



Financial Statements (Consolidated) for The Year Ended March 31, 2008

May 12, 2008

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: Isao Teshirogi

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

Name: Noriyuki Kishida

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Date of an Annual General Meeting Shareholders (scheduled): June 27, 2008

Starting date of dividend payment (scheduled) : June 30, 2008

Date of the filing of annual securities report (scheduled): June 30, 2008

1. Consolidated results for the period from April 1, 2007 to March 31, 2008

(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, 2008	214,268	7.3	40,399	40.0	39,879	41.9	25,063	34.8
Year ended March 31, 2007	199,759	1.7	28,863	(1.2)	28,113	(5.2)	18,594	(18.2)

	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, 2008	74.21	—	7.3	9.5	18.9
Year ended March 31, 2007	54.61	—	5.4	6.6	14.5

Reference: Equity in losses of affiliates: Year ended March 31, 2008: (851) million yen Year ended March 31, 2007: (1,100) 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, 2008	413,703	342,235	82.7	1,020.31
As of March 31, 2007	429,569	345,752	80.4	1,014.73

Reference: Shareholders' equity As of March 31, 2008: 341,928 million yen

As of March 31, 2007: 345,468 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, 2008	15,618	(5,335)	(17,123)	67,609
Year ended March 31, 2007	14,115	(8,418)	(7,180)	74,546

2. Dividends

(Date of record)	Cash dividends per share			Total amounts of dividends (Annual)	Dividends payout ratio (Consolidated)	Dividends on equity (Consolidated)
	Interim	Year-end	Annual			
	yen	yen	yen	Million yen	%	%
Year ended March 31, 2007	8.00	8.00	16.00	5,447	29.3	1.6
Year ended March 31, 2008	10.00	12.00	22.00	7,420	29.6	2.2
Year ending March 31, 2009 (Forecast)	14.00	14.00	28.00		31.3	

3. Forecasted consolidated results for the year ending March 31, 2009 (April 1, 2008 to March 31, 2009)

(% 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, 2008	106,000	1.8	17,500	2.1	17,500	2.0	11,000	2.0	32.82
For the year ending March 31, 2009	231,000	7.8	48,000	18.8	48,000	20.4	30,000	19.7	89.52

4. Others

(1) Significant changes to consolidated subsidiaries during the fiscal year: None

(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 17 "Significant accounting policies "

(3) Number of shares issued (common stock)

a) Number of shares outstanding (including treasury stock) As of March 31, 2008 351,136,165shares As of March 31, 2007 351,136,165shares

b) Treasury stock As of March 31, 2008 16,013,128shares As of March 31, 2007 10,683,759shares

Note: For details, please see page 30 "Notes to amounts per share".

(Reference) Summary non-consolidated results

1. Non-consolidated results for the period from April 1, 2007 to March 31, 2008

(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, 2008	201,002	8.2	36,397	46.2	37,240	43.3	22,479	29.8
Year ended March 31, 2007	185,686	1.3	24,893	(3.4)	25,985	(7.6)	17,324	(35.0)

	Earnings per share	Earnings per share (diluted)
	yen	yen
Year ended March 31, 2008	66 . 56	—
Year ended March 31, 2007	50 . 88	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	yen
As of March 31, 2008	400,154	334,316	83.5	997 . 59
As of March 31, 2007	414,992	340,346	82.0	999 . 69

Reference: Shareholders' equity As of March 31, 2008: 334,316 million yen

As of March 31, 2007: 340,346 million yen

2. Forecasted non-consolidated results for the year ending March 31, 2009 (April 1, 2008 to March 31, 2009)

(% 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, 2008	101,000	4.9	15,500	2.4	16,500	3.4	10,500	15.8	31 . 33
For the year ending March 31, 2009	220,000	9.5	44,500	22.3	46,000	23.5	29,000	29.0	86 . 54

Note: This document contains various forward-looking statements based on assumptions, expectations, and plans regarding future events, circumstances, results, and aspirations. Forward-looking statements are subject to risks and uncertainties, related to the competitive environment and other factors, that may cause Shionogi & Co.'s actual future results to differ materially from those set forth in or implied by its forward-looking statements

Refer to page 5 of the accompanying materials for information related to the above forecasts.

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Results of Operations

(1) Analysis of Results of Operations

Results for the Fiscal Year ended March 31, 2008

a) General Overview

Operating conditions remained challenging in Japan's pharmaceutical industry during the fiscal year ended March 31, 2008 (fiscal 2007). During the year, more stringent measures were taken by the government to curb rising health care expenditure, including the promotion of generic drug use and DRG/PPS (Diagnosis Related Group / Prospective Payment System), and competition in sales and R&D intensified, including with global companies. In this environment, the Shionogi Group actively took a range of initiatives in R&D, manufacturing, and sales toward achieving the goals set out in its second medium-term management plan (April 2005 – March 2010), over the period of which the company plans to lay foundations for achieving significant long-term growth, with a focus on ethical drug operations. We refined our R&D system to ensure that we are able to continuously discover drug candidates and globally develop the compounds on our own. We also advanced a number of compounds under development in the U.S. to the upper phases of clinical trials. In manufacturing, we promoted efforts to build manufacturing and quality control systems to support our global activities. The company also reviewed procurement and took steps to raise productivity in a bid to further cut production costs. In domestic sales and marketing, Shionogi concentrated its resources on newly launched products with a focus on Crestor, a treatment for hyperlipidemia, and also promoted systematic promotional activities. The endeavors in sales and marketing have helped to reverse decreasing trends in revenue from ethical drug operations and have established a foothold from which significant progress can be made.

Consolidated Results of Operations

(Units : Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Year ended 3/2008	214,268	40,399	39,879	25,063
Year ended 3/2007	199,759	28,863	28,113	18,594
Percentage Increase(Decrease)	7.3	40.0	41.9	34.8

Sales

Net sales increased 7.3% year on year to ¥214,268 million due mainly to growth in sales of prescription drugs including Crestor and treatments for cancer pain. Royalty income from industrial property rights was up considerably from the previous fiscal year due to increased overseas sales of Crestor by AstraZeneca, while contract manufacturing sales of Shionogi Group companies, including subsidiaries, also rose.

Income

Gross profit rose as a result of increases in sales of prescription drugs and in royalty income from industrial property rights, which were more than enough to offset higher R&D expenses and selling expenses. Operating income thus climbed 40.0% to ¥40,399 million, while ordinary income rose a steep 41.9% to ¥39,879 million. Net income totaled ¥25,063 million, a year-on-year increase of 34.8%.

Research and Development

In Japan, approval was granted in October 2007 for an additional pediatric indication for existing Claritin products, anti-allergic drugs developed in conjunction with Schering-Plough K.K. In addition, we launched a dry syrup formulation in January this year. Shionogi received marketing and manufacturing approval for the antihypertensive Irbetan (generic name: irbesartan), and launch has been scheduled for the near future. The company is awaiting regulatory approval for two drugs—pirfenidone (generic name), a treatment for idiopathic pulmonary fibrosis, and an antidepressant, duloxetine hydrochloride (generic name). The new drug application (NDA) for duloxetine hydrochloride was filed in January this year. Shionogi also has a variety of compounds under development, including an anti-obesity agent, an antibacterial, an anti-influenza drug, and an atopic dermatitis treatment. Development of the anti-obesity and atopic dermatitis agents is being conducted globally with Shionogi USA Inc. as the development base.

Johnson & Johnson received approval in the U.S. in October 2007 for doripenem (generic name), a carbapenem antibiotic that Shionogi out-licensed in European and North American territories. We expect revenue generated by this drug to increase, both from the supply of the product and from royalties, as sales by Johnson & Johnson expand.

Shionogi decided in January this year to construct a research facility that is expected to play a core role in the company's research operations in Toyonaka, Osaka. This move to construct the latest facilities and centralize research functions, which are currently spread across different locations, is crucial if we are to maintain and enhance the international competitiveness of the research division. The new facility will further enhance Shionogi's ability to create world-class drugs.

As a result of these activities, research and development expenses for the fiscal year ended March 31, 2008, totaled ¥40,290 million yen, equivalent to 18.8% of net sales.

Capital Investment

The Shionogi Group's capital investment for the fiscal year totaled ¥13,100 million as a result of aggressive investment primarily to upgrade and expand research facilities and to bolster manufacturing facilities with the aim of increasing production of new products.

b) Segment Information

Pharmaceuticals and Related Businesses

Sales of prescription drugs rose 2.1% year on year, mainly due to the smooth increase in market share of Crestor. Sales of Claritin and drugs to treat cancer pain were also up. Decreases were seen in sales of existing products including Flomox, Flumarin, and Vancomycin as a result of shrinking markets and increased use of generic drugs, although such decreases were more than compensated for by the favorable performance of Crestor. Sales of over-the-counter products decreased amid intensely competitive market conditions, while a slight rise was seen in sales of diagnostics. Contract manufacturing sales rose due to an increase in orders received from outside the Shionogi Group, chiefly by subsidiary Bushu Pharmaceuticals Ltd., while a sharp rise was recorded in royalty income from industrial property rights from the increase in sales recorded by Crestor outside Japan.

As a result of the above, sales in the Pharmaceuticals and Related Businesses segment rose 8.6% year on year to ¥208,431 million.

Operating income in this segment climbed 42.9% from the previous fiscal year to ¥38,818 million thanks to the considerable increase in royalty income from industrial property rights, which offset the increase in R&D expenses.

Other Businesses

Sales in the Other segment fell 25.6% to ¥5,837 million, mainly because of a decrease in contract construction performed by Shionogi Engineering Service Co., Ltd.

Operating income in this segment decreased 7.4% to ¥1,580 million.

Forecast for the Year Ending March 31, 2009

Projected results for the year ending March 31, 2009 are as follows.

Projected Consolidated Results				(Units: Millions of yen)
	Net sales	Operating income	Ordinary income	Net income
Year ending 3/2009	231,000	48,000	48,000	30,000
Year ended 3/2008	214,268	40,399	39,879	25,063
Percentage Increase	7.8	18.8	20.4	19.7

Conditions in the prescription drug market, the core of Shionogi's operations, are forecast to become even more challenging with the national health insurance (NHI) price revisions implemented in April this year, which reduced prices by an average of 5.2% across the industry. Nevertheless, we forecast an increase in revenue for the fiscal year ending March 31, 2009, from higher sales of Crestor and contributions from sales of Irbetan, which is scheduled for launch later this year, as well as further increases in royalty income from industrial property rights.

Shionogi also predicts increases in operating income, ordinary income, and net income for fiscal 2008 as a result of higher sales and increased royalty income from industrial property rights, which should outweigh the projected increase in R&D expenses.

(2) Analysis of Financial Position

Assets, Liabilities and Net Assets

Total assets at the end of fiscal 2007 were ¥413,703 million, a decrease of ¥15,866 million compared to the end of the previous fiscal year. Current assets were ¥13,927 million lower as a result of a decrease in cash and deposits due to the acquisition of treasury stock, while non-current assets decreased ¥1,940 million as a result of the lower value of investments in securities caused by the fall in share prices. Certificates of deposit (Japanese) are included in investments in securities, instead of in cash and deposits, from March 31, 2008.

Total liabilities decreased ¥12,349 million compared to the end of the previous fiscal year as a result of a decrease in deferred income liabilities due to a reduction in the value of available-for-sale securities. Net assets decreased ¥3,517 million from the end of the previous fiscal year to ¥342,235 million because of an increase in treasury stock held and a decrease in unrealized gain on available-for-sale securities, despite higher retained earnings.

Cash Flow

Net cash provided by operating activities increased ¥1,503 million compared with the previous fiscal year to ¥15,618 million as a result of increases in income before income taxes and minority interests and depreciation and amortization, as well as a decrease in income taxes paid.

Net cash used in investing activities totaled ¥5,335 million, which was chiefly used for investment in manufacturing facilities.

Net cash used in financing activities totaled ¥17,123 million, which was principally used for the payment of dividends and purchase of treasury stock.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥67,609 million, a decrease of ¥6,937 million compared to the end of the previous fiscal year.

Trends in Cash Flow Indicators

	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007	Year ended March 2008
Net worth ratio (%)	77.7	75.5	78.8	80.4	82.7
Net worth ratio calculated based on market value (%)	169.0	126.8	153.8	168.0	137.9
Interest-bearing liabilities/ Cash flow ratio	1.4	0.7	0.2	0.2	0.1
Interest coverage ratio (times)	32.4	68.5	72.1	225.6	306.3

Notes: Net worth ratio: Net worth/Total assets

Net worth ratio calculated based on market value: 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

Shionogi aggressively invests in its business to enhance its corporate value over the mid- to long-term. While the company follows a policy of paying dividends in proportion to results achieved in each fiscal year, it also aims to make stable increases. Internal capital reserves are mainly earmarked for capital demands for future business development, including investments in research and development for new products. Shionogi has set a target of raising its payout ratio to 35% (on a consolidated basis) by the end of the fiscal year ending March 31, 2010.

Shionogi plans to propose a year-end dividend of ¥12 yen per share for the fiscal year ended March 31, 2008, for a total annual dividend of ¥22 per share. The company plans to raise its annual dividend for the fiscal year ending March 31, 2009, to ¥28 yen 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.

Intellectual Property Risks

Income is derived from drugs identified by Shionogi based on protection of intellectual property (patent) rights. Nevertheless, it may not be possible to protect various types of intellectual property owned by the company, and it is also conceivable that third parties may infringe the company's intellectual property rights of third parties.

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.

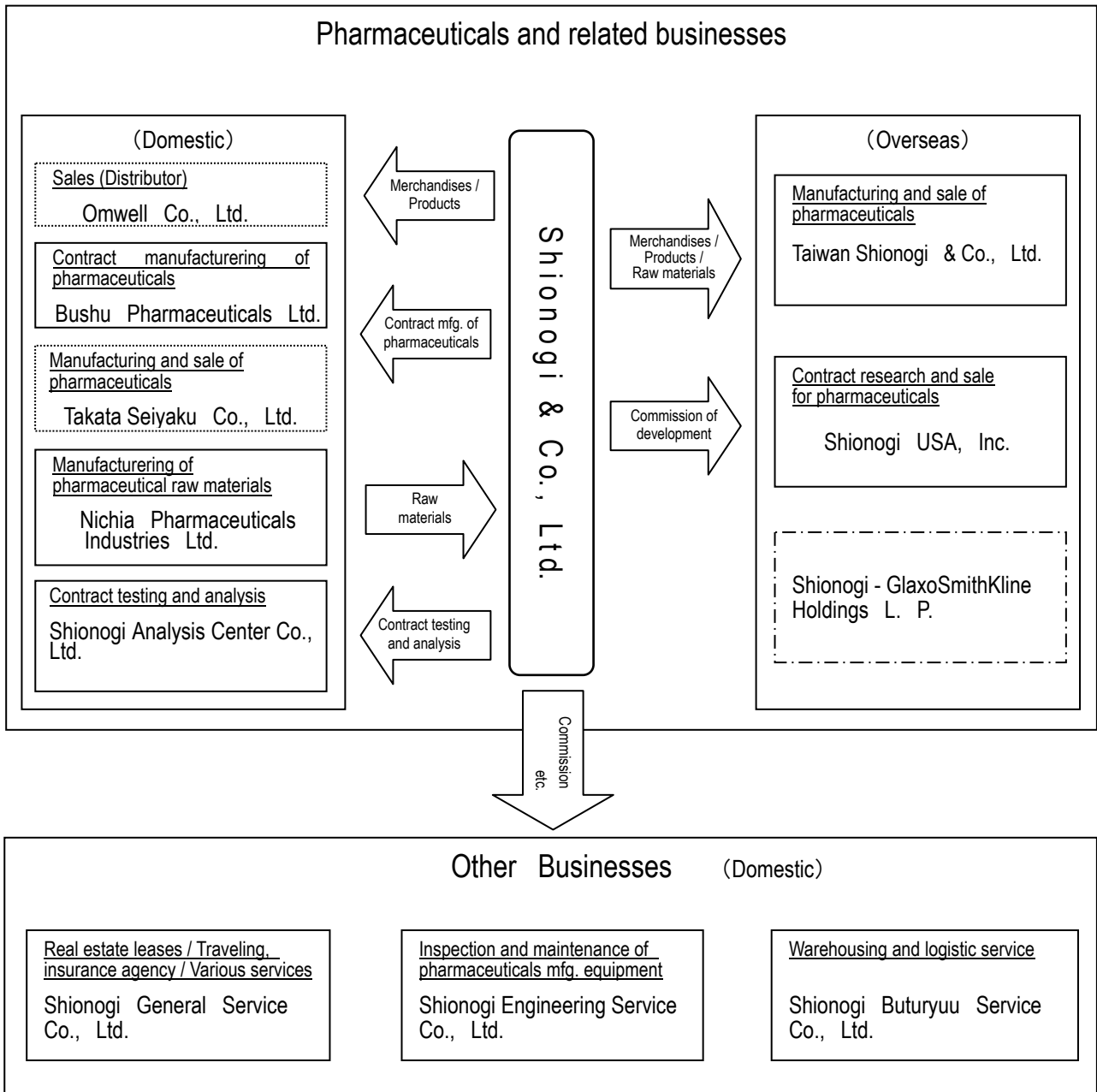
Companies in the Shionogi Group

As of March 31, 2008, the Shionogi Group consisted of Shionogi & Co., Ltd. (the "Company"), 11 consolidated subsidiaries and 5 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs. In addition, they render related services.

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

Business segments	Main products/ merchandise and services	Major companies
Pharmaceuticals and related businesses	Ethical drugs, OTC drugs and Diagnostics	Shionogi & Co., Ltd. Bushu Pharmaceuticals Ltd. Nichia Pharmaceutical Industries Ltd. Shionogi Analysis Center Co., Ltd. Takata Seiyaku Co., Ltd Omwell Co., Ltd. Taiwan Shionogi & Co., Ltd. Shionogi USA, Inc. Shionogi-GlaxoSmithKline Holdings L.P. 3 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.



--- Consolidated subsidiaries

--- Affiliates accounted for by the equity method

--- Affiliates not accounted for by the equity method

Note: Three consolidated subsidiaries and 2 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 "constantly strive to provide medicine of the best possible kind 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 our customers, shareholders, business partners, society, our employees, and all our other stakeholders.

(2) Management Strategy and Challenges Ahead

Operating conditions in the prescription drug industry in Japan are expected to become increasingly severe due to further declines in the birth rate and the resulting pressure on health care expenditures. Global competition is also expected to intensify as globalization advances and R&D expenditures rise sharply.

In such an operating environment, at this stage globalization, including the global development of ethical drugs, is the most significant issue affecting the Shionogi Group's future growth. We therefore believe that it is of paramount importance to focus on nurturing personnel, entering into strategic alliances, and creating systems that will facilitate the continuous discovery of globally competitive drugs and simultaneous development in Japan, Europe, and North America. Shionogi will need to further enhance its earnings model in Japan in order to support such endeavors. In particular, we will concentrate sales and marketing resources in Japan on Crestor and other new products scheduled to be launched in fiscal 2008 and shortly thereafter, such as Irbetan and duloxetine hydrochloride (generic name), to expand the market share of these products. In manufacturing and administrative management, we will enhance productivity and efficiency, as well as our ability to respond globally. The company will also continue to actively pursue strategic investment activities aimed at achieving significant future growth, such as building facilities at the Settsu Plant for solid formulations as well as a new research facility, searching for drug seeds, and conducting licensing activities aimed at strengthening the drug pipeline.

Through these initiatives, Shionogi will be working to realize its fundamental policy—constantly striving to provide medicine of the best possible kind essential for protection of people's health—and further enhance its presence as a pharmaceutical company.

Consolidated Statements of Income

(Units : Millions of yen)

Account	Period	Year ended March 31, 2008		Year ended March 31, 2007		Increase (Decrease)	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
			%		%		%
Net sales		214,268	100.0	199,759	100.0	14,509	7.3
Cost of sales		68,594	32.0	67,542	33.8	1,052	1.6
Gross profit		145,674	68.0	132,216	66.2	13,458	10.2
Selling, general and administrative expenses		105,275	49.1	103,353	51.7	1,922	1.9
Operating income		40,399	18.9	28,863	14.5	11,536	40.0
Non-operating income		3,530	1.6	3,368	1.7	162	4.8
Interest income		1,347		1,141		206	
Dividends income		1,045		661		384	
Real estate rent		593		597		(4)	
Foreign exchange gains		—		58		(58)	
Other		543		909		(366)	
Non-operating expenses		4,050	1.9	4,118	2.1	(68)	(1.7)
Interest expenses		83		95		(12)	
Contribution		1,374		1,272		102	
Loss on disposal of inventories		869		1,057		(188)	
Loss on disposal of fixed assets		880		558		322	
Other		842		1,134		(292)	
Ordinary income		39,879	18.6	28,113	14.1	11,766	41.9
Extraordinary income		1,319	0.6	3,610	1.8	(2,291)	(63.4)
Gain on exchange of investment securities		1,043		2,765		(1,722)	
Gain on sales of investment securities		276		186		90	
Gain on reversal of co-development cost of previous years		—		657		(657)	
Extraordinary loss		1,236	0.5	—	—	1,236	—
Loss on disposal of inventories		796		—		796	
Loss on valuation of investment securities		414		—		414	
Loss on sales of investment securities		25		—		25	
Income before income taxes		39,962	18.7	31,723	15.9	8,239	26.0
Income taxes-current		11,765	5.5	8,702	4.4	3,063	35.2
Income taxes-deferred		3,106	1.5	4,387	2.2	(1,281)	(29.2)
Minority interests in income		(26)	(0.0)	(39)	(0.0)	13	32.8
Net income		25,063	11.7	18,594	9.3	6,469	34.8

Consolidated Balance Sheets

(Units : millions of yen)

Account	Period	As of March 31,2008		As of March 31,2007		Increase (Decrease)
		Amount	Percentage	Amount	Percentage	
(Assets)			%		%	
Current Assets						
Cash and deposits		11,709		86,853		(75,144)
Notes and accounts receivable-trade		67,605		67,575		30
Marketable securities		62,440		—		62,440
Inventories		34,080		32,395		1,685
Deferred tax assets		4,450		5,325		(875)
Other		14,691		16,753		(2,062)
Allowance for doubtful accounts		(13)		(12)		(1)
Total Current assets		194,963	47.1	208,890	48.6	(13,927)
Fixed assets						
Property, plant and equipment						
Buildings and structures		31,255		31,142		113
Machinery, equipment and vehicles		13,377		10,837		2,540
Land		14,811		14,812		(1)
Construction in progress		5,021		5,172		(151)
Other		5,911		5,850		61
Property, plant and equipment, net		70,377	17.0	67,815	15.8	2,562
Intangible fixed assets		5,618	1.4	6,135	1.4	(517)
Investments and other assets						
Investment securities		105,452		123,368		(17,916)
Prepaid pension cost		23,338		20,168		3,170
Deferred tax assets		17		49		(32)
Other		14,101		3,310		10,791
Allowance for doubtful accounts		(165)		(168)		3
Total investments and other assets		142,744	34.5	146,728	34.2	(3,984)
Total fixed assets		218,739	52.9	220,679	51.4	(1,940)
Total assets		413,703	100.0	429,569	100.0	(15,866)

(Units : millions of yen)

Account	Period	As of March 31,2008		As of March 31,2007		Increase (Decrease)
		Amount	Percentage	Amount	Percentage	
(Liabilities)			%		%	
Current liabilities						
Notes and accounts payable-trade		11,301		12,189		(888)
Accrued income taxes		7,611		7,563		48
Reserves						
Reserve for bonuses		6,714		5,958		756
Other reserves		1,010		1,088		(78)
Other		15,805		20,735		(4,930)
Total current liabilities		42,443	10.3	47,535	11.1	(5,092)
Non-current liabilities						
Deferred tax liabilities		18,561		24,698		(6,137)
Reserves						
Reserve for retirement benefits		7,949		8,352		(403)
Other reserves		168		185		(17)
Long-term accounts payable-other		—		2,066		(2,066)
Other		2,345		978		1,367
Total non-current liabilities		29,024	7.0	36,281	8.4	(7,257)
Total liabilities		71,468	17.3	83,817	19.5	(12,349)
(Net assets)						
Owners' equity						
Capital stock		21,279	5.1	21,279	5.0	0
Capital surplus		20,227	4.9	20,227	4.7	0
Retained earnings		297,811	72.0	278,871	64.9	18,940
Treasury stock		(19,280)	(4.7)	(9,088)	(2.1)	(10,192)
Total owners' equity		320,038	77.3	311,289	72.5	8,749
Valuation and translation adjustments						
Valuation difference on available-for-sale securities		22,068	5.3	34,262	7.9	(12,194)
Translation adjustment		(178)	(0.0)	(83)	(0.0)	(95)
Total valuation and translation adjustments		21,889	5.3	34,178	7.9	(12,289)
Minority interests		307	0.1	283	0.1	24
Total net assets		342,235	82.7	345,752	80.5	(3,517)
Total liabilities and net assets		413,703	100.0	429,569	100.0	(15,866)

Consolidated Statements of Changes in Net Assets

[Year ended March 31,2008]

(Units : Millions of yen)

	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Balance at March 31,2007	21,279	20,227	278,871	(9,088)	311,289
Changes of items during the period					
Dividends from surplus			(6,122)		(6,122)
Net income			25,063		25,063
Purchase of treasury stock				(10,192)	(10,192)
Net changes of items other than owners' equity					—
Total changes of items during the period	—	—	18,940	(10,192)	8,748
Balance at March 31,2008	21,279	20,227	297,811	(19,280)	320,038

	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 31,2007	34,262	(83)	34,178	283	345,752
Changes of items during the period					
Dividends from surplus					(6,122)
Net income					25,063
Purchase of treasury stock					(10,192)
Net changes of items other than owners' equity	(12,194)	(94)	(12,289)	23	(12,265)
Total changes of items during the period	(12,194)	(94)	(12,289)	23	(3,516)
Balance at March 31,2008	22,068	(178)	21,889	307	342,235

[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 of Cash Flows

(Units : Millions of yen)

	Year ended March 31,2008	Year ended March 31,2007
	Amount	Amount
I Net cash provided by operating activities		
Income before income taxes and minority interests	39,962	31,723
Depreciation and amortization	10,665	8,797
Loss on disposal of property, plant and equipment	874	556
Gain on sales of investment securities	(276)	(186)
Gain on exchange of investment securities	(1,043)	(2,765)
Loss on valuation of investment securities	414	—
Decrease (increase) in allowance for doubtful accounts	(1)	5
Decrease in reserve for retirement benefits	(3,573)	(4,773)
Decrease in reserve for directors' retirement benefits	(17)	(55)
Interest and dividends income	(2,393)	(1,802)
Interest expenses	83	95
Foreign exchange losses (gains)	13	(45)
Increase (decrease) in notes and accounts receivable-trade	(75)	2,330
Increase in inventories	(1,711)	(5,198)
Decrease (increase) in notes and accounts payable-trade	(860)	1,956
Increase in accrued expenses	555	585
Decrease in accounts payable-other	(5,974)	(2,890)
Directors' bonus paid	—	(64)
Other	(11,984)	(2,641)
Subtotal	24,657	25,629
Interest and dividends income received	2,598	1,971
Interest expenses paid	(50)	(62)
Income tax paid	(11,586)	(13,423)
Net cash provided by operating activities	15,618	14,115
II Net cash used in investment activities		
Payments into time deposits	(4,814)	(31,407)
Proceeds from withdrawal of time deposits	14,529	33,649
Purchase of marketable securities	(19)	(19)
Proceeds from sales and redemption of marketable securities	4,024	4,020
Purchase of investment securities	(7,209)	(4,316)
Proceeds from sales and redemption of investment securities	1,070	861
Purchases of property, plant and equipment	(11,660)	(11,410)
Proceeds from sales of property, plant and equipment	22	28
Collection of loans receivable	312	3
Purchase of stock of affiliates	(634)	(1,693)
Proceeds from sales of stock of affiliates	443	129
Proceeds from exchange of investment securities	—	3,158
Other	(1,399)	(1,420)
Net cash used in investment activities	(5,335)	(8,418)
III Net cash used in financing activities		
Repayments of installment payables	(802)	(718)
Purchase of treasury stock	(10,204)	(337)
Cash dividends paid	(6,114)	(6,122)
Cash dividends paid to minority shareholders	(2)	(2)
Net cash used in financing activities	(17,123)	(7,180)
IV Effect of exchange rate change on cash and cash equivalents	(95)	(113)
V Decrease in cash and cash equivalents	(6,936)	(1,596)
VI Cash and cash equivalents at beginning of period	74,546	76,142
VII Cash and cash equivalents at end of period	67,609	74,546

Notes to Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 11

Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries Ltd., Saishin Igaku Co., Ltd., Shionogi Engineering Service Co., Ltd., Shionogi Buturyuu Service Co., Ltd., Shionogi General Service Co., Ltd., Shionogi Analysis Center Co., Ltd., Aburahi AgroResearch Co., Ltd., Taiwan Shionogi & Co., Ltd., Shionogi USA, Inc., SG Holding Inc. (Newly consolidation) Shionogi Analysis Center Co., Ltd. was newly established and consolidated during the period.

2. Application of equity method

No unconsolidated subsidiaries were accounted for by the equity method for the Year ended March 31, 2008.

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 4 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 net assets; 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 Financial Products 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

[Change of accounting policy]

In accordance with revisions to the Corporation Tax Law, for depreciation of tangible fixed assets acquired from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed to a calculation method based on the revised Corporation Tax Law.

As a result, in the year ended March 31, 2008, operating income, ordinary income and income before income taxes each decreased by ¥498 million compared with the former method.

The impact of this change on segment information is disclosed in 'Segment information'.

[Additional information]

In accordance with revisions to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries depreciate tangible assets acquired before April 1, 2007 until the remaining value of assets reaches 5 percent of acquisition cost, as per pre-revision rules. Thereafter, the difference between the equivalent of 5 percent of the acquisition cost and the disposal cost is depreciated uniformly over five years as part of depreciation expenses.

As a result, in the year ended March 31, 2008, operating income, ordinary income and income before income taxes each decreased by ¥850 million compared with the former method.

The impact of this change on segment information is disclosed in 'Segment information'.

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, 2008.

(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 adjustment in net assets.

(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.

[Change in method of presentation]

In accordance with amendments to the Guidelines to Regulations Governing Interim Consolidated Financial Statements specifying that certificates of deposit (domestic) are to be included in securities, from the year ended March 31, 2008, certificates of deposit (domestic) included in cash and deposits prior to April 1, 2007 are reported as marketable securities. Certificates of deposit (domestic) included in marketable securities as of March 31, 2008 totaled ¥58,400 million. Certificates of deposit (domestic) included in cash and deposits as of March 31, 2007 totaled ¥14,300 million.

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.

Note to consolidated financial statement

1. Notes to consolidated statements of income

	[Year ended March 31, 2008]	[Year ended March 31, 2007]
(1) The major items and amounts included in selling, general and administrative expenses were as follows:		
Sales promotional activities	13,726 Million yen	13,027 Million yen
Salaries	19,411	19,961
Provision for reserve for bonuses	3,456	3,136
Provision for reserve for directors' bonuses	40	44
Retirement benefit expenses	51	276
 R & D expenses	 40,290 Million yen	 37,455 Million yen
(R&D expenses above include the following amounts provided as reserves and retirement: benefit expenses :)		
Provision for reserve for bonuses	1,897 Million yen	1,574 Million yen
Retirement benefit expenses	44	148

2. Notes to consolidated balance sheets

	[As of March 31, 2008]	[As of March 31, 2007]
(1) Accumulated depreciation of property, plant and equipment	164,529 Million yen	161,459 Million yen
(2) Guaranteed liabilities	65	93
(3) Stocks etc, of unconsolidated subsidiaries and affiliates Investments in securities (stocks etc.)	2,898	3,138
(4) Commitments - Lines of credit		
The Company entered into line-of-credit commitments with financial institutions in order to enhance its working capital efficiency. Number of financial institutions and the outstanding balances of these lines of credit are as follows:		
Number of financial institutions	10	11
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	6 Million yen	5 Million yen
Liabilities secured by the above assets:		
'Other' of current liabilities	6 Million yen	6 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	— Million yen	7 Million yen
(Including notes payable related to construction and installation contracts)		

3. Notes to consolidated statement of changes in net assets

[Year ended March 31,2008]

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

	March 31, 2007	Increase	Decrease	March 31, 2008
Shares in issue				
Common stock	351,136,165	—	—	351,136,165
Total	351,136,165	—	—	351,136,165
Treasury stock				
Common stock	10,683,759	5,329,369	—	16,013,128
Total	10,683,759	5,329,369	—	16,013,128

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
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 28, 2007	Common stock	2,723 Million yen	8 Yen	March 31, 2007	June 29, 2007
Meeting of Board of directors on November 5, 2007	Common stock	3,399 Million yen	10 Yen	September 30, 2007	December 3, 2007

B) Dividends whose effective date is subsequent to March 31, 2008

The following is to be approved at the 143rd Annual General Meeting of Shareholders to be held on June 27, 2008.

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 27, 2008	Common stock	4,021 Million yen	Retained earnings	12 Yen	March 31, 2008	June 30, 2008

[Year ended March 31,2007]

(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
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, 2008]	[As of March 31, 2007]
Cash and deposits	11,709 Million yen	86,853 Million yen
Time deposits with a maturity exceeding three months	(2,499)	(12,307)
<u>Cash and cash equivalents including "Marketable securities"</u>	<u>58,400</u>	<u>—</u>
Cash and cash equivalents	67,609 Million yen	74,546 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, 2008]	[As of March 31, 2007]
(1) Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of leased properties		
Acquisition cost equivalent	2,066 Million yen	1,995 Million yen
<u>Accumulated depreciation equivalent</u>	<u>1,213</u>	<u>738</u>
Term-end balance	853 Million yen	1,257 Million yen

Note: Tool and furniture account for most of the above balances.

(2) Breakdown of period end balance equivalent of unexpired leases		
Within one year	439 Million yen	455 Million yen
<u>Exceeding one year</u>	<u>414</u>	<u>801</u>
Total	853 Million yen	1,257 Million yen

(3) Lease payments and depreciation equivalent		
Lease payments	478 Million yen	455 Million yen
Depreciation equivalent	478 Million yen	455 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 leased assets.

6. Notes to securities

I [Year ended March 31,2008]

- (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)

	<u>Value reported in consolidated balance sheet</u>	<u>Market price</u>	<u>Difference</u>
A) National, local government and other public bonds	38,068 Million yen	39,242 Million yen	1,173 Million yen
B) Corporate bonds	—	—	—
C) Other bonds	—	—	—
Subtotal	38,068 Million yen	39,242 Million yen	1,173 Million yen

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

	<u>Value reported in consolidated balance sheet</u>	<u>Market price</u>	<u>Difference</u>
A) National, local government and other public bonds	2,005 Million yen	2,005 Million yen	— Million yen
B) Corporate bonds	—	—	—
C) Other bonds	19	19	0
Subtotal	2,024 Million yen	2,024 Million yen	0 Million yen
Total	40,093 Million yen	41,267 Million yen	1,173 Million yen

- (2) Other securities; market value available
-
- (Fair value reported in consolidated balance sheets is in excess of the acquisition cost)

	<u>Acquisition cost</u>	<u>Value reported in consolidated balance sheet</u>	<u>Difference</u>
A) Stocks	17,658 Million yen	54,477 Million yen	36,818 Million yen
B) Bonds			
a) National, local government and other public bonds	—	—	—
b) Corporate bonds	—	—	—
c) Other bonds	1,291	1,831	539
C) Other securities	—	—	—
Subtotal	18,950 Million yen	56,308 Million yen	37,358 Million yen

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

	<u>Acquisition cost</u>	<u>Value reported in consolidated balance sheet</u>	<u>Difference</u>
A) Stocks	3,269 Million yen	3,152 Million yen	(117) Million yen
B) Bonds			
a) National, local government and other public bonds	—	—	—
b) Corporate bonds	—	—	—
c) Other bonds	—	—	—
C) Other securities	5,000	4,910	(89)
Subtotal	8,269 Million yen	8,062 Million yen	(206) Million yen
Total	27,219 Million yen	64,371 Million yen	37,151 Million yen

- (3) Other securities sold in their fiscal year

	<u>Sales value</u>	<u>Sales gain</u>	<u>Sales loss</u>
	288 Million yen	276 Million yen	0 Million yen

- (4) Other securities sold in their fiscal year

Other securities

A) Unlisted stocks (excluding OTC stocks)	2,118 Million yen
B) Certificates of deposits (domestic)	58,400 Million yen

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

	<u>Within 1 year</u>	<u>From 1 year to 5 years</u>	<u>From 5 years to 10 years</u>	<u>Over 10 years</u>
A) Bonds				
a) National, local government and other public bonds	4,020 Million yen	16,029 Million yen	20,023 Million yen	— Million yen
b) Corporate bonds	—	—	—	—
c) Other bonds	19	575	—	1,256
B) Other securities	58,400	—	—	—
Total	62,440 Million yen	16,605 Million yen	20,023 Million yen	1,256 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)

	<i>Value reported in consolidated balance sheet</i>	<i>Market price</i>	<i>Difference</i>
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)

	<i>Value reported in consolidated balance sheet</i>	<i>Market price</i>	<i>Difference</i>
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)

	<i>Acquisition cost</i>	<i>Value reported in consolidated balance sheet</i>	<i>Difference</i>
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)

	<i>Acquisition cost</i>	<i>Value reported in consolidated balance sheet</i>	<i>Difference</i>
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

	<i>Sales value</i>	<i>Sales gain</i>	<i>Sales loss</i>
	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

	<i>Within 1 year</i>	<i>From 1 year to 5 years</i>	<i>From 5 years to 10 years</i>	<i>Over 10 years</i>
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	14,300	—	—	—
Total	18,342 Million yen	16,813 Million yen	20,617 Million yen	1,390 Million yen

7. Notes to derivative transactions

Derivative transactions for the year from April 1, 2007 to March 31, 2008 and the year from April 1, 2006 to March 31, 2007.

(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, 2008.

(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, 2007, and March 31, 2008.

8. Notes 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

	[As of March 31, 2008]	(Units : Million yen) [As of March 31, 2007]
a. Retirement benefit obligations	(89,438)	(91,839)
b. Pension assets	108,811	126,512
c. Unfunded retirement benefit obligations (a + b)	19,372	34,673
d. Unrecognized actuarial difference	9,646	(6,553)
e. Unrecognized prior service cost	(13,630)	(16,303)
f. Net accrued retirement benefits reflected in consolidated balance sheet (c + d + e)	15,388	11,815
g. Prepaid pension costs	23,338	20,168
h. Accrued retirement benefits (f – g)	(7,949)	(8,352)

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

	[Year ended March 31, 2008]	(Units : Million yen) [Year ended March 31, 2007]
a. Service cost	1,851	1,908
b. Interest cost	1,835	1,869
c. Expected return on plan assets	(2,786)	(2,710)
d. Amortization of actuarial difference	1,135	1,348
e. Amortization of prior service cost	(2,673)	(2,673)
f. Other cost	813	830
g. Retirement benefit expenses (a + b + c + d + e + f)	175	572

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, 2008]	[As of March 31, 2007]
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%	2.2%
d. Years to amortize prior service cost :	10 years(to be amortized by straight-line method)	The same as at left
e. Years to amortize actuarial difference :	10 years (to be amortized by straight-line method in the each following year)	The same as at left

9. Notes to tax effects

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

	[As of March 31, 2008]	(Units: millions of yen) [As of March 31, 2007]
(1) Current :		
Deferred tax assets:		
Reserve for bonuses	2,725	2,419
Accrued enterprise tax	687	705
Research and development expenses	—	734
Reserve for sales rebates	342	363
Other	772	1,183
Subtotal	4,527	5,406
Valuation allowance	(10)	(25)
Total deferred tax assets	4,516	5,380
Deferred tax liabilities:		
Other	(66)	(55)
Total deferred tax liabilities	(66)	(55)
Net deferred tax assets	4,449	5,325
(2) Non-current:		
Deferred tax assets:		
Research and development expenses	1,964	1,447
Loss on revaluation of investments in securities	437	448
Loss carry forward of a consolidated subsidiary	352	320
Reserve for directors retirement benefits	68	75
Other	1,338	1,170
Subtotal	4,161	3,462
Valuation allowance	(731)	(750)
Total deferred tax assets	3,429	2,711
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(15,083)	(23,418)
Prepaid pension cost	(5,955)	(3,333)
Special depreciation	(315)	(393)
Other	(619)	(214)
Total deferred tax liabilities	(21,973)	(27,359)
Net deferred tax liabilities	(18,544)	(24,648)

Note: Net deferred tax assets and liabilities in the years ended March 31, 2008 and 2007 are included in consolidated balance sheets as follows:

		[As of March 31, 2008]	[As of March 31, 2007]
Current assets	—deferred tax assets	4,450	5,325
Fixed assets	—deferred tax assets	17	49
Current liabilities	—‘other’ of current liabilities	(0)	(0)
Non-current liabilities	—deferred tax liabilities	(18,561)	(24,698)

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

	[As of March 31, 2008]	[As of March 31, 2007]
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	3.1	4.8
Dividends not taxable for income tax purpose	(0.6)	(0.4)
Tax credit	(4.4)	(3.9)
Inhabitants' per capita taxes	0.3	0.4
Loss carry forward of a consolidated subsidiary	—	0.4
Differences between statutory tax rate in Japan and income tax rate applied for overseas consolidated subsidiaries	(0.2)	(0.2)
Loss on valuation of stocks of affiliates	(1.1)	—
Other	(0.5)	(0.4)
Effective tax rates	37.2%	41.3%

10. Notes to business combinations

[Year ended March 31, 2008]

N/A

[Year ended March 31, 2007]

As of April 1, 2006, 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 5 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.

11. Notes to segment information

1. Business Segment Information

[Year ended March 31, 2008] (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	208,431	5,837	214,268	—	214,268
(2) Inter-group sales and transfers	—	3,730	3,730	(3,730)	—
Total	208,431	9,567	217,998	(3,730)	214,268
Operating expenses	169,612	7,987	177,599	(3,730)	173,869
Operating income	38,818	1,580	40,399	0	40,399
II . Assets, depreciation and capital expenditures:					
Total assets	270,751	11,091	281,843	131,860	413,703
Depreciation	11,843	9	11,853	—	11,853
Capital expenditures	25,586	9	25,595	—	25,595

[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

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.

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 134,051 million yen in the Year ended March 31, 2008, and 172,188 million yen in the Year ended March 31, 2007, respectively. The significant items are enough operating funds (marketable securities) and long-term investment funds (investments in securities) in the Company as of March 31, 2008, and enough operating funds (cash and deposits and marketable securities) and long-term investment funds (investments in securities) in the Company as of March 31, 2007, respectively

5. Change of accounting policy

In accordance with revisions to the Corporation Tax Law, for depreciation of tangible fixed assets acquired from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed to a calculation method based on the revised Corporation Tax Law.

With this change, operating expenses in the Pharmaceuticals and Related Businesses and the Other Businesses segments for the year ended March 31, 2008 increased by ¥498 million and ¥0 million, respectively, compared with the former method, decreasing operating income in each segment by the same respective amount.

6. Additional information

In accordance with revisions to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries depreciate tangible assets acquired before April 1, 2007 until the remaining value of assets reaches 5 percent of acquisition cost, as per pre-revision rules. Thereafter, the difference between the equivalent of 5 percent of the acquisition cost and the disposal cost is depreciated uniformly over five years as part of depreciation expenses.

With this change, operating expenses in the Pharmaceuticals and Related Businesses and the Other Businesses segments for the year ended March 31, 2008 increased by ¥850 million and ¥0 million, respectively, compared with the former method, decreasing operating income in each segment by the same respective amount.

2. Segment information by geographic area

Segment information by geographic area for the year from April 1, 2007 to March 31, 2008 and the year from April 1, 2006 to March 31, 2007.

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

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

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, 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.

12. Notes to transactions with related party

Transactions with related party for the year from April 1, 2007 to March 31, 2008, and for the year from April 1, 2006 to March 31, 2007

There were no significant transactions.

13. Notes to amounts per share

	[Year ended March 31, 2008]	[Year ended March 31, 2007]
Net assets per share	1,020.31 yen	1,014.73 yen
Earnings per share	74.21 yen	54.61 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, 2008]	[As of March 31, 2007]
Total net assets	342,235 million yen	345,752 million yen
Amount deducted from total net assets	307 million yen	283 million yen
(Amounts attributed to minority interests in total net assets)	(307 million yen)	(283 million yen)
Net assets at year end available to common stocks	341,928 million yen	345,468 million yen
Shares outstanding as of the period end	335,123 thousands of stocks	340,452 thousands of stocks

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

	[Year ended March 31, 2008]	[Year ended f March 31, 2007]
Net income	25,063 million yen	18,594 million yen
The amount which is not attributable to ordinary shareholders	— million yen	— million yen
Net income related to common stocks	25,063 million yen	18,594 million yen
Average number of shares outstanding during the period	337,744 thousands of stocks	340,519 thousands of stocks

Non-consolidated Statements of Income

(Units : Millions of yen)

Account	Period	Year ended March 31, 2008		Year ended March 31, 2007		Increase (Decrease)	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
			%		%		%
Net sales		201,002	100.0	185,686	100.0	15,316	8.2
Cost of sales		61,078	30.4	59,382	32.0	1,696	2.9
Gross profit		139,924	69.6	126,304	68.0	13,620	10.8
Selling, general and administrative expenses		103,527	51.5	101,411	54.6	2,116	2.1
Operating income		36,397	18.1	24,893	13.4	11,504	46.2
Non-operating income		5,241	2.6	4,925	2.7	316	6.4
Interest income		533		490		43	
Interest on securities		847		686		161	
Dividends income		1,417		1,125		292	
Real estate rent		1,985		1,938		47	
Other		457		684		(227)	
Non-operating expenses		4,397	2.2	3,833	2.1	564	14.7
Interest expenses		40		33		7	
Contribution		1,363		1,245		118	
Depreciation		470		459		11	
Loss on disposal of inventories		843		930		(87)	
Loss on disposal of fixed assets		807		519		288	
Other		872		644		228	
Ordinary income		37,240	18.5	25,985	14.0	11,255	43.3
Extraordinary income		1,319	0.7	3,610	1.9	(2,291)	(63.4)
Gain on exchange of investment securities		1,043		2,765		(1,722)	
Gain on sales of investment securities		276		65		211	
Gain on reversal of co-development cost of previous years		—		657		(657)	
Gain on sales of stocks affiliates		—		120		(120)	
Extraordinary loss		2,428	1.2	386	0.2	2,042	529.0
Loss on valuation of stocks of affiliates		1,114		—		1,114	
Loss on disposal of inventories		796		—		796	
Loss on valuation of investment securities		414		—		414	
Loss on sales of stocks of affiliates		101		—		101	
Loss on liquidation of an investment security		—		386		(386)	
Income before income taxes		36,132	18.0	29,209	15.7	6,923	23.7
Income taxes-current		10,740	5.3	7,370	4.0	3,370	45.7
Income taxes-deferred		2,913	1.5	4,514	2.4	(1,601)	(35.5)
Net income		22,479	11.2	17,324	9.3	5,155	29.8

Non-consolidated Balance Sheets

(Units : Millions of yen)

Account	Period	As of March 31, 2008		As of March 31, 2007		Increase (decrease)
		Amount	Percentage	Amount	Percentage	
(Assets)			%		%	
Current assets						
Cash and deposits		2,500		78,951		(76,451)
Notes receivable-trade		189		218		(29)
Accounts receivable-trade		65,541		65,258		283
Marketable securities		62,420		4,027		58,393
Merchandise		3,181		4,764		(1,583)
Finished goods		8,766		8,692		74
Semi-finished goods		5,818		4,526		1,292
Raw materials		3,634		3,064		570
Work in process		8,866		7,581		1,285
Supplies		1,508		1,316		192
Advance payment		11,261		7,155		4,106
Prepaid expenses		15		25		(10)
Deferred tax assets		4,260		4,974		(714)
Short-term loans		9,450		4,347		5,103
Other		4,417		4,023		394
Allowance for doubtful accounts		(158)		(7)		(151)
Total current assets		191,673	47.9	198,922	47.9	(7,249)
Fixed assets						
Property, plant and equipment:						
Buildings		26,163		25,985		178
Structures		1,340		1,380		(40)
Machinery and equipment		9,875		7,582		2,293
Vehicles		66		44		22
Equipment		5,661		5,612		49
Land		10,124		10,124		0
Constructions in progress		5,314		4,724		590
Property, plant and equipment, net		58,547	14.6	55,454	13.4	3,093
Intangible fixed assets						
Patent right		110		155		(45)
Right of trademark		1,806		2,075		(269)
Software		2,128		2,017		111
Distribution right		1,105		1,405		(300)
Telephone subscription right		69		69		0
Right of using facilities		32		34		(2)
Total intangible fixed assets		5,252	1.3	5,757	1.4	(505)
Investments and other assets						
Investment securities		102,551		120,227		(17,676)
Stocks of affiliates		3,893		4,318		(425)
Investment in other securities of affiliates		845		1,642		(797)
Investments in capital		—		27		(27)
Long-term loans		20		308		(288)
Long-term loans receivable from employees		4		6		(2)
Loans receivable from affiliates		—		5,250		(5,250)
Long-term prepaid expenses		13,164		2,043		11,121
Prepaid pension cost		23,338		20,168		3,170
Other		1,029		1,033		(4)
Allowance for doubtful accounts		(165)		(168)		3
Total investments and other assets		144,680	36.2	154,858	37.3	(10,178)
Total fixed assets		208,480	52.1	216,070	52.1	(7,590)
Total assets		400,154	100.0	414,992	100.0	(14,838)

(Units : Millions of yen)

Account	Period	As of March 31, 2008		As of March 31, 2007		Increase (decrease)
		Amount	Percentage	Amount	Percentage	
(Liabilities)			%		%	
Current liabilities:						
Accounts payable-trade		11,041		10,026		1,015
Accounts payable-other		5,657		10,032		(4,375)
Accrued expenses		4,141		4,586		(445)
Accrued income taxes		7,054		6,668		386
Deposits received		3,172		2,725		447
Reserve for bonuses		6,433		5,694		739
Reserve for directors' bonuses		38		40		(2)
Reserve for rebates of sales		843		895		(52)
Reserve for returned goods unsold		95		82		13
Other		189		88		101
Total current liabilities		38,667	9.7	40,841	9.8	(2,174)
Non-current liabilities:						
Deferred tax liabilities		18,464		24,601		(6,137)
Reserve for retirement benefits		7,906		8,310		(404)
Reserve for directors' retirement benefits		168		185		(17)
Other		630		706		(76)
Total non-current liabilities		27,170	6.8	33,803	8.2	(6,633)
Total liabilities		65,837	16.5	74,645	18.0	(8,808)
(Net Assets)						
Owners' equity						
Capital stock		21,279	5.3	21,279	5.1	0
Capital surplus						
Legal capital surplus		20,227		20,227		0
Total capital surplus		20,227	5.0	20,227	4.9	0
Retained earnings						
Legal retained earnings		5,388		5,388		0
Others retained earnings						
Reserve for special depreciation		461		575		(114)
Reserve for advanced depreciation of fixed assets		24		25		(1)
General reserve		258,645		248,645		10,000
Retained earnings brought forward		25,503		19,031		6,472
Total retained earnings		290,021	72.5	273,665	65.9	16,356
Treasury stock		(19,280)	(4.8)	(9,088)	(2.2)	(10,192)
Total owners' equity		312,248	78.0	306,083	73.7	6,165
Valuation and translation adjustments						
Valuation difference on available-for-sale securities		22,068	5.5	34,262	8.3	(12,194)
Total valuation and translation adjustments		22,068	5.5	34,262	8.3	(12,194)
Total net assets		334,316	83.5	340,346	82.0	(6,030)
Total liabilities and net assets		400,154	100.0	414,992	100.0	(14,838)

Non-consolidated Statement of Changes in Net Assets

[Year ended March 31,2008]

(Units: Millions of yen)

	Owners' equity									
	Capital stock	Capital surplus	Retained earnings						Treasury stock	Total owners' equity
		Legal capital surplus	Legal retained earnings	Other retained earnings				Total Retained earnings		
				Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings brought forward			
Balance at March 31, 2007	21,279	20,227	5,388	575	25	248,645	19,031	273,665	(9,088)	306,083
Changes of items during the period										
Provision of reserve for special depreciation				149			(149)	—		—
Reversal of reserve for special depreciation				(263)			263	—		—
Reversal of reserve for advanced depreciation of fixed assets					(0)		0	—		—
Provision of general reserve						10,000	(10,000)	—		—
Dividends from surplus							(6,122)	(6,122)		(6,122)
Net income							22,479	22,479		22,479
Purchase of treasury stock									(10,192)	(10,192)
Net changes of items other than owners' equity										
Total changes of items during the period	—	—	—	(114)	(0)	10,000	6,471	16,356	(10,192)	6,164
Balance at March 31,2008	21,279	20,227	5,388	461	24	258,645	25,503	290,021	(19,280)	312,248

	Valuation and translation adjustments	Total net assets
	Valuation difference on available-for-sale securities	
Balance at March 31, 2007	34,262	340,346
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		—
Provision of general reserve		—
Dividends from surplus		(6,122)
Net income		22,479
Purchase of treasury stock		(10,192)
Net changes of items other than owners' equity	(12,194)	(12,194)
Total changes of items during the period	(12,194)	(6,030)
Balance at March 31,2008	22,068	334,316

[Year ended March 31,2007]

(Units : Millions of yen)

	Owners' equity									
	Capital stock	Capital surplus	Retained earnings						Treasury stock	Total owners' equity
		Legal capital surplus	Legal retained earnings	Other retained earnings				Total Retained earnings		
				Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings brought forward			
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.

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 Financial Products Exchange Law article 2.2)
The securities based on Financial Products 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 Financial Products 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 fixed 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:	2 to 60 years
Machinery and equipment and vehicles:	2 to 17 years

[Change of accounting policy]

In accordance with revisions to the Corporation Tax Law, for depreciation of tangible fixed assets acquired from April 1, 2007, the Company has changed to a calculation method based on the revised Corporation Tax Law.

As a result, in the year ended March 31, 2008, operating income, ordinary income and income before income taxes each decreased by ¥486 million compared with the former method.

[Additional information]

In accordance with revisions to the Corporation Tax Law, the Company depreciates tangible assets acquired before April 1, 2007 until the remaining value of assets reaches 5 percent of acquisition cost, as per pre-revision rules. Thereafter, the difference between the equivalent of 5 percent of the acquisition cost and the disposal cost is depreciated uniformly over five years as part of depreciation expenses.

As a result, in the year ended March 31, 2008, operating income, ordinary income and income before income taxes each decreased by ¥822 million compared with the former method.

- (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, 2008.

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 non-consolidated financial statements are stated exclusive of consumption tax.

[Change in method of presentation]

In accordance with amendments to the Guidelines to Regulations Governing Financial Statements specifying that certificates of deposit (domestic) are to be included in securities, from the year ended March 31, 2008, certificates of deposit (domestic) included in cash and deposits prior to April 1, 2007 are reported as marketable securities.

Furthermore, interest on certificates of deposit (domestic), included in interest income prior to April 1, 2007, is now reported as interest on securities.

Certificates of deposit (domestic) included in marketable securities as of March 31, 2008 totaled ¥58,400 million. Certificates of deposit (domestic) included in cash and deposits as of March 31, 2007 totaled ¥14,300 million.

Furthermore, interest on certificates of deposit (domestic) included in interest on securities for the year ended March 31, 2008 totaled ¥138 million. Interest on certificates of deposit (domestic) included in interest income for the year ended March 31, 2007 totaled ¥26 million.

Notes to Non-consolidated Financial Statements

1. Notes to non-consolidated statements of income

	[Year ended March 31, 2008]	[Year ended March 31, 2007]
1. Transaction to affiliated companies		
Income from real estate rent	1,514 Million yen	1,526 Million yen
Dividend income	376	469
2. The major items and amounts included in selling, general and administrative expenses were as follows:		
Advertising	4,369 Million yen	4,948 Million yen
Sales promotional activities	13,613	12,922
Salaries	18,436	19,046
Provision for reserve for bonuses	3,407	3,073
Provision for reserve for directors' bonuses	38	40
Retirement benefit expenses	19	238
Depreciation	1,678	1,647
R & D expenses	40,243 Million yen	37,409 Million yen
(R&D expenses above include following amounts provided as reserves and retirement benefit expenses and depreciation :)		
Provision for reserve for bonuses	1,895 Million yen	1,572 Million yen
Retirement benefit expenses	30	138
Depreciation	3,905	2,908

2. Notes to non-consolidated balance sheet

	[As of March 31, 2008]	[As of March 31, 2007]
1. Receivables and Obligations to affiliated companies		
Current assets		
Accounts receivable-trade	2,864 Million yen	2,979 Million yen
Short-term loans receivable	9,450	4,347
2. Accumulated depreciation of property, plant and equipment	156,176 Million yen	153,518 Million yen
3. Commitments - Lines of credit		
The Company entered into line-of-credit commitments with financial institutions in order to enhance its working capital efficiency. Number of financial institutions and the outstanding balances of these lines of credit are as follows:		
Number of financial institutions	10	11
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
4. Guaranteed liabilities	65 Million yen	93 Million yen
5. Consumption tax		
Consumption tax paid and consumption tax received are netted and the amount is included in other current assets as of March 31, 2008, and in other current liabilities as of March 31, 2007, respectively.		

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

[Year ended March 31, 2008]

Type and number of shares of treasury stock		(Units: Shares)		
	March 31, 2007	Increase	Decrease	March 31, 2008
Treasury stock				
Common stock	10,683,759	5,329,369	—	16,013,128
Total	10,683,759	5,329,369	—	16,013,128

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

[Year ended March 31, 2007]

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, 2008]	[As of March 31, 2007]
(1) Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of leased properties		
Acquisition cost equivalent	1,327 Million yen	1,265 Million yen
Accumulated depreciation equivalent	661	336
Term-end balance	666 Million yen	929 Million yen

Note: Tool and furniture account for most of the above balances.

(2) Breakdown of period end balance equivalent of unexpired leases		
Within one year	331 Million yen	308 Million yen
Exceeding one year	335	620
Total	666 Million yen	929 Million yen

(3) Lease payments and depreciation equivalent		
Lease payments	329 Million yen	308 Million yen
Depreciation equivalent	329 Million yen	308 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 leased assets.

5. Notes to securities

The market value of investments in subsidiaries and affiliates was not determinable at March 31, 2008 and 2007.

6. Notes to tax effects

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

	[As of March 31, 2008]	(Units: millions of yen) [As of March 31, 2007]
(1) Current :		
Deferred tax assets:		
Reserve for bonuses	2,611	2,311
Research and development expenses	—	734
Accrued enterprise tax	650	637
Reserve for sales rebates	342	363
Other	721	981
Total deferred tax assets	<u>4,325</u>	<u>5,029</u>
Deferred tax liabilities	(65)	(54)
Net deferred tax assets	<u>4,260</u>	<u>4,974</u>
(2) Non-current:		
Deferred tax assets:		
Research and development expenses	1,964	1,447
Loss on revaluation of investments in securities	437	448
Reserve for directors retirement benefits	68	75
Other	1,039	786
Total deferred tax assets	<u>3,509</u>	<u>2,757</u>
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(15,083)	(23,418)
Prepaid pension cost	(5,955)	(3,333)
Special depreciation	(315)	(393)
Other	(619)	(213)
Total deferred tax liabilities	<u>(21,973)</u>	<u>(27,358)</u>
Net deferred tax liabilities	<u>(18,464)</u>	<u>(24,601)</u>

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

	[As of March 31, 2008]	[As of March 31, 2007]
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	3.3	5.6
Dividends not taxable for income tax purpose	(1.1)	(1.0)
Inhabitants' per capita taxes	0.3	0.4
Tax credit	(4.8)	(4.2)
Other	(0.5)	(0.7)
Effective tax rates	<u>37.8%</u>	<u>40.7%</u>

7. Notes to business combinations

[Year ended March 31, 2008]

N/A

[Year ended March 31, 2007]

As of April 1, 2006, 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 5 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.

8. Notes to amounts per share

	[Year ended March 31, 2008]	[Year ended March 31, 2007]
Net assets per share	997.59 yen	999.69 yen
Earnings per share	66.56 yen	50.88 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, 2008]	[As of March 31, 2007]
Total net assets	334,316 million yen	340,346 million yen
Amount deducted from total net assets	— million yen	— million yen
Net assets at year end available to common stocks	334,316 million yen	340,346 million yen
Shares outstanding as of the period end	335,123 thousands of stocks	340,452 thousands of stocks

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

	[Year ended March 31, 2008]	[Year ended f March 31, 2007]
Net income	22,479 million yen	17,324 million yen
The amount which is not attributable to ordinary shareholders	— million yen	— million yen
Net income related to common stocks	22,479 million yen	17,324 million yen
Average number of shares outstanding during the period	337,744 thousands of stocks	340,519 thousands of stocks

Others

1. Change of Directors and Auditors (Scheduled for June 27, 2008)

1. Change of Representatives

There is no change.

2. Change of other Directors and Auditors

(1)New Corporate Auditor* Candidate

Shinichi Yokoyama (Chairman of Sumitomo Life Insurance Company)

(2)Retiring Corporate Auditor*

Uragami Toshiomi

* Outside corporate auditor appointed pursuant to Article 2, Paragraph 16 of the Corporation Law.

Note: The 143rd Annual General Meeting of Shareholders to be held on June 27, 2008 will decide on the new candidates for Corporate Auditor.

2. Status of production, purchases, orders and sales

1. Production

The consolidated production results for each business segment for the Year ended March 31, 2008 was as follows:

(Units: Millions of yen)

Business Segment	Amount	Percentage (%)
Pharmaceuticals and related businesses	135,864	(6.4)
Ethical drugs	122,237	(7.7)
Contract manufacturing	5,159	54.3
OTC drugs	5,648	(11.5)
Diagnostics	2,820	(8.6)
Other businesses	—	—
Total	135,864	(6.4)

Notes: 1. Amounts are calculated based on net sales prices.
2. Amounts are stated exclusive of consumption tax.

2. Purchases

The consolidated purchases for each business segment for the Year ended March 31, 2008 was as follows:

(Units: millions of yen)

Business Segment	Amount	Percentage (%)
Pharmaceuticals and related businesses	16,814	(10.5)
Ethical drugs	16,258	(9.7)
OTC drugs	22	(15.4)
Diagnostics	534	(29.4)
Other businesses	—	—
Total	16,814	(10.5)

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, 2008 was as follows:

(Units: millions of yen)

Business Segment	Amount	Percentage (%)
Pharmaceuticals and related businesses	208,431	8.6
Ethical drugs	161,432	2.7
Contract manufacturing	5,892	47.2
OTC drugs	5,674	(7.4)
Diagnostics	3,390	1.8
License fee as royalty income	32,042	50.7
Other businesses	5,837	(25.6)
Total	214,268	7.3

Notes: 1. Amounts are sales to customers outside the Shionogi Group.
2. Amounts are stated exclusive of consumption tax.