taxes by ¥44 million from the corresponding amount if calculated by the previous method of accounting.

3. Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures
   Effective April 1, 2006, the Company has adopted "Accounting Standard for Business Combinations" (by the Business Accounting Council, October 31, 2003) and "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No.7, December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No.10, December 27, 2005).

Note to consolidated financial statement

1. Notes to consolidated statements of income

(1) The major items and amounts included in sales, general and administrative expenses were as follows:

	[Year ended March 31, 2007]	[Year ended March 31, 2006]
Sales promotional activities	13,027 Million yen	11,744 Million yen
Salaries	20,236	20,908
Provision for reserve for bonuses	3,136	4,100
Provision for reserve for directors' bonuses	44	—
Provision for reserve for retirement benefits	1	1,449
R & D expenses	37,455 Million yen	32,256Million yen
(R&D expenses above include the following amounts provided as reserves:)		
Provision for reserve for bonuses	1,574 Million yen	2,019Million yen
Provision for reserve for retirement benefits	0	687

(2) Impairment loss

[Year ended March 31, 2007]
N/A

[Year ended March 31, 2006]
Impairment loss is summarized as follows:

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

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.

2. Notes to consolidated balance sheets

	[As of March 31, 2007]	[As of March 31, 2006]
(1) Accumulated depreciation of property, plant and equipment	161,459 Million yen	158,513 Million yen
(2) Guaranteed liabilities	93	116
(3) Stocks etc, of unconsolidated subsidiaries and affiliates Investments in securities (stocks etc.)	3,138	2,484

(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 are as follows:

Total amount of lines of credit	24,000 Million yen	24,000 Million yen
The amount of borrowing	—	—
Outstanding balances	24,000 Million yen	24,000 Million yen

(5) Pledged assets and secured liabilities

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

Book value of pledged assets:		
Cash and deposits	5 Million yen	5 Million yen
Liabilities secured by the above assets:		
'Other' of current liabilities	6 Million yen	5 Million yen

6) Accounting for settlement of notes receivable and payable maturing on March 31, 2007

In general, the settlement of notes is recorded on the clearing date. Because March 31, 2007 was a bank holiday, the balances of notes receivable and payable as of the end of the period include the following notes which matured but were not settled on that day:

Notes payable	7 Million yen	— Million yen

(Including notes payable related to construction and installation contracts)

3. Notes to consolidated statement of changes in net assets

(1) Type and number of shares in issue and type and number of shares of treasury stock(Units: Shares)

	March 31, 2006	Increase	Decrease	March 31, 2007
Shares in issue				
Common stock	351,136,165	—	—	351,136,165
Total	351,136,165	—	—	351,136,165
Treasury stock				
Common stock	10,526,605	157,154	—	10,683,759
Total	10,526,605	157,154	—	10,683,759

Note: The increase in treasury stock reflects the purchase of odd-lot shares.

(2) Matters concerning subscription rights and subscription rights owned by the Company : None

N/A

(3) Dividends

A) Dividend payments

Resolution	Category	Total amount of dividends	Amount per share	Dividend record date	Effective date
Annual General Meeting of Shareholders held on June 29, 2006	Common stock	3,406 Million yen	10 Yen	March 31, 2006	June 30, 2006
Meeting of Board of directors on November 6, 2006	Common stock	2,724 Million yen	8 Yen	September 30, 2006	December 1, 2006

B) Dividends whose effective date is subsequent to March 31, 2007

The following is to be approved at the 142nd Annual General Meeting of Shareholders to be held on June 28, 2007.

Resolution	Category	Total amount of dividends	Funds for dividend	Amount per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 28, 2007	Common stock	2,723 Million yen	Retained earnings	8 Yen	March 31, 2007	June 29, 2007

4. 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, 2007]	[As of March 31, 2006]
Cash and deposits	86,853 Million yen	90,652 Million yen
Time deposits with a maturity exceeding three months	(12,307)	(14,510)
Cash and cash equivalents	74,546 Million yen	76,142 Million yen

5. Notes to lease transactions

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

	[As of March 31, 2007]	[As of March 31, 2006]
(1) Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of lease properties		
Acquisition cost equivalent	1,995 Million yen	841 Million yen
Accumulated depreciation equivalent	738	315
Term-end balance	1,257 Million yen	525 Million yen
	Note: Tool and furniture account for most of the above balances.	*Note: Machinery, equipment and vehicles account for most of the above balances.*
(2) Breakdown of period end balance equivalent of unexpired leases		
Within one year	455 Million yen	162 Million yen
Exceeding one year	801	362
Total	1,257 Million yen	525 Million yen
(3) Lease payments and depreciation equivalent		
Lease payments	455 Million yen	183 Million yen
Depreciation equivalent	455 Million yen	183 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.

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

[Impairment loss]

Impairment loss has not been allocated to lease assets.

6. Notes to securities

I [Year ended March 31,2007]

(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)

	Value reported in consolidated balance sheet	*Market price*	*Difference*
A) National, local government and other public bonds	16,063 Million yen	16,171 Million yen	107 Million yen
B) Corporate bonds	—	—	—
C) Other bonds	—	—	—
Subtotal	16,063 Million yen	16,171 Million yen	107 Million yen

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

	Value reported in consolidated balance sheet	*Market price*	*Difference*
A) National, local government and other public bonds	24,053 Million yen	23,915 Million yen	(138) Million yen
B) Corporate bonds	—	—	—
C) Other bonds	19	19	0
Subtotal	24,073 Million yen	23,935 Million yen	(138) Million yen
Total	40,137 Million yen	40,106 Million yen	(30) Million yen

(2) Other securities; market value available

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

	Acquisition cost	*Value reported in consolidated balance sheet*	*Difference*
A) Stocks	16,964 Million yen	73,619 Million yen	56,655 Million yen
B) Bonds			
a) National, local government and other public bonds	—	—	—
b) Corporate bonds	—	—	—
c) Other bonds	1,810	2,726	915
C) Other securities	5,000	5,120	120
Subtotal	23,775 Million yen	81,466 Million yen	57,691 Million yen

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

	Acquisition cost	*Value reported in consolidated balance sheet*	*Difference*
A) Stocks	90 Million yen	80 Million yen	(10) Million yen
B) Bonds			
a) National, local government and other public bonds	—	—	—
b) Corporate bonds	—	—	—
c) Other bonds	—	—	—
C) Other securities	5	5	(0)
Subtotal	95 Million yen	85 Million yen	(10) Million yen
Total	23,870 Million yen	81,551 Million yen	57,681 Million yen

(3) Other securities sold in their fiscal year

Sales value	*Sales gain*	*Sales loss*
76 Million yen	65 Million yen	— Million yen

(4) Other securities sold in their fiscal year

Other securities

A) Unlisted stocks (excluding OTC stocks)	2,567 Million yen
B) Certificates of deposits (domestic)	14,300 Million yen

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

	Within 1 year	*From 1 year to 5 years*	*From 5 years to 10 years*	*Over 10 years*
A) Bonds				
a) National, local government and other public bonds	4,022 Million yen	16,086 Million yen	20,007 Million yen	— Million yen
b) Corporate bonds	—	—	—	—
c) Other bonds	19	726	609	1,390
B) Other securities	—	—	—	—
Total	4,042 Million yen	16,813 Million yen	20,617 Million yen	1,390 Million yen

II [Year ended March 31,2007]

(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)

	Value reported in consolidated balance sheet	*Market price*	*Difference*
A) National, local government and other public bonds	10,121 Million yen	10,143 Million yen	21 Million yen
B) Corporate bonds	—	—	—
C) Other bonds	—	—	—
Subtotal	10,121 Million yen	10,143 Million yen	21 Million yen

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

	Value reported in consolidated balance sheet	*Market price*	*Difference*
A) National, local government and other public bonds	30,051 Million yen	29,552 Million yen	(498) Million yen
B) Corporate bonds	—	—	—
C) Other bonds	19	19	—
Subtotal	30,071 Million yen	29,572 Million yen	(498) Million yen
Total	40,192 Million yen	39,715 Million yen	(476) Million yen

(2) Other securities; market value available

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

	Acquisition cost	*Value reported in consolidated balance sheet*	*Difference*
A) Stocks	15,745 Million yen	78,348 Million yen	62,603 Million yen
B) Bonds			
a) National, local government and other public bonds	—	—	—
b) Corporate bonds	—	—	—
c) Other bonds	1,846	2,731	885
C) Other securities	5,000	5,078	78
Subtotal	22,591 Million yen	86,158 Million yen	63,566 Million yen

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

	Acquisition cost	*Value reported in consolidated balance sheet*	*Difference*
A) Stocks	— Million yen	— Million yen	— Million yen
B) Bonds			
a) National, local government and other public bonds	—	—	—
b) Corporate bonds	—	—	—
c) Other bonds	—	—	—
C) Other securities	5	5	(0)
Subtotal	5 Million yen	5 Million yen	(0) Million yen
Total	22,596 Million yen	86,163 Million yen	63,566 Million yen

(3) Other securities sold in their fiscal year

Sales value	*Sales gain*	*Sales loss*
4,241 Million yen	2,589 Million yen	— Million yen

(4) Other securities sold in their fiscal year

Other securities	
Unlisted stocks (excluding OTC stocks)	4,189 Million yen

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

	Within 1 year	*From 1 year to 5 years*	*From 5 years to 10 years*	*Over 10 years*
A) Bonds				
a) National, local government and other public bonds	4,004 Million yen	16,111 Million yen	20,056 Million yen	— Million yen
b) Corporate bonds	—	—	—	—
c) Other bonds	19	722	637	1,371
B) Other securities	—	—	—	—
Total	4,024 Million yen	16,834 Million yen	20,693 Million yen	1,371 Million yen

7. Notes to derivative transactions

Derivative transactions for the year from April 1, 2006 to March 31, 2007 and the year from April 1, 2005 to March 31, 2006.

(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, 2007.

(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, 2006, and March 31, 2007.

8. Note to 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 : Million yen)

		[As of March 31, 2007]	[As of March 31, 2006]
a.	Retirement benefit obligations	(91,839)	(93,509)
b.	Pension assets	126,512	122,604
c.	Unfunded retirement benefit obligations (a + b)	34,683	29,094
d.	Unrecognized actuarial difference	(6,553)	(3,075)
e.	Unrecognized prior service cost	(16,303)	(18,977)
f.	Net accrued retirement benefits reflected in consolidated balance sheet (c + d + e)	11,815	7,041
g.	Prepaid pension costs	20,168	15,360
h.	Accrued retirement benefits (f – g)	(8,352)	(8,318)

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 : Million yen)

		[Year ended March 31, 2007]	[Year ended March 31, 2006]
a.	Service cost	1,908	1,979
b.	Interest cost	1,869	1,874
c.	Expected return on plan assets	(2,710)	(2,264)
d.	Amortization of actuarial difference	1,348	3,716
e.	Amortization of prior service cost	(2,673)	(2,673)
f.	Other cost	830	878
g.	Retirement benefit expenses (a + b + c + d + e + f)	572	3,510

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, 2007]	As of March 31, 2006
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	:	2.2%	2.3%
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

9. Notes to tax effects

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

(Units: millions of yen)

	[As of March 31, 2007]	[As of March 31, 2006]
(1) Current :		
Deferred tax assets:		
Reserve for bonuses	2,419	3,037
Accrued enterprise tax	705	1,081
Research and development expenses	734	679
Reserve for sales rebates	363	384
Other	1,183	1,185
Subtotal	5,406	6,368
Valuation allowance	(25)	—
Total deferred tax assets	5,380	6,368
Deferred tax liabilities:		
Other	(55)	(47)
Total deferred tax liabilities	(55)	(47)
Net deferred tax assets	5,325	6,321
(2) Non-current:		
Deferred tax assets:		
Research and development expenses	1,447	1,349
Loss on revaluation of investments in securities	448	443
Loss carry forward of a consolidated subsidiary	320	411
Reserve for directors retirement benefits	75	97
Reserve for retirement benefits	—	47
Other	1,170	984
Subtotal	3,462	3,334
Valuation allowance	(750)	(411)
Total deferred tax assets	2,711	2,922
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(23,418)	(25,388)
Prepaid pension cost	(3,333)	—
Special depreciation	(393)	(575)
Other	(214)	(185)
Total deferred tax liabilities	(27,359)	(26,148)
Net deferred tax liabilities	(24,648)	(23,226)

Note: Net deferred tax assets and liabilities in the years ended March 31, 2007 and 2006 are included in consolidated balance sheets as follows:

		[As of March 31, 2007]	[As of March 31, 2006]
Current assets	—deferred tax assets	5,325	6,321
Fixed assets	—deferred tax assets	49	50
Current liabilities	—'other' of current liabilities	(0)	(0)
Non-current liabilities	—deferred tax liabilities	(24,698)	(23,276)

2. The effective tax rates for the years ended March 31, 2007 and 2006 differ from the statutory tax rate above for the following reasons:

	[As of March 31, 2007]	[As of March 31, 2006]
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	4.8	2.9
Dividends not taxable for income tax purpose	(0.4)	(0.1)
Amortization of excess of cost over net assets acquired	―	0.2
Tax credit	(3.9)	(6.5)
Inhabitants' per capita taxes	0.4	0.3
Loss carry forward of a consolidated subsidiary	0.4	1.1
Differences between statutory tax rate in Japan and income tax rate applied for overseas consolidated subsidiaries	(0.2)	(0.1)
Adjustment of retained earnings by sales of capsule business	―	3.4
Other	(0.4)	(0.5)
Effective tax rates	41.3%	41.3%

10. Note to Business Combinations

[Year ended March 31, 2007]

As of April 1, 2007, the Company merged with and dissolved Ohmori Group Honsha Co., Ltd., a specified subsidiary of the Company, with the Company as the surviving company.

1. Name and Content of Business of Combined Company or Business, Legal Form of the Business Combination, Name of the Company after Combination, and Summary of Transactions Including Objective of Transactions

(1) Name and Content of Business of Combined Company or Business

Name	Ohmori Group Honsha Co., Ltd.
Content of Business	Asset management of securities, etc.

(2) Legal Form of the Business Combination

Merger and absorption, with the Company as the surviving company and Ohmori Group Honsha Co., Ltd. as the dissolved company. No new shares were issued as a result of the merger.

(3) Name of the Company after Combination

Shionogi & Co., Ltd.

(4) Summary of Transactions Including Objective of Transactions

Ohmori Group Honsha Co., Ltd. was the holding company of five operating companies engaged in the pharmaceutical wholesale business. After each of those five companies merged with their respective partners, its business was mainly asset management of the shares exchanged in their mergers.

Due to the recent restructuring of functions within the Shionogi Group, the Company merged with and absorbed Ohmori Group Honsha Co., Ltd., the asset management company.

2. Summary of Accounting Treatment

The above merger and absorption was treated as a transaction under common control and eliminated as an internal transaction, and therefore has no effect on the consolidated financial statements.

[Year ended March 31, 2006]

N/A

11. Note to Segment Information

1. Business Segment Information

[Year ended March 31, 2007] (Units: millions of yen)

Account \ Segment	Pharmaceuticals and related businesses	Other businesses	Total	Eliminations	Consolidated
Ⅰ. Net sales and operating income:					
Net sales					
(1) Sales to third parties	191,914	7,844	199,759	–	199,759
(2) Inter-group sales and transfers	–	4,883	4,883	(4,883)	–
Total	191,914	12,728	204,642	(4,883)	199,759
Operating expenses	164,757	11,022	175,779	(4,883)	170,895
Operating income	27,157	1,706	28,863	0	28,863
Ⅱ. Assets, depreciation and capital expenditures:					
Total assets	247,236	11,331	258,567	171,001	429,569
Depreciation	9,632	12	9,645	–	9,645
Capital expenditures	12,361	4	12,365	–	12,365

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

Account \ Segment	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations	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

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 excluded from the scope of consolidation with the sale of that business in the previous fiscal year, and therefore businesses for interim period 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*

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 172,188 million yen in the Year ended March 31, 2007, and 176,978 million yen in the Year ended March 31, 2006, 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. *The Company 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, 2006 to March 31, 2007 and the year from April 1, 2005 to March 31, 2006.

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, 2006 to March 31, 2007 and the year from April 1, 2005 to March 31, 2006.

[Year ended March 31, 2007] (Units: Millions of yen)

	Europe	Other	Total
Ⅰ. Overseas sales	20,404	5,658	26,063
Ⅱ. Consolidated net sales	—	—	199,759
Ⅲ. Overseas sales as a percentage of to consolidated net sales	10.2%	2.8%	13.0%

Notes: 1. Country and regional segments are based on geographic proximity.
2. Main countries and regions included in each segment
(1) Europe: United Kingdom, Switzerland, Germany and others
(2) Others: North America, Asia and others
3. Overseas sales represent those of the Company and consolidated subsidiaries in countries areas outside Japan and include profit derived from licensing fees as royalty revenue.

[Year ended March 31, 2006]

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

12. Note to Transactions with related party

Transactions with related party for the year from April 1, 2006 to March 31, 2007, and for the year from April 1, 2005 to March 31, 2006

There were no significant transactions.

13. Note to Amounts per share

	[As of March 31, 2007]	[As of March 31, 2006]
Net assets per share	1,014.73 yen	989.76 yen
Earnings per share	54.61 yen	66.55 yen

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 assets per share is as follows.

	[As of March 31, 2007]	*[As of March 31, 2006]*
Total net assets	*345,752 million yen*	*— million yen*
Amount deducted from total net assets	*283 million yen*	*— million yen*
(Net assets at year end available to common stock)	*(283 million yen)*	*(— million yen)*
Net assets at year end available to common stocks	*345,468 million yen*	*— million yen*
Shares outstanding as of the period end	*340,452 thousands of stocks*	*— thousands of stocks*

3. Information for the computation of "Earnings per share is as follows.

	[Year ended March 31, 2007]	*[Year ended f March 31, 2006]*
Net income	*18,594 million yen*	*22,735 million yen*
The amount which is not attributable to ordinary shareholders	*— million yen*	*63 million yen*
(Bonus to directors and statutory auditors to pay as appropriations of retained earnings)	*(—million yen)*	*(63 million yen)*
Net income related to common stocks	*18,594 million yen*	*22,672 million yen*
Average number of shares outstanding during the period	*340,519 thousands of stocks*	*340,667 thousands of stocks*

Non-consolidated Statements of Income

(Units : Millions of yen)

Period / Account	Year ended March 31, 2007		Year ended March 31, 2006		Increase (Decrease)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
		%		%		%
Net sales	185,686	100.0	183,388	100.0	2,298	1.3
Cost of sales	59,382	32.0	62,583	34.1	(3,201)	(5.1)
Gross profit	126,304	68.0	120,805	65.9	5,499	4.6
Selling, general and administrative expenses	101,411	54.6	95,035	51.8	6,376	6.7
Operating income	24,893	13.4	25,770	14.1	(877)	(3.4)
Non-operating income	4,925	2.7	5,295	2.8	(370)	(7.0)
Interest income	490		309		181	
Interest on securities	686		486		200	
Dividends income	1,125		1,086		39	
Real estate rent	1,938		1,938		0	
Foreign exchange gains	—		781		(781)	
Other	684		692		(8)	
Non-operating expenses	3,833	2.1	2,957	1.6	876	29.6
Interest expenses	33		30		3	
Interest on bonds	—		63		(63)	
Contribution	1,245		1,045		200	
Depreciation	459		521		(62)	
Loss on disposal of inventories	930		382		548	
Loss on disposal of fixed assets	519		317		202	
Taxes and dues	—		312		(312)	
Other	644		285		359	
Ordinary income	25,985	14.0	28,107	15.3	(2,122)	(7.6)
Extraordinary income	3,610	1.9	14,714	8.0	(11,104)	(75.5)
Gain on exchange of investment securities	2,765		—		2,765	
Gain on reversal of co-development cost of previous years	657		—		657	
Gain on sales of affiliates' stocks	120		400		(280)	
Gain on sales of investment securities	65		2,589		(2,524)	
Gain on sales of capsule business	—		10,681		(10,681)	
Gain on reversal of allowance for doubtful accounts	—		902		(902)	
Gain on sales of fixed assets	—		140		(140)	
Extraordinary loss	386	0.2	1,085	0.6	(699)	(64.4)
Loss on liquidation of an investment security	386		—		386	
Loss on disposal of fixed assets	—		568		(568)	
Impairment loss	—		516		(516)	
Income before income taxes	29,209	15.7	41,737	22.7	(12,528)	(30.0)
Income taxes-current	7,370	4.0	15,630	8.5	(8,260)	(52.8)
Income taxes-deferred	4,514	2.4	(556)	(0.3)	5,070	—
Net income	17,324	9.3	26,663	14.5	(9,339)	(35.0)
Retained earnings brought forward	—		3,230		—	
Interim dividends	—		2,044		—	
Unappropriated retained earnings	—		27,850		—	

Non-consolidated Balance Sheets

(Units : Millions of yen)

Account / Period	As of March 31, 2007 Amount	As of March 31, 2007 Percentage	As of March 31, 2006 Amount	As of March 31, 2006 Percentage	Increase (decrease)
(Assets)		%		%	
Current assets					
Cash and deposits	78,951		83,450		(4,499)
Notes receivable-trade	218		279		(61)
Accounts receivable-trade	65,258		68,208		(2,950)
Marketable securities	4,027		4,009		18
Merchandise	4,764		3,158		1,606
Finished goods	8,692		7,935		757
Semi-finished goods	4,526		3,787		739
Raw materials	3,064		3,505		(441)
Work in process	7,581		5,583		1,998
Supplies	1,316		901		415
Advance payment	7,155		6,001		1,154
Prepaid expenses	25		33		(8)
Deferred tax assets	4,974		6,098		(1,124)
Short-term loans	4,347		—		4,347
Other	4,023		6,408		(2,385)
Allowance for doubtful accounts	(7)		(7)		0
Total current assets	198,922	47.9	199,354	48.0	(432)
Fixed assets					
Property, plant and equipment:					
Buildings	25,985		25,644		341
Structures	1,380		1,398		(18)
Machinery and equipment	7,582		8,350		(768)
Vehicles	44		61		(17)
Equipment	5,612		4,983		629
Land	10,124		10,123		1
Constructions in progress	4,724		1,511		3,213
Property, plant and equipment, net	55,454	13.4	52,074	12.5	3,380
Intangible fixed assets					
Patent right	155		132		23
Right of trademark	2,075		2,343		(268)
Software	2,017		2,436		(419)
Distribution right	1,405		1,500		(95)
Telephone subscription right	69		69		0
Right of using facilities	34		39		(5)
Total intangible fixed assets	5,757	1.4	6,520	1.5	(763)
Investments and other assets					
Investment securities	120,227		122,051		(1,824)
Stocks of affiliates	4,318		10,389		(6,071)
Investment in other securities of affiliates	1,642		979		663
Investments in capital	27		27		0
Long-term loans	308		313		(5)
Long-term loans receivable from employees	6		11		(5)
Loans receivable from affiliates	5,250		5,370		(120)
Long-term prepaid expenses	2,043		2,421		(378)
Prepaid pension cost	20,168		15,360		4,808
Other	1,033		1,026		7
Allowance for doubtful accounts	(168)		(162)		(6)
Total investments and other assets	154,858	37.3	157,790	38.0	(2,932)
Total fixed assets	216,070	52.1	216,386	52.0	(316)
Total assets	414,992	100.0	415,740	100.0	(748)

(Units : Millions of yen)

Account \ Period	As of March 31, 2007 Amount	As of March 31, 2007 Percentage	As of March 31, 2006 Amount	As of March 31, 2006 Percentage	Increase (decrease)
(Liabilities)		%		%	
Current liabilities:					
Accounts payable-trade	10,026		9,275		751
Accounts payable-other	10,032		10,359		(327)
Accrued expenses	4,586		4,269		317
Accrued income taxes	6,668		11,479		(4,811)
Deposits received	2,725		4,309		(1,584)
Reserve for bonuses	5,694		7,250		(1,556)
Reserve for directors' bonuses	40		–		40
Reserve for rebates of sales	895		948		(53)
Reserve for returned goods unsold	82		82		0
Other	88		61		27
Total current liabilities	40,841	9.8	48,034	11.5	(7,193)
Non-current liabilities:					
Deferred tax liabilities	24,601		23,179		1,422
Reserve for retirement benefits	8,310		8,279		31
Reserve for directors' retirement benefits	185		240		(55)
Other	706		3,579		(2,873)
Total non-current liabilities	33,803	8.2	35,279	8.5	(1,476)
Total liabilities	74,645	18.0	83,314	20.0	(8,669)
(Shareholders' equity)					
Capital stock	–	–	21,279	5.1	–
Capital surplus	–	–	20,227	4.9	–
Legal capital surplus	–		20,227		–
Retained earnings	–	–	262,525	63.2	–
Legal retained earnings	–		5,388		–
Reserve:	–		229,286		–
Special depreciation	–		615		–
Deferred capital gain on property	–		26		–
General reserve	–		228,645		–
Unappropriated retained earnings	–		27,850		–
Unrealized gain on securities	–	–	37,144	8.9	–
Less: Treasury stock	–	–	(8,750)	(2.1)	–
Total shareholders' equity	–	–	332,426	80.0	–
Total liabilities and shareholders' equity	–	–	415,740	100.0	–
(Net Assets)					
Owners' equity					
Capital stock	21,279	5.1	–	–	–
Capital surplus					
Legal capital surplus	20,227		–		–
Total capital surplus	20,227	4.9	–	–	–
Retained earnings					
Legal retained earnings	5,388		–		–
Others retained earnings					
Reserve for special depreciation	575		–		–
Reserve for advanced depreciation of fixed assets	25		–		–
General reserve	248,645		–		–
Retained earnings brought forward	19,031		–		–
Total retained earnings	273,665	65.9	–	–	–
Treasury stock	(9,088)	(2.2)	–	–	–
Total owners' equity	306,083	73.7	–	–	–
Valuation and translation adjustments					
Valuation difference on available-for-sale securities	34,262	8.3	–	–	–
Total valuation and translation adjustments	34,262	8.3	–	–	–
Total net assets	340,346	82.0	–	–	–
Total liabilities and net assets	414,992	100.0	–	–	–

Non-consolidated Statement of Changes in Net Assets

[Year ended March 31,2007] (Units : Millions of yen)

	Owners' equity									
		Capital surplus	Retained earnings							
				Other retained earnings						
	Capital stock	Legal capital surplus	Legal retained earnings	Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings brought forward	Total Retained earnings	Treasury stock	Total owners' equity
Balance at March 31, 2006	21,279	20,227	5,388	615	26	228,645	27,850	262,525	(8,750)	295,281
Changes of items during the period										
Provision of reserve for special depreciation *				226			(226)	–		–
Reversal of reserve for special depreciation				(266)			266	–		–
Reversal of reserve for advanced depreciation of fixed assets *					(0)		0	–		–
Reversal of reserve for advanced depreciation of fixed assets					(0)		0	–		–
Provision of general reserve *						20,000	(20,000)	–		–
Dividends from surplus *							(3,406)	(3,406)		(3,406)
Dividends from surplus							(2,724)	(2,724)		(2,724)
Directors' bonuses *							(54)	(54)		(54)
Net income							17,324	17,324		17,324
Purchase of treasury stock									(337)	(337)
Net changes of items other than owners' equity										
Total changes of items during the period	–	–	–	(39)	(1)	20,000	(8,819)	11,139	(337)	10,802
Balance at March 31,2007	21,279	20,227	5,388	575	25	248,645	19,031	273,665	(9,088)	306,083

	Valuation and translation adjustments	Total net assets
	Valuation difference on available-for-sale securities	
Balance at March 31, 2006	37,144	332,426
Changes of items during the period		
Provision of reserve for special depreciation *		–
Reversal of reserve for special depreciation		–
Reversal of reserve for advanced depreciation of fixed assets *		–
Reversal of reserve for advanced depreciation of fixed assets		–
Provision of general reserve *		–
Dividends from surplus *		(3,406)
Dividends from surplus		(2,724)
Directors' bonuses *		(54)
Net income		17,324
Purchase of treasury stock		(337)
Net changes of items other than owners' equity	(2,881)	(2,881)
Total changes of items during the period	(2,881)	7,920
Balance at March 31,2007	34,262	340,346

* *Item for appropriation of unappropriated retained earnings at the Annual General Meeting of shareholders held in June 2006.*

Appropriations of Retained Earnings

(Units : millions of yen)

Account / Period	Year ended March 31, 2006	
Ⅰ Unappropriated retained earnings		27,850
Reversal of reserve for deferred capital gain on property	0	0
Total		27,851
Ⅱ Appropriations		
Dividends	3,406	
Bonuses to directors and statutory auditors	54	
(Directors)	(51.3)	
(Statutory auditors)	(3.5)	
Special depreciation reserve	226	
General reserve	20,000	23,687
Retained earnings brought forward to the next year		4,163

Significant accounting policies

1. Basis and method of Securities evaluation

(1) Held-to-maturity securities
Amortized cost method
(2) Investments in subsidiaries and affiliates
At cost determined by the moving average method
(3) Other investments in subsidiaries' and affiliates
(The securities based on Securities and Exchange Law article 2.2)
The securities based on Securities and Exchange Law article 2.2 are evaluated their net profit/loss (equity method).
(4) Other securities
1. Market value available
At fair value, based on market price or other appropriate quotation as of period end
(Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)
2. 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. Basis and method of Inventories evaluation

(1) Merchandise, Raw materials
At the lower-of-cost-or-market method determined by the average method.
(2) Finished goods, Semi-finished goods, Work in process and Supplies
At cost determined by the average method

3. Depreciation method of significant depreciable assets

(1) Property, plant and equipment
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 as follows:

Buildings and structures:	3 to 60 years
Machinery and equipment and vehicles:	4 to 17 years

(2) Intangible fixed assets
Straight-line method
Expenditures relating to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).

4. Transactions denominated in foreign currencies

Monetary receivables and payable denominated in foreign currencies are translated into Japanese yen at the rate of exchange in effect at the balance sheet date. Gain or loss resulting from translation is credited or charged to income.

5. 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) Reserve for directors' bonuses
To prepare for payment of bonuses to directors and statutory auditors, a reserve for bonuses is provided based on the estimated amount of bonuses to be paid.

(4) Reserve for rebates of sales
To prepare for future discounts and rebates for certain agents, a reserve for discounts and rebates is provided based on the amount of their stock as of the year end the estimated rebate rate for the year.

(5) Reserve for returned goods unsold
To prepare for returned goods unsold, a reserve for returned goods unsold is provided at the maximum amount stipulated in the Corporation Tax Law of Japan.

(6) Reserve for retirement benefits

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 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.

(7) Reserve for directors' retirement benefits

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.

6. 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.

7. 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

1. Hedging instruments

Forward foreign exchange contracts

2. 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.

8. Other significant accounting policies

Consumption tax

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

Change in basic of presentation of non-consolidated financial statements

1. Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective April 1, 2006, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standard Board of Japan Guidance No. 8, December 9, 2005). The amount corresponding to conventional "Total shareholders' equity" in the balance sheet was ¥339,090 million. "Net assets" in the balance sheet at March 31, 2007 has been presented in accordance with the revised "Regulations Concerning the Terminology, Form and Preparation Methods of consolidated Financial Statements" dated April 25, 2006.

2. Accounting Standard for Directors' Bonus

Effective April 1, 2006, the Company has adopted "Accounting Standard for Directors' Bonus "(Accounting Standards Board of Japan Statement No. 4, November 29, 2005). The application of this new accounting standard reduced operating income, ordinary income and income before income taxes by ¥40 million from the corresponding amount if calculated by the previous method of accounting.

3. Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

Effective April 1, 2006, the Company has adopted "Accounting Standard for Business Combinations" (by the Business Accounting Council, October 31, 2003) and "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No.7, December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No.10, December 27, 2005).

Notes to Non-consolidated Financial Statements

1. Notes to Non-consolidated statements of income

	[Year ended March 31, 2007]	[Year ended March 31, 2006]
1. Transaction to affiliated companies		
Income from real estate rent	1,526Million yen	1,528Million yen
Dividend income	469	593
2. The major items and amounts included in sales, general and administrative expenses were as follows:		
Advertising	4,948Million yen	4,499Million yen
Sales promotional activities	12,922	11,643
Salaries	19,285	19,585
Provision for reserve for bonuses	3,073	3,950
Provision for reserve for directors' bonuses	40	—
Provision for reserve for retirement benefits	—	1,429
Depreciation	1,647	1,495
R & D expenses	37,409Million yen	32,134Million yen
(R&D expenses above include following amounts provided to reserves and depreciation :)		
Provision for reserve for bonuses	1,572Million yen	2,015Million yen
Provision for reserve for retirement benefits	—	687
Depreciation	2,908	2,478

3. Impairment loss

[Year ended March 31, 2007]
N/A
[Year ended March 31, 2006]
Impairment loss is summarized as follows:

Place	Description	Classification	Amount	Remarks
Wakabayashi-ku, Sendai and Other	Leased assets	Land	¥516 Million	Leased assets

The Company classifies the assets used for its business operations into groups which are separate for management accounting purposes (product groups), whereas the Company 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.
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.

2. Notes to non-consolidated balance sheet

	[As of March 31, 2007]	[As of March 31, 2006]
1. Receivables and Obligations to affiliated companies		
Current assets		
Accounts receivable-trade	2,979Million yen	3,374Million yen
Short-term loans receivable	4,347	2,846
2. Accumulated depreciation of property, plant and equipment	153,518Million yen	151,272 Million yen

3. 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 are as follows:

	[As of March 31, 2007]	[As of March 31, 2006]
Total amount of lines of credit	24,000Million yen	24,000Million yen
The amount of borrowing	–	–
Outstanding balances	24,000 Million yen	24,000 Million yen

4. Guaranteed liabilities	93Million yen	116Million yen

5. Accounting for settlement of notes receivable and payable maturing on March 31, 2007

In general, the settlement of notes is recorded on the clearing date. Because March 31, 2007 was a bank holiday, the balances of notes receivable and payable as of the end of the period include the following notes which matured but were not settled on that day:

N/A

6. Consumption tax

Consumption tax paid and consumption tax received are netted and the amount is included in other current liabilities.

3. Notes to non-consolidated statement of changes in net assets

Type and number of shares in issue and type and number of shares of treasury stock (Units: Shares)

	March 31, 2006	Increase	Decrease	March 31, 2007
Treasury stock				
Common stock	10,526,605	157,154	–	10,683,759
Total	10,526,605	157,154	–	10,683,759

Note: The increase in treasury stock reflects the purchase of odd-lot shares.

4. Notes to lease transactions

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

	[As of March 31, 2007]	[As of March 31, 2006]
(1) Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of lease properties		
Acquisition cost equivalent	1,265 Million yen	132 Million yen
Accumulated depreciation equivalent	336	58
Term-end balance	929 Million yen	74 Million yen
	Note: Tool and furniture account for most of the above balances.	*Note: Vehicles account for most of the above balances.*
(2) Breakdown of period end balance equivalent of unexpired leases		
Within one year	308 Million yen	21 Million yen
Exceeding one year	620	53
Total	929 Million yen	74 Million yen
(3) Lease payments and depreciation equivalent		
Lease payments	308 Million yen	42 Million yen
Depreciation equivalent	308 Million yen	42 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.

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

[Impairment loss]

Impairment loss has not been allocated to lease assets.

5. Notes to securities

The market value of investments in subsidiaries and affiliates was not determinable at March 31, 2007 and 2006.

6. Notes to tax effects

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

(Units: millions of yen)

	[As of March 31, 2007]	[As of March 31, 2006]
(1) Current :		
Deferred tax assets:		
Reserve for bonuses	2,311	2,943
Research and development expenses	734	679
Accrued enterprise tax	637	1,030
Reserve for sales rebates	363	384
Other	981	1,105
Total deferred tax assets	5,029	6,143
Deferred tax liabilities	(54)	(44)
Net deferred tax assets	4,974	6,098
(2) Non-current:		
Deferred tax assets:		
Research and development expenses	1,447	1,349
Loss on revaluation of investments in securities	448	443
Reserve for retirement benefits	—	29
Reserve for directors retirement benefits	75	97
Other	786	1,048
Total deferred tax assets	2,757	2,969
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(23,418)	(25,388)
Prepaid pension cost	(3,333)	—
Special depreciation	(393)	(575)
Other	(213)	(185)
Total deferred tax liabilities	(27,358)	(26,148)
Net deferred tax liabilities	(24,601)	(23,179)

2. The effective tax rates for the years ended March 31, 2007 and 2006 differ from the statutory tax rate above for the following reasons:

	[As of March 31, 2007]	[As of March 31, 2006]
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	5.6	2.5
Dividends not taxable for income tax purpose	(1.0)	(0.7)
Inhabitants' per capita taxes	0.4	0.3
Tax credit	(4.2)	(6.0)
Other	(0.7)	(0.6)
Effective tax rates	40.7%	36.1%

7. Notes to Business combinations

[Year ended March 31, 2007]

As of April 1, 2007, the Company merged with and dissolved Ohmori Group Honsha Co., Ltd., a specified subsidiary of the Company, with the Company as the surviving company.

1. Name and Content of Business of Combined Company or Business, Legal Form of the Business Combination, Name of the Company after Combination, and Summary of Transactions Including Objective of Transactions

(1) Name and Content of Business of Combined Company or Business

Name	Ohmori Group Honsha Co., Ltd.
Content of Business	Asset management of securities, etc.

(2) Legal Form of the Business Combination

Merger and absorption, with the Company as the surviving company and Ohmori Group Honsha Co., Ltd. as the dissolved company. No new shares were issued as a result of the merger.

(3) Name of the Company after Combination

Shionogi & Co., Ltd.

(4) Summary of Transactions Including Objective of Transactions

Ohmori Group Honsha Co., Ltd. was the holding company of five operating companies engaged in the pharmaceutical wholesale business. After each of those five companies merged with their respective partners, its business was mainly asset management of the shares exchanged in their mergers.

Due to the recent restructuring of functions within the Shionogi Group, the Company merged with and absorbed Ohmori Group Honsha Co., Ltd., the asset management company.

2. Summary of Accounting Treatment

At the merger date, the Company inherited all assets and liabilities and rights and obligations of Ohmori Group Honsha Co., Ltd.

With the merger, the Company recorded 386 million yen as loss on liquidation of an investment security.

[Year ended March 31, 2006]

N/A

8. Notes to amounts per share

	[As of March 31, 2007]	[As of March 31, 2006]
Net assets per share	999.69 yen	975.81 yen
Earnings per share	50.88 yen	78.11 yen

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 assets per share is as follows.

	[As of March 31, 2007]	*[As of March 31, 2006]*
Total net assets	*340,346 million yen*	*— million yen*
Amount deducted from total net assets	*— million yen*	*— million yen*
Net assets at year end available to common stocks	*340,346 million yen*	*— million yen*
Shares outstanding as of the period end	*340,452 thousands of stocks*	*— thousands of stocks*

3. Information for the computation of Earnings per share is as follows.

	[Year ended March 31, 2007]	*[Year ended f March 31, 2006]*
Net income	*17,324 million yen*	*26,663 million yen*
The amount which is not attributable to ordinary shareholders	*— million yen*	*54 million yen*
(Bonus to directors and statutory auditors to pay as appropriations of retained earnings)	*(—million yen)*	*(54 million yen)*
Net income related to common stocks	*17,324 million yen*	*26,608 million yen*
Average number of shares outstanding during the period	*340,519 thousands of stocks*	*340,667 thousands of stocks*

Others

1. Change of Directors and Auditors (Scheduled for June 28, 2007)

1. Change of Representatives
   There is no change.

2. Change of other Directors and Auditors
   (1)New Director Candidate
      Standing Corporate Auditor Satoshi Komatsu (Adviser)

   (2)Retiring Director
      Standing Corporate Auditor Teruo Sasaki

Note: The 142nd Annual General Meeting of Shareholders to be held on June 28, 2007 will decide on the new candidates for Corporate Auditor, and the Board of Corporate Auditor will then select the Standing Corporate Auditors.

2. Status of Production, Orders and Sales

1. Production

The consolidated production results for each business segment for the Year ended March 31, 2007 was as follows:

(Units：Millions of yen)

Business Segment		Amount	Percentage（%）
Pharmaceuticals and related businesses		145,184	0.4
	Ethical drugs	132,373	(0.6)
	Contract manufacturing	3,344	112.5
	OTC drugs	6,382	(10.4)
	Diagnostics	3,085	13.3
Capsule business		—	(100.0)
Other businesses		—	—
Total		145,184	(3.8)

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 previous 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, 2007 was as follows:

(Units: millions of yen)

Business Segment		Amount	Percentage（%）
Pharmaceuticals and related businesses		18,786	3.3
	Ethical drugs	18,004	2.4
	OTC drugs	26	(13.3)
	Diagnostics	756	35.0
Capsule business		—	—
Other businesses		—	—
Total		18,786	3.3

Notes: *1. Amounts are based on actual purchases.*
2. 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 consolidated 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, 2007 was as follows:

(Units: millions of yen)

Business Segment		Amount	Percentage（%）
Pharmaceuticals and related businesses		191,914	2.5
	Ethical drugs	157,187	(5.0)
	Contract manufacturing	4,003	92.2
	OTC drugs	6,131	(4.9)
	Diagnostics	3,331	(1.8)
	License fee as royalty income	21,262	115.9
Capsule business		—	(100.0)
Other businesses		7,844	153.7
Total		199,759	1.7

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 previous fiscal year.
3. Amounts are stated exclusive of consumption tax.