SHIONOGI & CO., LTD.

Continually providing the superior medicines essential to people's health

SONG for you!

Strategic Focus on Human Health

Annual Report 2003

Year ended March 31, 2003

Profile

Since 1957, the Shionogi Group has followed a corporate mission of continually providing the superior medicines essential to people's health. Today, we remain committed to creating and marketing pharmaceuticals that effectively improve healthcare and raise the quality of life for people around the world. Shionogi takes an integrated approach to drug creation, production and marketing to promote effectiveness in improving healthcare and earn the trust of healthcare professionals and patients. This approach is essential to the Company's ability to continue growing and expanding its operations globally, and to meet the expectations of our stakeholders, including customers, society, shareholders and employees.

About the Cover

Shionogi began corporate advertising in January 2001. The cover photo shows Ayako Kondo, the main character in the Company's corporate advertising.

Corporate advertising takes the four letters **SONG** that appear in **S**HI**ON**O**G**I and connects them with the idea that both songs and medicines can heal and encourage people, Shionogi is working to convey its mission throughout the world through the following message.

There is a SONG within SHIONOGI.

We at Shionogi believe that both songs and medicines have the power to heal.

Songs can provide encouragement and cheer.

Medicines help the recovery of the body and the spirit.

We want to continue making superior medicines that help people enjoy healthy, happy daily lives.

These beliefs underlie all we do for our customers.

A SONG for you…Shionogi & Co., Ltd.

Contents

Forward-Looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

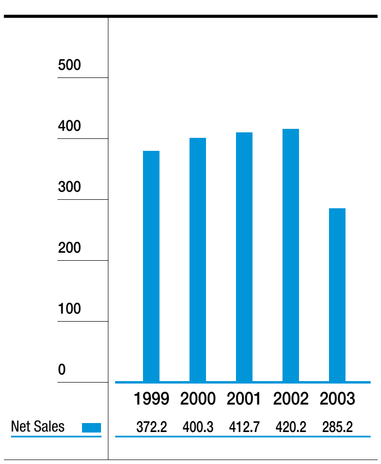
Financial Highlights

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

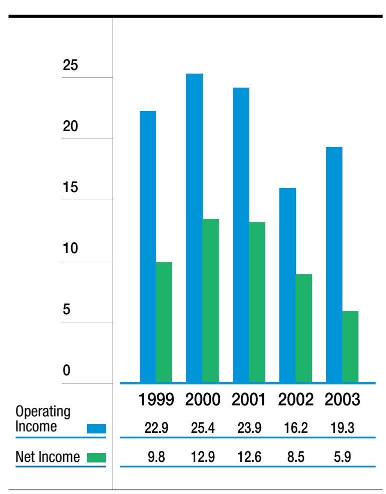
	Millions of yen		Percentage change	Thousands of U.S. dollars
	2003	2002	**2003**/2002	**2003**
For the years ended March 31:				
Net sales	**¥285,232**	¥420,188	(32.1)%	**$2,372,978**
Operating income	**19,266**	16,184	19.0	**160,283**
Income before income taxes and minority interests	**9,139**	18,755	(51.3)	**76,032**
Net income	**5,904**	8,456	(30.2)	**49,118**
Research and development expenses	**31,284**	30,602	2.2	**260,266**
Capital investment	**9,012**	8,810	2.3	**74,975**
Per share amounts (in yen and U.S. dollars)				
Net income	**¥16.66**	¥24.28	(31.4)%	**$0.14**
Cash dividends applicable to the year	**8.50**	8.50	—	**0.07**
As of March 31:				
Total assets	**¥371,704**	¥480,668	(22.7)%	**$3,092,379**
Total shareholders' equity	**274,824**	280,675	(2.1)	**2,286,389**

Note: The U.S. dollar figures have been calculated, for convenience only, at the rate of ¥120.20=US$1, the approximate exchange rate on March 31, 2003.

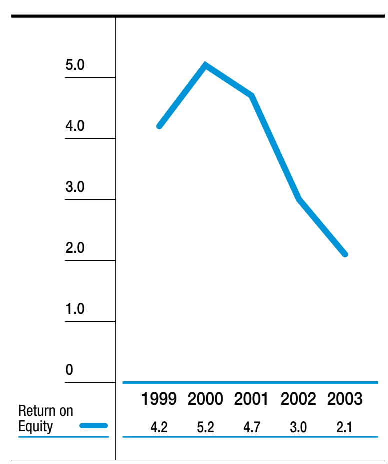
Net Sales
(Billions of yen)



Operating Income/Net Income
(Billions of yen)



Return on Equity
(%)



Note: The introduction of present-value accounting in the fiscal year ended March 31, 2001 resulted in a negative effect on return on equity.

To Our Stakeholders

During fiscal 2002, the year ended March 31, 2003, Shionogi made significant progress in focusing its resources on the core ethical drug business, raising operating efficiency and enhancing the Company's ability to rapidly create innovative drugs and market them globally.

Shionogi's operating environment was challenging during fiscal 2002 as economic conditions in Japan remained unfavorable. Moreover, measures to control healthcare costs implemented during the fiscal year inhibited growth in the domestic pharmaceuticals market. These included a reduction in National Health Insurance (NHI) drug prices averaging 6.3 percent throughout the industry in April 2002, and an increase in co-payments for the elderly in October 2002. Pharmaceutical companies from the United States and Europe increased their activities in the Japanese market, which intensified competition further.

Motozo Shiono, President

In this environment, Shionogi made progress toward the objectives of the medium-term management plan implemented in April 2000 to evolve into a strong company with presence.

Net sales decreased 32.1 percent compared with the previous fiscal year to ¥285,232 million, due to the effect of the reduction of NHI drug prices and Shionogi's program to re-engineer its business structure, which excluded a significant percentage of net sales from the consolidated statements of income. Despite the decrease in net sales and an increase in R&D expenses reflecting Shionogi's emphasis on creating original new drugs, consolidated operating income increased 19.0 percent compared with the previous fiscal year to ¥19,266 million. The increase reflected the success of Shionogi's efforts under its medium-term management plan to emphasize its core pharmaceuticals business. Expenses for retirement benefit payments as part of the shift of non-core businesses to joint ventures and an outplacement support program, and a loss on revaluation of investments in securities, however, caused net income to decrease 30.2 percent from the previous fiscal year to ¥5,904 million. Cash dividends per share totaled ¥8.50, the same as in the previous fiscal year.

Focus on Pharmaceuticals

Shionogi's primary objective is to increase the corporate value of the Shionogi Group by improving the profitability of the ethical drug business, the Group's core business. To do so, Shionogi has evaluated all of its businesses in terms of their profitability and future potential, and the results of the past fiscal year underscore the progress the Company made toward achieving its primary objective.

In 2001, Shionogi transferred its agrochemical business to a joint venture company with Aventis CropScience S.A. In April 2002, the Company transferred its animal health products business to a joint venture company with Boehringer Ingelheim GmbH, and transferred its clinical testing services business to a joint venture company with SRL Co., Ltd. By the end of September 2002, all companies in the Ohmori Group of drug wholesaling subsidiaries completed mergers with their respective alliance partners, and were excluded from the scope of consolidation. We expect each of these businesses will be better able to thrive because of their relationships with their partners.

MANAGEMENT PLAN PROGRESS REPORT

Operations:	**Stronger focus on core ethical drug business**
Research:	**Now focused on 5 key domains**
Marketing:	**Powerful sales force has been further reinforced**
Production:	**Consolidation has raised efficiency**

New Drug Creation

Another critical objective for Shionogi is to establish an organization that can continuously create new breakthrough drugs and swiftly develop and market them globally. Shionogi is placing top priority on rapidly and continuously creating and launching new drugs as the means of achieving meaningful growth.

Shionogi focuses its research on five therapeutic areas: infectious diseases; immunological disorders, inflammation and allergies; cardiovascular and metabolic diseases; cancer and related chronic pain; and central nervous system disorders. Within these domains, we have further tightened our focus on specific targets correlated with objective diseases in working to develop truly original new drugs. Shionogi is also looking for new drug candidates using genomics, both within the Company and with external partners. For example, in August 2002 Shionogi concluded an agreement with OncoTherapy Science, Inc. covering collaboration on genomics-based drug discovery research.

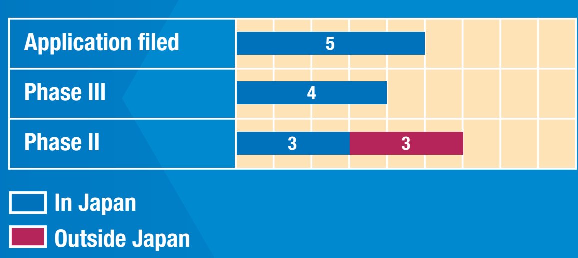
In the Strategic Development and Clinical Research departments, Shionogi introduced a new project management system in April 2002, which links research, development, manufacturing and sales to substantially reduce product development time. A cost and resource management system was subsequently introduced in April 2003, aiming at further raising the efficiency of development.

Shionogi made progress in development during the past fiscal year. In Japan, Shionogi launched the anti-allergy drug Claritin in September 2002. The Company also filed two new drug applications (NDA) during the fiscal year for SR47436 (irbesartan), an angiotensin II receptor antagonist for use as an antihypertensive; and S-7701 (pirfenidone), an anti-fibrosis drug for idiopathic interstitial pulmonary fibrosis. We also made steady progress in moving S-4661, an injectable carbapenem antibiotic created in-house, toward an NDA filing.

Outside Japan, both Shionogi-GlaxoSmithKline Pharmaceuticals LLC ,a joint venture created by Shionogi and GlaxoSmithKline plc in 2001, and Shionogi USA, a wholly owned subsidiary, made solid progress in their development programs. In addition, the development of S-4522 (rosuvastatin calcium) and

S-1153 (capravirine), licensed to AstraZeneca plc and Pfizer Inc., respectively, in 1998, made good progress during the fiscal year. AstraZeneca has begun marketing S-4522 in the Netherlands, Canada and the United Kingdom, and expects to receive marketing approval in the United States and Japan soon. In Japan, a co-marketing agreement has been concluded between Shionogi and AstraZeneca.

PRODUCTS UNDER DEVELOPMENT BY STAGE



Toward a Powerful Marketing Organization

Our third key objective is to build a sales and distribution force recognized as the best in Japan. Shionogi's medical representatives (MRs) had been concentrating on the fields of antibiotics, antihypertensives, and drugs for cancer and its related pain. With the September 2002 launch of Claritin, Shionogi's MRs expanded the domains in which they provide their expertise to include anti-allergy drugs. This expansion is set to continue after 2003 with the launch of a hyperlipidemia treatment and other drugs in the pipeline.

Powerful marketing capabilities are essential to raising Shionogi's market presence. Shionogi is emphasizing both expanded sales of existing products and rapid market penetration for newly launched products. Shionogi implemented several initiatives during the past fiscal year in support of these objectives. We introduced an Area Marketing System that clearly defines the responsibilities and authority of area managers. Our objective is to create a system that allows us to carry out flexible activities tailored to the needs of healthcare practitioners while maintaining close relationships with wholesalers. In parallel with the Area Marketing System, we implemented an Area Support MR System in the domains of oncology and cardiovascular drugs. Receiving qualification by the Company as area support MRs requires specialized training and a passing score on a test prepared by the Company. Area support MRs are therefore highly capable of providing support to regular MRs and building relationships with opinion leaders in the oncology and cardiovascular fields.

Shionogi supported these measures with the full-scale start of a Sales Support Computer System. This system allows MRs not only to quickly provide detailed information to healthcare professionals, but also to devote more time to marketing presentations by reducing travel time and paperwork. Shionogi obtained rapid returns from the Area Marketing System and the focus on sales efficiency during the September 2002 launch of Claritin. We are confident that we can build Claritin into the top brand in Japan's anti-allergy market through the systems and strategies introduced over the past few years.

Improved Operating Efficiency

Shionogi is implementing a number of initiatives to raise operating efficiency. We are reducing manufacturing costs by consolidating manufacturing plants and shifting production to subsidiaries and consignment manufacturers. As a result, after reducing plant personnel through an outplacement support program we terminated manufacturing operations for ethical drugs at the Akoh Plant during fiscal 2002, to be followed by the Kuise Plant during fiscal 2003.

Shionogi is also making good progress in raising administrative efficiency. After analyzing each of our administrative functions, we created a new, streamlined organization that allows for integrated control of administration throughout the Shionogi Group. In addition, we have implemented an Enterprise Resource Planning (ERP) system with a focus on purchasing and overhead expenses to create an administrative structure that requires significantly fewer employees. Shionogi is also conducting a Group-wide review of systems including compensation and pensions as part of the drive to raise efficiency.

Effective Corporate Governance

Effective corporate governance is essential to Shionogi's evolution as a profitable global company. The Company has clarified management authority and responsibilities to increase responsiveness, and in June 2002, replaced its executive managing director meetings with a corporate executive committee where operating executives are able to reach prompt conclusions through frank and efficient exchange of ideas and criticism. Executive committee meetings are generally held once a week to further raise speed and agility in dealing with important operating issues. Board members generally convene once a month to decide on fundamental business issues and to supervise business operations on behalf of shareholders. Corporate auditors, including two outside auditors, participate in meetings of the board of directors and the corporate executive committee. Corporate auditors also have the autonomy to aggressively audit the Company and observe Group companies to ensure legal compliance and ethical operations. The Compliance Committee, headed by a vice president, adds rigor to Shionogi's commitment to ethical practices and strict compliance with laws and regulations in its business activities.

Outlook

Shionogi's operating environment is likely to become even more challenging. Japan is experiencing financial difficulties due to the continued weak economy, and programs to reduce medical costs are becoming more stringent even as competition among domestic and foreign firms intensifies.

Costs associated with our re-engineering program had a negative impact on results in fiscal 2002. However, Shionogi will complement its ongoing programs to raise efficiency and create a more profitable operating structure with a concerted drive to expand the market share of existing products while rapidly introducing new ones. We continue to count on the support of our stakeholders as we work to enhance Shionogi's ability to profitably execute its mission of continually providing the superior medicines essential to protect people's health.

June 2003

Motozo Shiono
President

Strategic Focus on Human

RESEARCH

One objective of Shionogi's medium-term management plan is continuous discovery of innovative new drugs. To achieve this objective, we have narrowed our focus on selected research themes and concentrated resources in these areas, restructured our research organization based on target diseases, and implemented both a disease-based project management system and a cost and resource management system for effective promotion of research.

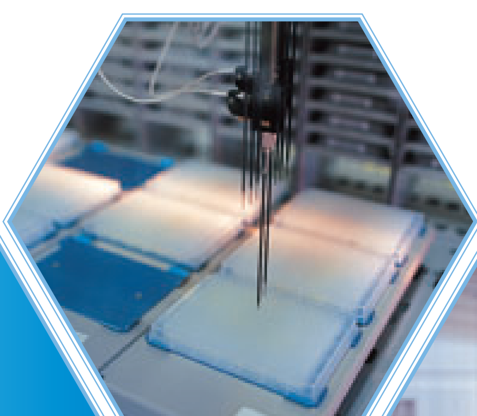
R Project Determines Future Research Direction

Since its implementation in November 2001, Shionogi's R Project has been analyzing current research areas, fields and issues to determine the future direction of the Company's research. The project's cross-divisional approach over the coming five to seven year period links development and marketing divisions to achieve the Company's research strategy and vision.

Based on analyses and policies derived from the R Project, Shionogi has been dealing with a number of key issues: promoting young leaders; enhancing the knowledge and abilities of researchers to discover drugs for target diseases; clarifying object management based on a detailed research schedule; and building a flexible research organization adaptable to progress in research programs. Consequently, the results of the R Project have begun to take shape.

Results in Fiscal 2002

One notable result of Shionogi's initiatives has been an increase in the speed of drug discovery. In fiscal 2002, nine compounds advanced from the preclinical stage to preparation for Phase I clinical study. Among them, four compounds have been assigned an S number, which is Shionogi's development code number. These are S-2367

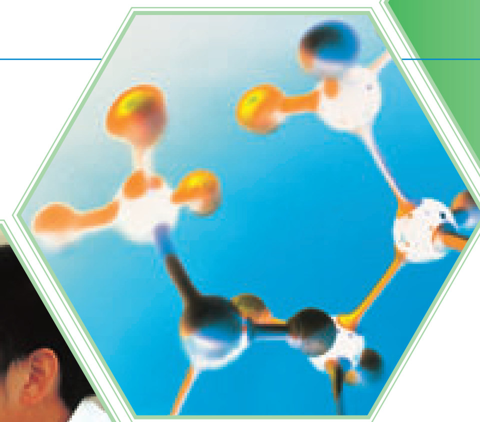


The Genesis Workstation operates a robot that automatically retrieves compounds that have been selected form a library of several hundred thousand compounds.

The JEOL-1220 transmission electron microscope allows Shionogi researchers to study the effects of diseases and candidate drugs on cells down to the nanolevel.

Health

Efficient and effective analytical techniques including the use of high-speed blood biochemistry equipment help the Shionogi Research Laboratories accelerate the development of innovative new pharmaceuticals.



This pharmaceutical spray dryer processes a continuous, sterile stream of solutions, suspensions or emulsions into powder, contributing to substantial reductions in time and costs.

Shionogi's initiatives to promote focused, efficient research have increased the speed of drug discovery.

(anti-obesity), S-3536 (anti-osteoarthritis), S-0373 (TRH derivative targeting spinocerebellar ataxia) and S-1746 (acute ischemic stroke), the last of which has already entered Phase I. The remaining five include compounds targeting infectious diseases and atopic dermatitis. In addition, 10 other compounds have been assigned as research projects.

Advances in Genomic Drug Discovery

In addition to conducting joint research with Quark Biotech, Inc., RIKEN Genomic Sciences Center, Kazusa DNA Research Institute and the Japan Pharmaceutical Manufacturers Association, Shionogi entered into a contract with OncoTherapy Science, Inc. for genomic drug discovery of anticancer agents targeting lung, prostate and breast cancers. Shionogi is also independently researching new gene-related drugs for three other diseases, and has applied for patents covering candidate genes.

DEVELOPMENT AND PIPELINE

The objective of the Strategic Development and Clinical Research departments under the medium-term management plan is timely global development of original in-house products. Domestic and overseas development is in progress according to the strategy for each product. In April 2002, Shionogi introduced a new project management system that integrates divisions including research, development, manufacturing and sales, followed by a cost and resource management system in April 2003. Implementation of these systems is expected to result in improved efficiency and expedited development.

During fiscal 2002, Shionogi filed a new drug application (NDA) for S-7701 (pirfenidone), an anti-fibrosis drug for idiopathic interstitial pulmonary fibrosis licensed from Marnac, Inc. of the U.S., and for SR47436 (irbesartan), an antihypertensive licensed from Sanofi SA of France. Shionogi also filed an NDA for Vancomycin for the additional indications of sepsis, pneumonia and meningitis caused by penicillin-resistant *Streptococcus pneumoniae* (PRSP).

The NDA filed in September 2001 for S-8117 (oxycodone hydrochloride) was approved in April 2003, and the product will be launched as soon as its NHI price is determined. Shionogi also expects approval of its other NDAs that are currently pending. An NDA for S-4661 (doripenem), an original carbapenem antibiotic created in-house, is planned for the latter half of 2003.

During fiscal 2003, in addition to the four original in-house compounds previously mentioned (S-2367, S-3536, S-0373 and S-1746), NS75B, a drug for enlarged prostate licensed from Zentaris AG of Germany and co-developed with Nippon Kayaku Co., Ltd., is in preparation for Phase I clinical trials.

Full-Scale Operation of Shionogi USA

Since opening an office in February 2001, Shionogi USA, Inc. has been working to establish a framework for development and other activities by hiring local employees, including the chief executive officer (CEO)

Established in February 2001, Shionogi USA, Inc. began Phase II clinical trials of its first compound in May 2003.

Development efficiency is increasing in tandem with the drive to introduce new and innovative drugs to improve health.

and medical director, in order to localize operations as early as possible. As a result, Shionogi USA has set up a clinical development management system and began Phase II clinical trials of its first compound, S-3304, in May 2003.

Shionogi-GSK

In the short period of time since Shionogi and GlaxoSmithKline plc agreed to the contract for the establishment of a joint venture on October 19, 2001, Shionogi-GlaxoSmithKline Pharmaceuticals, LLC has become fully operational. The joint venture conducts monthly meetings between top management of the partner companies, and their strong commitment is evidenced in the progress of development of S-1360, S-8510, S-0139 and S-1746.

Out-Licensing

Licensing is one means for Shionogi to accelerate its development programs while making the most effective use of original in-house products. In 1998, Shionogi licensed its original antihyperlipidemia drug, S-4522 (rosuvastatin calcium), to AstraZeneca, which has developed it globally and filed NDAs in countries around the world. The product was first approved in the Netherlands in November 2002, followed by 15 more countries by the end of April 2003. Marketing has begun in Canada, the Netherlands and the United Kingdom. The global market for antihyperlipidemia drugs totals approximately US$20 billion and is growing by 13 percent annually. The outlook for S-4522 is extremely favorable due to its ability to significantly reduce the concentration of serum cholesterol and other fats.

An agreement to license S-4661 (doripenem), a broad-spectrum carbapenem antibiotic discovered at the Shionogi Research Laboratories, to Peninsula Pharmaceuticals, Inc., of the United States was announced on May 26, 2003. S-1153 (capravirine), an anti-HIV licensed to Pfizer Inc. in 1998, is now undergoing Phase III clinical trials, with plans to file an NDA in 2005.

Status of Products Under Development

(In Japan) (As of May 2003)

Stage	Code No.	Category/Indication	Origin/Status
Approved	S-8117	Long-acting analgesic for cancer pain [sustained-release oxycodone preparation]	Licensed from Mundipharma AG (Netherlands)
Application filed	NS75A	Prevention of premature ovulation during a controlled ovarian stimulation followed by assisted reproductive technology (ART) [luteinizing hormone-releasing hormone antagonist]	Co-developed with Nippon Kayaku Co., Ltd.; Licensed from Zentaris AG (Germany)
	S-7878	Prevention of urinary disorders associated with ifosfamide [additional indication: cyclophosphamide-induced bladder disorder (orphan)]	Licensed from Baxter Oncology AG (Germany)
	SR47436	Antihypertensive [angiotensin II receptor antagonist]	Co-developed with Bristol Pharmaceuticals K.K.; Licensed from Sanofi SA (France)
	S-7701	Anti-fibrosis (idiopathic interstitial pulmonary fibrosis)	Licensed from Marnac, Inc. (U.S.)
	Vancomycin	Glycopeptide antibiotic [additional indications: sepsis, pneumonia, meningitis caused by PRSP (orphan)]	Licensed from Eli Lilly and Co. (U.S.)
Phase III	LY248686	Antidepressant [SNRI (serotonin & norepinephrine reuptake inhibitor)]	Licensed from Eli Lilly and Co. (U.S.)
	S-4661	Carbapenem antibiotic	Created in-house
	S-8116	Analgesic for cancer pain [immediate-release oxycodone preparation]	Licensed from Mundipharma AG (Netherlands)
	SCH29851	Anti-allergic [histamine H_1 receptor antagonist] [additional indication: pediatric use (allergic rhinitis and itch caused by atopic dermatitis)]	Co-developed with Schering-Plough K.K.; Licensed from Schering-Plough Corp. (U.S.)
Phase II	S-6820	Recombinant interleukin-2 [additional indication: liver metastasis from colorectal cancer]	Licensed from Biogen, Inc. (U.S.)
	NS75A	Uterine myoma [luteinizing hormone-releasing hormone antagonist]	Co-developed with Nippon Kayaku Co., Ltd.; Licensed from Zentaris AG (Germany)
	S-3013	Anti-inflammatory [sPLA$_2$ (secretory phospholipase A$_2$) inhibitor]	Developed in collaboration with Eli Lilly and Co. (U.S.)
Phase I	S-3578	Cephem antibiotic	Created in-house
Phase I (in preparation)	S-0373	Spinocerebellar ataxia	Created in-house
	NS75B	Prostatomegaly [luteinizing hormone-releasing hormone antagonist]	Co-developed with Nippon Kayaku Co., Ltd.; Licensed from Zentaris AG (Germany)

(Outside Japan)

Phase II	S-5751	Anti-allergic [prostaglandin D_2 receptor antagonist]	Created in-house Japan: Phase I, U.S.: Phase II
	S-3304	Anticancer [matrix metalloproteinase inhibitor]	Created in-house U.S.: Phase II (in preparation)
	S-8921	Antihyperlipidemia [inhibition of bile acid transporter in small intestine]	Created in-house Europe: Phase IIa
Phase I (in preparation)	S-2367	Anti-obesity agent [central nervous system antagonist]	Created in-house
	S-3536	Drug for osteoarthritis (OA) [disease-modifying anti-OA drug, selective matrix metalloproteinase inhibitor]	Created in-house

(Shionogi-GSK)

	S-8510	Antidementia [benzodiazepine receptor partial inverse agonist]	Developed in-JV Japan: Phase II, Europe: Phase I
	S-0139	Cerebrovascular diseases (acute ischemic stroke) [endothelin A receptor antagonist]	Developed in-JV Japan: Phase II, Europe: Phase I
	S-1360	Anti-HIV [HIV integrase inhibitor]	Developed in-JV U.S.: Phase II
	S-1746	Acute ischemic stroke [AMPA receptor and glycine binding site of NMDA receptor antagonist]	Developed in-JV U.S.: Phase I

(Out-Licensing Activity)

Licensed to AstraZeneca plc (U.K.)	S-4522	Antihyperlipidemia [HMG CoA reductase inhibitor]	Licensed in April 1998 Applications filed worldwide in June 2001
Licensed to Pfizer Inc. (U.S.)	S-1153	Anti-HIV [non-nucleoside reverse transcriptase inhibitor]	Licensed in June 1998 Phase III trials ongoing

(Discontinued)

	S-5920	Acute organ failure (severe sepsis) [sPLA$_2$ (secretory phospholipase A$_2$) inhibitor]	Developed in collaboration with Eli Lilly and Co. (U.S.)

In-House **Licensed** **Licensed & Co-Developed** **Developed in Collaboration**

MARKETING

Shionogi's Medical Representatives

Shionogi's medical representatives (MRs) consistently demonstrate their commitment to the Company's mission of continually providing the superior medicines essential to protect people's health. Expertly knowledgeable about the Company's products, Shionogi's MRs make full use of a wide range of information in providing detailed explanations to healthcare professionals. MRs base their activities on consideration of the best medication for treating patients and the most useful information for healthcare providers. Healthcare professionals recognize Shionogi's MRs as reliable sources of information because they receive information and suggestions that are relevant. This supports Shionogi's presence in the healthcare industry and contributes to sales growth.

Toward Achieving the Objectives of the Medium-Term Management Plan

One of Shionogi's objectives under the medium-term management plan is developing marketing capabilities that are recognized as the best in the domestic market. In working to achieve this objective, Shionogi has implemented several initiatives to strengthen its sales force and systems.

Area Marketing System, Area Support MR System, and Sales Support Computer System

The Area Marketing System was introduced in April 2002. It is designed to engender flexible activities tailored to the needs of healthcare practitioners. Area managers with clearly defined responsibilities and authority work to expand Shionogi's presence in the general practitioner market, conduct post-marketing surveillance and maintain close relationships with wholesalers.

The Area Support MR System was introduced to strengthen the Area Marketing System. Area support MRs provide assistance to regular MRs in the domains of oncology and cardiovascular drugs, and have advanced, specialized knowledge that enables them to hold discussions with opinion leaders. Area support MRs are now working with regular MRs in various areas.

The Sales Support Computer System was implemented in January 2002, with the aim of increasing the quantity and quality of MR activities. It helps MRs to provide information tailored to the individual needs of each

Training under Shionogi's Area Marketing System includes study of compliance measures, information management, product strategies and new product information as well as area management skills.

Shionogi's medical representatives provide in-depth product information to doctors and other medical professionals, playing a key role in sales expansion.

healthcare professional they serve in a timely manner. This system's benefits also include reduction of travel time, allowing MRs to devote more attention to providing detailed information to healthcare providers.

Pre-Launch Marketing Project

Shionogi has strengthened its system for preparing for new product launches through the Pre-Launch Marketing Project. For products Shionogi plans to launch, the project provides MRs with a broad range of support, including the creation and execution of marketing strategies, lectures, explanatory meetings, market surveys and other activities. With five products waiting for approval, the project is supporting plans to swiftly maximize product value.

Notable Sales Activities in Fiscal 2002

Flomox Sales Rise Despite Market Contraction and NHI Drug Price Cut

Effective April 1, 2002, National Health Insurance (NHI) drug prices for Flomox and Flumarin were lowered by an average of 5.2 percent. Ongoing government efforts to control healthcare costs have created challenging conditions for the pharmaceutical industry and have caused the antibiotics market to contract. Despite the influence of the price reduction, Flomox sales increased to a record ¥34.3 billion in fiscal 2002. While Flumarin sales have not fully compensated for the decreased NHI price, Shionogi has expanded its leading position in the market for injectable antibiotics. Shionogi expects to achieve further growth for Flomox in fiscal 2003, and projects sales of ¥35.0 billion.

With the launch of Claritin in September 2002, Shionogi entered the anti-allergy market, in which the Company plans to work toward a leading position.

Enhanced MR specialization is supporting Shionogi's ability to meet the needs of healthcare professionals.

Claritin Launched

Shionogi launched the anti-allergic Claritin in September 2002, and despite intense market competition, achieved sales of ¥5.3 billion in Claritin's first seven months on the market. With the goal of achieving top share in the anti-allergy market, Shionogi MRs are aggressively providing detailed information on Claritin's efficacy and outstanding profile.

Fiscal 2003 and Beyond

Shionogi has largely completed the steps needed to provide the basis for achieving its medium-term management plan objective of having a sales force recognized as the best in Japan. A key task at present is ensuring optimal use of the systems now in place. Over the remaining two years of the medium-term management plan, Shionogi will emphasize fostering a staff of truly powerful MRs in working to expand sales.

Pharmaceuticals and Related Businesses

Consolidated sales of Pharmaceuticals and Related Businesses decreased 32.5 percent year-on-year to ¥268,382 million (US$2,233 million). A primary factor in the decrease was the exclusion of the companies in the Ohmori Group from the scope of consolidation during the past fiscal year as a result of Shionogi's re-engineering program. Consolidated operating income increased 9.9 percent to ¥16,347 million (US$136 million), due in part to the absence of the Ohmori Group's operating loss in the previous fiscal year.

Ethical Drugs

For fiscal 2002, the year ended March 31, 2003, consolidated net sales of ethical drugs decreased 31.3 percent to ¥252,807 million (US$2,103 million). The decrease in sales reflects the exclusion of the Ohmori Group of drug wholesalers from the scope of consolidation. In addition, while sales of the core antibiotic Flomox increased, sales of other antibiotic products were lower year-on-year. The launch of Claritin during the past fiscal year provided solid support to overall sales of ethical drugs.

During fiscal 2002, the Japanese government implemented a reduction in National Health Insurance (NHI) drug prices and competition among domestic and foreign companies intensified. Shionogi countered its challenging operating environment by enhancing the ability of medical representatives (MRs) to provide information on the Company's pharmaceuticals to healthcare providers. MRs made full use of the Area Marketing System, which is designed to increase market share by supporting effective adjustment to changes in the healthcare system and conditions in each marketing region. Shionogi has also implemented the Area Support MR System, under which area support MRs not only provide assistance to regular MRs in the domains of oncology and cardiovascular drugs, but also help to strengthen the Area Marketing System through discussions with opinion leaders. Moreover, the Pre-Launch Marketing Project, which is a set of MR support activities, provides MRs with support in rapidly increasing product value and achieving sales objectives. The start of full-scale operation of a Sales Support Computer System in January 2002 also contributed to sales by helping MRs to provide information tailored to the individual needs of each healthcare professional they serve, and by reducing time spent on travel and paperwork.

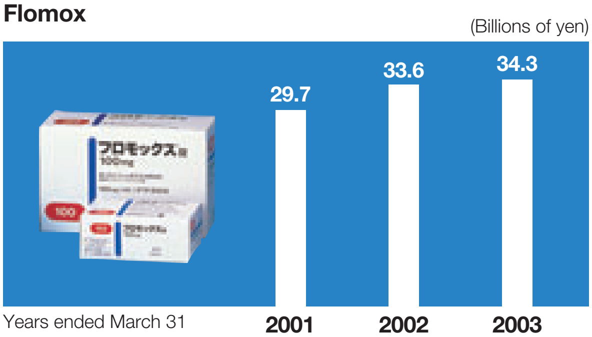
Shionogi's fundamental areas of research include infectious diseases; immunological disorders, inflammation and allergies; cardiovascular and metabolic diseases with a focus on hypertension; cancer and related chronic pain; and central nervous system disorders. The Company worked to increased penetration in these market segments by proactively providing information during fiscal 2002.

The overall market for antibiotics contracted during the past fiscal year. Sales of Flomox, an oral cephem antibiotic for microbial infections Shionogi created in-house, increased 2.1 percent and market share expanded. Shionogi was therefore able to maintain its leading share of the domestic market for oral antibiotics. Sales of the original Shionogi product Flumarin, an oxacephem antibiotic that is the domestic injectable antibiotic market leader, however, decreased 7.7 percent, primarily because of the reduction in NHI drug prices and an overall contraction of the antibiotic market as a result of cost containment policies. Sales of Vancomycin, an injectable glycopeptide antibiotic that is effective in treating methicillin-resistant *Staphylococcus aureus* (MRSA) infections, decreased 7.6 percent, also reflecting reduced NHI drug prices as well as heightened competition.

In the market for cardiovascular and metabolic therapies, sales of Longes, an ACE inhibitor, were down 13.5 percent

Flomox

(Billions of yen)



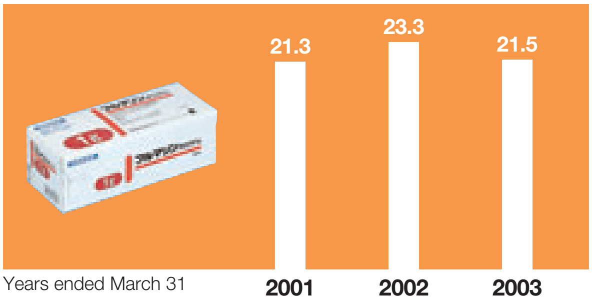
due to challenging market conditions. Sales of Landel, a calcium channel receptor antagonist for treating hypertension, however, increased 4.5 percent.

In the cancer and related chronic pain therapy market, sales of Imunace, an interleukin-2 product, increased 25.3 percent. Sales of MS Contin, a long-lasting oral analgesic for chronic cancer-related pain, decreased 10.6 percent.

In September 2002, Shionogi entered the anti-allergic market by launching Claritin, which the Company licensed from and co-markets with Schering-Plough K.K. Reflecting the value of extensive MR training programs prior to launch and enhanced information provision capabilities, this new product made a substantial contribution to net sales. Shionogi has the objective of attaining leadership in Japan's anti-allergic market.

Flumarin

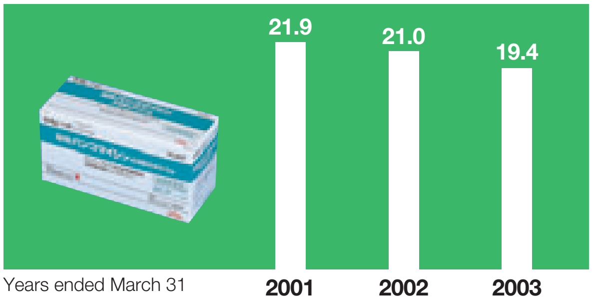
(Billions of yen)



The launch of Claritin is representative of the progress Shionogi is making in focusing operations on the ethical drug business and in expanding the number of products in its portfolio. In April 2003, Shionogi received approval of its September 2001 application to manufacture S-8117 (oxycodone hydrochloride), an analgesic for cancer pain licensed from Mundipharma AG, and plans to launch this drug once its NHI drug price has been determined. S-4522 (rosuvastatin calcium), a hyperlipidemia treatment Shionogi created and licensed to

Vancomycin

(Billions of yen)



AstraZeneca, has received approval in 16 countries. Marketing has begun in Canada, the Netherlands and the United Kingdom. During the past fiscal year Shionogi also filed a New Drug Application (NDA) in Japan for S-7701 (pirfenidone), an anti-fibrosis drug for idiopathic interstitial pulmonary fibrosis licensed from Marnac, Inc. of the United States, and for SR47436 (irbesartan), an angiotensin II receptor antagonist antihypertensive licensed from Sanofi SA of France. In addition, Shionogi filed a supplemental application for Vancomycin for the additional indications of sepsis, pneumonia and meningitis caused by penicillin-resistant *Streptococcus pneumoniae* (PRSP).

Shionogi plans to file NDAs for new products that will strengthen the Company's presence in areas of current

NET SALES OF PRINCIPAL ETHICAL DRUGS

(Non-consolidated; Years ended March 31; Billions of yen)

Product name	Category	2003	2002	2001
Flomox	Oral cephem antibiotic	**¥34.3**	¥33.6	¥29.7
Flumarin	Injectable oxacephem antibiotic	**21.5**	23.3	21.3
Vancomycin	Injectable antibiotic effective in treating methicillin-resistant *Staphylococcus aureus* (MRSA)	**19.4**	21.0	21.9
Rinderon	Synthetic adrenal cortical hormone agent	**10.1**	10.3	10.4
Imunace	Anticancer agent	**9.4**	7.5	6.0
MS Contin Tablets	Oral morphine sulfate analgesic	**9.3**	10.4	10.5
Longes	Antihypertensive (ACE inhibitor)	**6.4**	7.4	8.2
Kefral	Oral cephem antibiotic	**6.2**	8.1	9.9
Claritin	Anti-allergic	**5.3**	–	–
Dobutrex	Agent for the treatment of acute circulatory insufficiency	**4.2**	4.6	4.8
Broact	Injectable cephem antibiotic	**3.5**	4.0	4.4
PL Granules	Cold remedy	**3.4**	3.3	3.3

leadership and in strategic market segments Shionogi has chosen for expansion. During 2003, Shionogi plans to file an NDA in Japan for S-4661 (doripenem), a broad spectrum carbapenem antibiotic created in-house, and announced its agreement to license it to Peninsula Pharmaceuticals, Inc. of the United States in May 2003. The Company also intends to file an NDA during 2003 for S-6820 (teceleukin), a recombinant interleukin-2, for the additional indication of liver metastasis from colorectal cancer.

As of May 2003, Shionogi had six products in Phase II clinical trials in Japan and overseas, three of which were created in-house. All of them target strategic growth markets, including cancer, infection and allergies.

Imunace

MS Contin

Shionoria BNP

Over-the-Counter (OTC) Products

Consolidated sales of OTC products decreased 33.8 percent year-on-year to ¥11,990 million (US$100 million). The transfer of the companies in the Ohmori Group to their respective alliance partners and their exclusion from the scope of consolidation was the primary factor in the decrease. On a non-consolidated basis, sales of OTC products increased, reflecting Shionogi's emphasis on customer satisfaction.

Sales of Sedes, an analgesic and antipyretic that is Shionogi's number one OTC product, increased 10.3 percent year-on-year. Sales of multivitamin supplement with calcium Popon-S were lower, as were sales of Correct denture adhesive.

Diagnostics

Sales of diagnostics increased 13.8 percent year-on-year to ¥3,585 million (US$30 million). The primary factor supporting the increase was higher sales of Shionogi's principal product in the diagnostics market, Shionoria BNP, a product for simple detection of heart disease. Shionoria BNP is already listed in medical guidelines for treatment of chronic heart failure in Japan, the United States and Europe, and the cumulative number of uses for testing in Japan surpassed 1.9 million during fiscal 2002. With the aim of making BNP measurement the global standard, Shionogi licensed it during fiscal 2002 to Kyowa Medex Co., Ltd. and Tosoh Corporation in Japan for development and distribution of automated tests for BNP, and the Bayer Corp. of the United States for use worldwide, excluding Japan.

NET SALES OF PRINCIPAL OTC PRODUCTS

(Non-consolidated; Years ended March 31; Billions of yen)

Product name	Category	2003	2002	2001
Sedes	Analgesic and antipyretic	**¥3.2**	¥2.9	¥2.5
Popon-S	Multivitamins with calcium	**1.4**	1.5	1.5
Correct	Denture-related products	**0.9**	1.0	1.1
Belix-A	Vitamin B_1 preparation	**0.8**	0.8	0.7
Pylon	Cold remedy	**0.6**	0.6	0.5

Capsule Business

Net sales in the capsule business decreased 1.9 percent year-on-year to ¥11,859 million (US$99 million). Heightened competition and slow growth in the domestic pharmaceutical market resulted in reduced sales volume.

The Shionogi Qualicaps Group used its manufacturing plants in Japan, North America and Europe (Spain) as global bases in establishing a system of close cooperation in R&D, manufacturing and marketing to meet the needs of existing pharmaceutical products as well as new compounds under development. Placing top priority on customer satisfaction and quality, the Shionogi Qualicaps Group worked to increase market share of capsule products, adding cellulose capsules manufactured from vegetable source ingredients to its gelatin hard capsules. Sales activities also extended to various types of drug manufacturing machinery, including visual inspection machines and weight checkers for solid dosage forms of pharmaceutical products.

Re-engineered Businesses

Shionogi transferred its animal health products business and clinical testing services businesses to joint venture companies in April 2002, following the transfer of the agrochemical business in 2001. In addition, the Ohmori Group of drug wholesaling subsidiaries merged with alliance partners during the period from April 1 to September 30, 2002 and the business results of those companies were excluded from the scope of consolidation.

Manufacturing

Shionogi's medium-term management plan underscores the objective of creating a manufacturing organization that supports the Company's global competitiveness. To achieve this goal, Shionogi is emphasizing self-reliant manufacturing facilities and the creation of an efficient manufacturing structure that improves productivity and reduces costs while contributing to accelerated development and a smoother transition to commercial production.

Shionogi made solid progress toward its manufacturing objectives during fiscal 2002. Production was concentrated at the Settsu and Kanegasaki plants, Bushu Pharmaceuticals Ltd. and Nichia Pharmaceutical Industries Ltd. Shionogi also moved ahead with building its infrastructure, including redesigning manufacturing facilities and validation to support the integration of operations from pharmaceutical manufacturing to packaging. As a result, manufacturing operations for ethical drugs ceased at the Akoh Plant, and the Kuise Plant is scheduled to cease production during fiscal 2003.

Shionogi accelerated its programs to make greater use of cost-efficient raw materials from overseas and consign intermediate production to offshore manufacturers. The Company largely completed preparation to consign production of sugar-coated pills and liquid and solid dosage forms to external manufacturers, which then began production. The end of production at the Akoh and Kuise plants has resulted in reduced personnel requirements. Shionogi therefore implemented an outplacement support program for employees who wished to find new job opportunities. The retirement date was December 31, 2002, and 208 employees applied.

Manufacturing for Speedier Development

With the objective of accelerating development and smoothing the transition to commercial production, Shionogi has implemented a project management system for manufacturing, and has also implemented controls for the progress of products under development and the resources they require. During fiscal 2002, Shionogi made measurable progress by establishing production methods that contribute to accelerated development, linking product design and manufacturing to meeting user needs and reducing material costs from the early development stage. In addition, Shionogi also raised the speed at which it can shift to commercial production through approaches including new synthesis routes, machinery and equipment development, and normalization of manufacturing formulas.

Shionogi's manufacturing operations will continue to emphasize specialization in manufacturing pharmaceuticals with the objective of ensuring world-class competitiveness and productivity for the Shionogi Group.

Consolidation of manufacturing facilities during fiscal 2002 is contributing to improved productivity and a more efficient manufacturing structure.

Environmental Protection and Social Responsibility

Environmental Protection

Shionogi is keenly aware that a company is a member of society and stipulates in its Basic Environmental Policy that Shionogi will contribute to a richer society by placing priority on environmental protection, pollution prevention and human safety in its pharmaceutical-related business activities. Targets stated in Phase I of the Environmental Protection Plan were achieved and Shionogi has taken on the challenge of higher goals throughout the entire Shionogi Group in the form of 11 targets incorporated in Phase II of the Environmental Protection Plan.

Acquisition of ISO 14001 Certification

The Shionogi Group is building and implementing an environmental management system designed for continual improvement of environmental protection activities. As part of this effort, three R&D facilities, three manufacturing facilities and two on-site subsidiaries acquired ISO 14001 certification together in fiscal 2002. In addition, three domestic off-site subsidiaries and one manufacturing facility had previously acquired certification.

Material Flow Cost Accounting

During fiscal 2002, Shionogi participated in the introductory experimental project on Material Flow Cost Accounting (MFCA) held by the Institute for Global Environmental Strategies (IGES) at Kansai Research Center. MFCA was created to improve productivity in resource utilization by Dr. Bernd Wagner, a professor at the University of Augsburg, Germany and a member of the Institut für Management und Umwelt (IMU).

The object of the experimental project was the production of one product from synthesis to formulation and packaging. Then, relevant information on the product manufacturing was collected, including information on costs for material, energy, labor and waste treatment. Through the experimental project, Shionogi obtained insights into issues such as reducing costs and improving environmental protection.

Targets of Phase II of the Environmental Protection Plan

1. Strengthen waste reduction measures
- Reduce the volume of waste generated 10 percent* by fiscal 2004, and 15 percent* by fiscal 2010.
- Increase waste recycling volume by 200 percent.*
- Reduce the volume of waste sent to landfills to 2 percent of the fiscal 1990 level.
- Work toward zero emissions of landfill waste at all work sites.

2. Implement measures to counter global warming
- Reduce CO_2 emissions to 96 percent* by 2004, and to 93 percent by fiscal 2010.*
- Implement measures for saving energy.

3. Strengthen management of chemical substances
- Determine and reduce the amount of hazardous chemical substances used, emitted and transferred.
- Reduce storage of specific CFCs to 40 percent* by fiscal 2004, and totally eliminate them by fiscal 2010.
- Set and maintain voluntary standards for the release of chemical substances into the atmosphere, water, soil and underground water

4. Strengthen the system for evaluating the safety of chemical manufacturing processes

5. Expand environmental impact assessments

6. Work toward acquisition of ISO 14001 certification

7. Carry out product life cycle assessment

8. Implement environmental accounting

9. Expand green purchasing

10. Contribute to society

11. Disclose environmental information

* Compared with fiscal 1990 level.

Social Responsibility

During fiscal 2002, Shionogi continued to provide support to organizations that contribute to society, including the Japanese Red Cross Society. In addition, Shionogi encourages employee volunteerism by devoting intranet resources to volunteer activities and providing information about them.

In commemoration of Shionogi's 110th anniversary, the Company established the Cell Science Research Foundation in 1988. During the past fiscal year, the Foundation contributed to life science research by supporting research, education and international exchanges.

Management's Discussion and Analysis of Financial Condition

SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

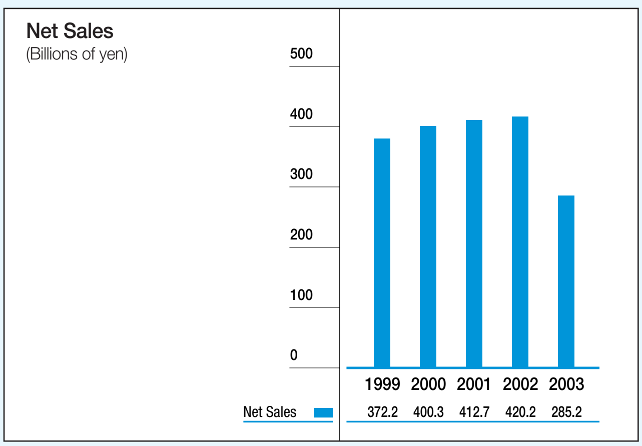
	Millions of yen						Thousands of U.S. dollars
	2003	2002	2001	2000	1999	1998	**2003**
Results for the year:							
Net sales	**¥285,232**	¥420,188	¥412,664	¥400,281	¥372,167	¥348,745	**$2,372,978**
Cost of sales	**153,402**	273,692	263,629	253,202	232,449	213,370	**1,276,223**
Selling, general and administrative expenses	**112,564**	130,312	125,126	121,658	116,807	114,149	**936,472**
Research and development expenses	**31,284**	30,602	29,255	27,027	26,374	25,346	**260,266**
Operating income	**19,266**	16,184	23,909	25,421	22,911	21,226	**160,283**
Income before income taxes and minority interests	**9,139**	18,755	24,556	27,697	23,966	23,936	**76,032**
Net income	**5,904**	8,456	12,614	12,868	9,807	9,570	**49,118**
Per share (in yen and U.S. dollars):							
Net income	**¥16.66**	¥24.28	¥36.29	¥37.07	¥27.94	¥27.26	**$0.14**
Cash dividends applicable to the year	**8.50**	8.50	8.50	8.50	8.50	7.50	**0.07**
Financial position at year-end:							
Working capital	**¥162,926**	¥155,239	¥197,686	¥192,656	¥176,986	¥165,243	**$1,355,457**
Property, plant and equipment, net	**75,585**	86,387	87,971	86,613	73,269	68,866	**628,827**
Total assets	**371,704**	480,668	496,591	442,547	409,169	391,065	**3,092,379**
Capital investments	**9,012**	8,810	8,331	9,355	10,105	6,578	**74,975**
Total long-term liabilities	**49,145**	58,971	67,592	50,812	45,250	26,779	**408,860**
Total shareholders' equity	**274,824**	280,675	286,728	255,171	239,253	232,033	**2,286,389**
Number of shares of common stock issued (in thousands)	**351,136**	351,136	351,136	351,136	351,136	351,136	

Note: U.S. dollar figures have been calculated, for convenience only, at the rate of ¥120.20=US$1.00, the approximate rate of exchange on March 31, 2003.

Financial Strategy

The Shionogi Group emphasizes profitability and cash flow in managing its businesses in order to generate the capital resources required to increase research and development and expand internationally. Shionogi and other Shionogi Group companies conduct capital investments according to clearly defined guidelines and objectives, and as a matter of policy maintain capital expenditures within the scope of internal capital resources. Generating stable returns for shareholders is a primary management objective. Cash dividends are determined according to performance in consideration of the Shionogi Group's requirements for capital investment in international expansion, research and development and enhanced manufacturing.

Sales, Operating Expenses and Operating Income



Net Sales
(Billions of yen)

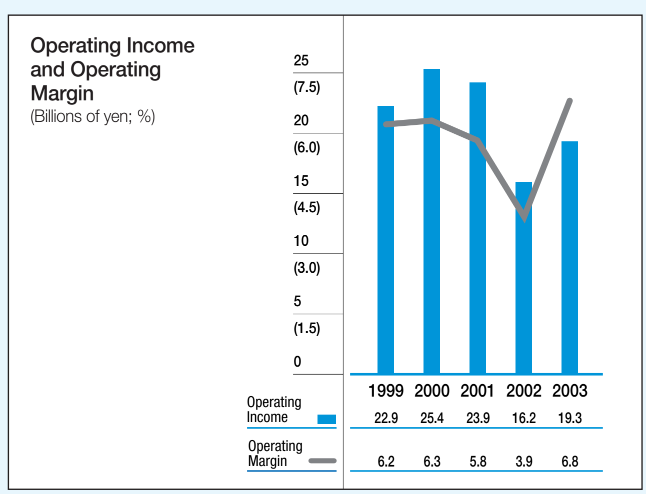
For fiscal 2002, the year ended March 31, 2003, consolidated net sales decreased 32.1 percent to ¥285,232 million (US$2,373 million). The decrease in net sales was primarily the result of Shionogi's program of re-engineering its business structure. The agrochemical, animal health products and clinical testing services businesses have been transferred to joint venture companies and, consequently, have been removed from the scope of consolidation. In addition, each company of the Ohmori Group of drug wholesalers merged with its respective alliance partner between April and October 2002. In this case as well, all companies of the Ohmori Group were subsequently removed from the scope of consolidation.

Reflecting the re-engineering of businesses as well as improved efficiency from the concentration of manufacturing operations, cost of sales decreased 44.0 percent to ¥153,402 million (US$1,276 million) in monetary terms. Cost of sales represented 53.8 percent of net sales, compared to 65.1 percent in the previous fiscal year. This improvement underscored the rationale for transferring businesses such as the Ohmori Group, which had a relatively high cost of sales and thus a comparatively low ratio of gross profit to net sales. Gross profit decreased 10.0 percent in monetary terms to ¥131,830 million (US$1,097 million), but increased as a percentage of net sales to 46.2 percent from 34.9 percent for the previous fiscal year. Shionogi's re-engineering program is focusing resources on core businesses with the greatest profitability.

Costs, Expenses and Income as Percentages of Net Sales

Years ended March 31	**2003**	2002	2001
Cost of sales	**53.8%**	65.1%	63.9%
Gross profit	**46.2**	34.9	36.1
SG&A expenses	**39.5**	31.0	30.3
R&D expenses	**11.0**	7.3	7.1
Operating income	**6.8**	3.9	5.8
Income before income taxes and minority interests	**3.2**	4.5	6.0
Net income	**2.1**	2.0	3.1

Selling, general and administrative (SG&A) expenses were down 13.6 percent to ¥112,564 million (US$936 million), and represented 39.5 percent of net sales, compared to 31.0 percent for the previous fiscal year. Shionogi reduced SG&A expenses despite an increase of 2.2 percent in research and development expenses, which are accounted for as part of SG&A expenses, to ¥31,284 million (US$260 million), and a substantial increase in sales promotion outlays to counter an increasingly competitive operating environment. The transfer of businesses has had the effect of reducing Group SG&A expenses significantly, particularly salaries, which are typically the largest component of SG&A expenses after R&D expenses.



Operating Income and Operating Margin
(Billions of yen; %)

Note: All graphs are based on fiscal years ended March 31.

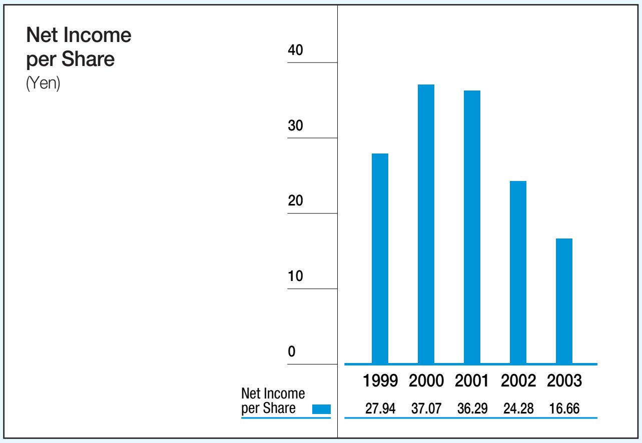
The improved gross profit margin due to the re-engineering program and the absence of the operating loss recorded by the Ohmori Group in the previous fiscal year resulted in a 19.0 percent increase in operating income to ¥19,266 million (US$160 million). The ratio of operating income to net sales was 6.8 percent, compared to 3.9 percent for the previous fiscal year.

Other Income (Expenses)

Other expenses totaled ¥10,127 million (US$84 million), compared to other income of ¥2,571 million for the previous fiscal year. One-time charges in connection with the transfer of businesses were the primary factor in the year-on-year change. Shionogi incurred one-time additional retirement benefit expenses upon transfer of businesses to joint venture companies totaling ¥5,326 million (US$44 million). Also, Shionogi incurred one-time costs related to outplacement support, in connection with the reorganization of the Company's manufacturing structure, totaling ¥3,013 million (US$25 million).

Income before Income Taxes and Minority Interests and Net Income

The one-time charges discussed above offset improved operating profitability, resulting in a decrease of 51.3 percent in income before income taxes and minority interests to ¥9,139 million (US$76 million). However, income taxes net of deferrals decreased 68.4 percent to ¥3,364 million (US$28 million), and the effective tax rate decreased to 36.8 percent from 56.8 percent for the previous fiscal year. As a result, net income decreased 30.2 percent to ¥5,904 million (US$49 million), but improved to 2.1 percent of net sales, from 2.0 percent for the previous fiscal year. Cash dividends per share totaled ¥8.50 (US$0.07), unchanged from the previous fiscal year, while the payout ratio increased to 51.0 percent from 35.0 percent for the previous fiscal year.



Liquidity and Cash Flows

Statements of Cash Flows Highlights (Millions of yen)

Years ended March 31	**2003**	2002	2001
Net cash provided by operating activities	¥ **7,771**	¥ 26,224	¥ 23,409
Net cash provided by (used in) investing activities	**6,036**	(51,016)	13,199
Net cash used in financing activities	**(14,870)**	(3,225)	(9)
Cash and cash equivalents at end of year	**71,497**	79,716	107,265

Net cash provided by operating activities decreased 70.4 percent to ¥7,771 million (US$65 million). While the decrease in income before income taxes and minority interests was a factor in reduced cash flow from operations, the effect of adjustments to current assets and liabilities was pronounced. Notes and accounts payable decreased substantially as the Company met short-term obligations, mostly in preparation for the mergers of the consolidated subsidiaries of the Ohmori Group. This reduced cash flow by ¥70,991 million (US$591 million), compared to a reduction of ¥1,962 million in the previous fiscal year. The contribution of the decrease in receivables as the Company settled accounts prior to the mergers of businesses mitigated the impact on cash flow of the reduction in payables. Shionogi also reserved retirement benefits, net of payments, to cover additional retirement benefits and costs related to the outplacement support program. Depreciation and amortization increased 3.8 percent to ¥10,185 million (US$85 million), and net cash flow, defined as the sum of net income and depreciation and amortization, was ¥16,089 million (US$134 million), compared to ¥18,269 million for the previous fiscal year. The reduction in trade payables and short-term loans more than offset the reduction in current assets resulting from the use of cash in the re-engineering program and the related adjustment in trade receivables. Working capital increased 5.0 percent to ¥162,926 million (US$1,355 million) as a result. The current ratio was 4.4 to 1, compared to 2.1 to 1 a year earlier, indicating that Shionogi's re-engineering program has improved the Company's ability to meet its short-term obligations.

Net cash provided by investing activities totaled ¥6,036 million (US$50 million). In the previous fiscal year, investing activities used net cash of ¥51,016 million. A primary factor in the year-on-year change was a reduction in purchases of investments in securities, as Shionogi deployed cash to execute its re-engineering program and invest in its core prescription drug business instead of in cash management vehicles. Proceeds from collection of loans receivable, primarily representing obligations due the Company in connection with the mergers of the Ohmori Group companies, also contributed to cash flow. Purchases of property, plant and equipment increased 2.3 percent to ¥9,012 million (US$75 million), in part reflecting investment in greater manufacturing productivity. These capital expenditures were well within the scope of net cash flow, and Shionogi funded them using internal capital resources.

Net cash used in financing activities amounted to ¥14,870 million (US$124 million), compared to ¥3,225 million for the previous fiscal year. The year-on-year change was almost entirely the result of a net decrease in short-term bank loans totaling ¥11,152 million (US$93 million).

Cash and cash equivalents at the end of the fiscal year decreased 10.3 percent to ¥71,497 million (US$595 million). The decrease was primarily the result of the exclusion of transferred businesses from consolidation, which decreased cash and cash equivalents by ¥6,871 million (US$57 million).

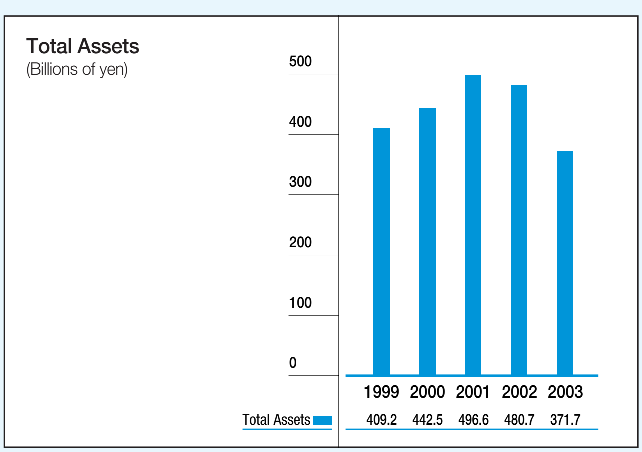
Assets and Capital Structure

Balance Sheets Highlights (Millions of yen)

As of March 31	2003	2002	% change 2003/2002
Current assets	**¥210,489**	¥295,813	(28.8)
Property, plant and equipment	**75,585**	86,387	(12.5)
Investments and other assets	**85,630**	98,468	(13.0)
Current liabilities	**47,563**	140,574	(66.2)
Long-term liabilities	**49,145**	58,971	(16.7)
Minority interests	**172**	448	(61.6)
Shareholders' equity	**274,824**	280,675	(2.1)

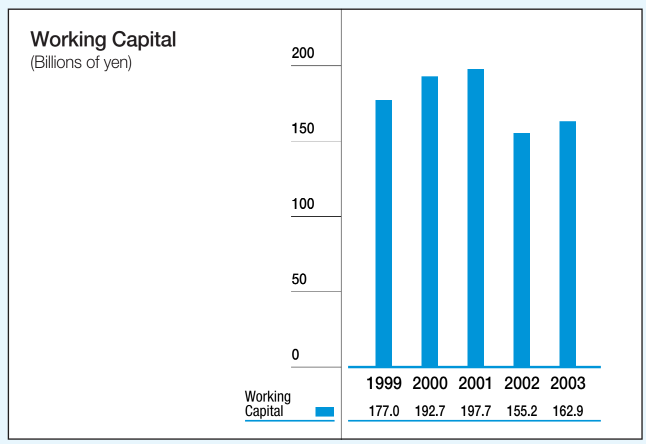
Total assets decreased 22.7 percent, or ¥108,964 million, to ¥371,704 million (US$3,092 million). The decrease mainly reflected the mergers of the consolidated subsidiaries of the Ohmori Group and their exclusion from the scope of consolidation.

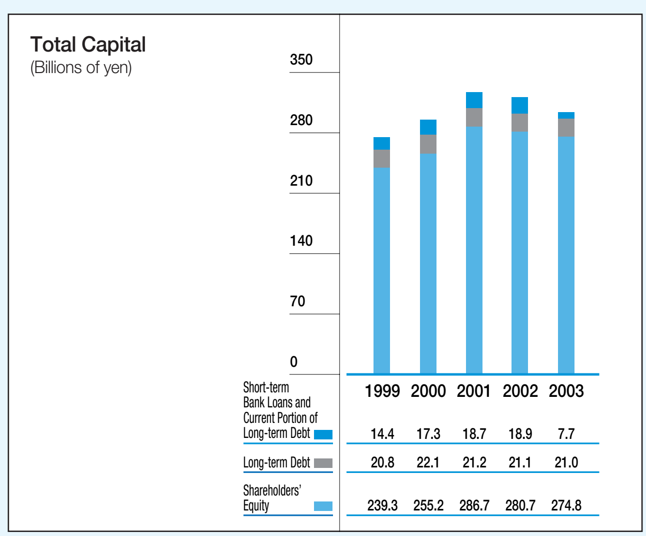
Shareholders' equity decreased 2.1 percent, or ¥5,851 million, to ¥274,824 million (US$2,286 million), primarily due to changes in the value of securities that reduced unrealized gains.



Total capital, the sum of short-term bank loans, the current portion of long-term debt, long-term debt and shareholders' equity, decreased 5.3 percent to ¥303,557 million (US$2,525 million), reflecting the reduction in short-term bank loans as of March 31, 2003. Shareholders' equity accounted for 90.5 percent of total capital, compared to 87.5 percent as of March 31, 2002, underscoring the soundness of Shionogi's capital structure and the comparatively low proportion of fixed interest expenses.

The ratio of debt to equity, calculated as the total of current liabilities and long-term debt divided by shareholders' equity, was 0.25 to 1, compared to 0.58 to 1 as of March 31, 2002. Shareholders' equity represented 73.9 percent of total assets, compared to 58.4 percent a year earlier. The return on average total shareholders' equity was 2.1 percent, compared to 3.0 percent for the previous fiscal year.





Consolidated Balance Sheets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents (Note 6)	**¥ 71,497**	¥ 79,716	**$ 594,817**
Short-term investments (Note 4)	**8,386**	10,244	**69,767**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**7,184**	6,350	**59,767**
Trade	**73,450**	126,184	**611,065**
Allowance for doubtful accounts	**(61)**	(835)	**(507)**
	80,573	131,699	**670,325**
Inventories (Note 5)	**41,275**	56,915	**343,386**
Deferred income taxes (Note 8)	**4,221**	4,895	**35,116**
Other current assets	**4,537**	12,344	**37,745**
Total current assets	**210,489**	295,813	**1,751,156**
Property, plant and equipment:			
Land	**17,172**	21,701	**142,862**
Buildings and structures	**97,865**	100,817	**814,185**
Machinery and equipment	**91,882**	94,299	**764,409**
Furniture and fixtures	**29,692**	29,061	**247,022**
Construction in progress	**2,020**	3,836	**16,805**
Accumulated depreciation	**(163,046)**	(163,327)	**(1,356,456)**
Property, plant and equipment, net	**75,585**	86,387	**628,827**
Investments and other assets:			
Investments in securities (Notes 4 and 6)	**71,500**	77,196	**594,842**
Investments in and advances to unconsolidated subsidiaries and affiliates	**2,299**	7,814	**19,126**
Intangible assets	**5,321**	5,214	**44,268**
Prepaid expenses	**847**	932	**7,047**
Deferred income taxes (Note 8)	**3,564**	2,950	**29,651**
Other assets	**2,099**	4,362	**17,462**
Total investments and other assets	**85,630**	98,468	**712,396**
Total assets	**¥371,704**	¥480,668	**$3,092,379**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 3) 2003
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 7,692**	¥ 18,873	**$ 63,993**
Current portion of long-term debt (Note 6)	**27**	66	**225**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**—**	193	**—**
Trade	**12,121**	81,910	**100,840**
Construction	**998**	2,236	**8,303**
Accrued expenses	**14,202**	17,506	**118,153**
Accrued income taxes (Note 8)	**3,924**	9,391	**32,646**
Deferred income taxes (Note 8)	**137**	35	**1,140**
Other current liabilities	**8,462**	10,364	**70,399**
Total current liabilities	**47,563**	140,574	**395,699**
Long-term liabilities:			
Long-term debt (Note 6)	**21,014**	21,074	**174,825**
Accrued retirement benefits for employees (Note 10)	**26,338**	33,722	**219,118**
Accrued retirement benefits for directors and statutory auditors	**416**	451	**3,461**
Deferred income taxes (Note 8)	**336**	2,391	**2,795**
Other long-term liabilities	**1,041**	1,333	**8,661**
Total long-term liabilities	**49,145**	58,971	**408,860**
Minority interests	**172**	448	**1,431**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 7)**:**			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2003 and 2002	**21,280**	21,280	**177,038**
Additional paid-in capital	**20,227**	20,227	**168,278**
Retained earnings (Note 16)	**230,882**	228,898	**1,920,815**
Net unrealized holding gain on securities	**5,015**	12,060	**41,722**
Translation adjustments	**(1,565)**	(1,476)	**(13,020)**
Less treasury stock, at cost	**(1,015)**	(314)	**(8,444)**
Total shareholders' equity	**274,824**	280,675	**2,286,389**
Total liabilities and shareholders' equity	**¥371,704**	¥480,668	**$3,092,379**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Net sales (Note 15)	**¥285,232**	¥420,188	**$2,372,978**
Cost of sales	**153,402**	273,692	**1,276,223**
Gross profit	**131,830**	146,496	**1,096,755**
Selling, general and administrative expenses (Note 11)	**112,564**	130,312	**936,472**
Operating income (Note 15)	**19,266**	16,184	**160,283**
Other income (expenses):			
Interest and dividend income	**1,193**	1,090	**9,925**
Interest expense	**(570)**	(737)	**(4,742)**
Royalty income	**1,088**	643	**9,052**
Loss on disposal of inventories	**(606)**	(1,090)	**(5,042)**
Additional retirement benefits	**(5,326)**	—	**(44,309)**
Costs related to outplacement support	**(3,013)**	—	**(25,067)**
Gain on sale of investment in an affiliate	**—**	2,706	**—**
Gain on sale of agrochemical business	**—**	1,601	**—**
Expenses related to sale of agrochemical business	**—**	(1,482)	**—**
Other, net	**(2,893)**	(160)	**(24,068)**
	(10,127)	2,571	**(84,251)**
Income before income taxes and minority interests	**9,139**	18,755	**76,032**
Income taxes (Note 8)**:**			
Current	**6,135**	16,718	**51,040**
Deferred	**(2,771)**	(6,056)	**(23,053)**
	3,364	10,662	**27,987**
Income before minority interests	**5,775**	8,093	**48,045**
Minority interests	**129**	363	**1,073**
Net income (Note 13)	**¥ 5,904**	¥ 8,456	**$ 49,118**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders’ Equity

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Common stock:			
Balance at beginning and end of year	**¥ 21,280**	¥ 21,280	**$ 177,038**
Additional paid-in capital:			
Balance at beginning and end of year	**¥ 20,227**	¥ 20,227	**$ 168,278**
Retained earnings:			
Balance at beginning of year	**¥228,898**	¥223,528	**$1,904,309**
Add:			
Net income	**5,904**	8,456	**49,118**
Deduct:			
Cash dividends	**(2,959)**	(2,960)	**(24,617)**
Net decrease in exclusion of consolidated subsidiaries	**(843)**	—	**(7,013)**
Bonuses to directors and statutory auditors	**(118)**	(126)	**(982)**
Balance at end of year	**¥230,882**	¥228,898	**$1,920,815**
Net unrealized holding gain on securities:			
Balance at beginning of year	**¥ 12,060**	¥ 24,528	**$ 100,333**
Net change during the year	**(7,045)**	(12,468)	**(58,611)**
Balance at end of year	**¥ 5,015**	¥ 12,060	**$ 41,722**
Translation adjustments:			
Balance at beginning of year	**¥ (1,476)**	¥ (2,632)	**$ (12,280)**
Net change during the year	**(89)**	1,156	**(740)**
Balance at end of year	**¥ (1,565)**	¥ (1,476)	**$ (13,020)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Operating activities:			
Income before income taxes and minority interests	**¥ 9,139**	¥ 18,755	**$ 76,032**
Adjustments for:			
Depreciation and amortization	**10,185**	9,813	**84,734**
(Reversal of) provision for retirement benefits, net of payments	**(6,446)**	3,694	**(53,627)**
Bonuses to directors and statutory auditors	**(118)**	(126)	**(982)**
Interest and dividend income	**(1,193)**	(1,090)	**(9,925)**
Interest expense	**570**	737	**4,742**
Gain on sale of agrochemical business	**—**	(1,601)	**—**
Gain on sale of investment in an affiliate	**—**	(2,706)	**—**
Other	**4,404**	(172)	**36,639**
Changes in operating assets and liabilities, net of effect of merger:			
Notes and accounts receivable	**76,210**	15,134	**634,027**
Inventories	**89**	(32)	**740**
Other current assets	**1,759**	(1,665)	**14,634**
Notes and accounts payable	**(70,991)**	(1,962)	**(590,607)**
Accrued expenses	**(1,492)**	(582)	**(12,413)**
Other current liabilities	**(4,354)**	3,780	**(36,223)**
Subtotal	**17,762**	41,977	**147,771**
Interest and dividends received	**1,525**	1,010	**12,687**
Interest paid	**(522)**	(648)	**(4,343)**
Income taxes paid	**(10,994)**	(16,115)	**(91,464)**
Net cash provided by operating activities	**7,771**	26,224	**64,651**
Investing activities:			
Increase in short-term investments	**(10,319)**	(17,952)	**(85,849)**
Proceeds from sales of short-term investments	**14,263**	18,641	**118,661**
Increase in investments in securities	**(2,094)**	(43,753)	**(17,421)**
Purchases of property, plant and equipment	**(9,012)**	(8,810)	**(74,975)**
Proceeds from collection of loans receivable	**10,520**	59	**87,521**
Increase in investments in subsidiaries and an affiliate	**—**	(4,434)	**—**
Proceeds from sales of investments in subsidiaries and an affiliate	**4,251**	3,478	**35,366**
Proceeds from sale of agrochemical business	**—**	3,210	**—**
Other	**(1,573)**	(1,455)	**(13,087)**
Net cash provided by (used in) investing activities	**6,036**	(51,016)	**50,216**
Financing activities:			
(Decrease) increase in short-term bank loans, net	**(11,152)**	744	**(92,779)**
Repayment of long-term debt	**(66)**	(852)	**(549)**
Cash dividends paid	**(2,959)**	(2,976)	**(24,617)**
Other	**(693)**	(141)	**(5,765)**
Net cash used in financing activities	**(14,870)**	(3,225)	**(123,710)**
Effect of exchange rate changes on cash and cash equivalents	**(285)**	336	**(2,372)**
Net decrease in cash and cash equivalents	**(1,348)**	(27,681)	**(11,215)**
Cash and cash equivalents at beginning of year	**79,716**	107,265	**663,195**
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	**—**	132	**—**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(6,871)**	—	**(57,163)**
Cash and cash equivalents at end of year	**¥ 71,497**	¥ 79,716	**$ 594,817**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2003

1. BASIS OF PREPARATION

Shionogi & Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan and the consolidated foreign subsidiaries in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2002 to the 2003 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. The Company has applied the equity method to its investment in one affiliate for the years ended March 31, 2003 and 2002.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The difference, not significant in amount, between the cost of investments in subsidiaries and the equity in their net assets at the dates of acquisition is amortized by the straight-line method over five years.

The overseas consolidated subsidiaries have a December 31 year end which differs from that of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these subsidiaries and the year end of the Company.

A significant change in the scope of consolidation has occurred during the current year. Certain companies in the Ohmori Group, a drug wholesaler, merged with their alliance partners and have been excluded from the Company's consolidated accounts for the year ended March 31, 2003.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

The financial statements of the foreign subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and have been reported as "Translation adjustments" in shareholders' equity and minority interests in the consolidated balance sheets.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(d) Short-term investments and investments in securities

Securities have been classified into three categories: trading, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(e) Inventories

Principally, inventories are stated at cost determined by the average method.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation of buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998 is calculated principally by the straight-line method over the estimated useful lives of the respective assets. Depreciation of other property, plant and equipment is computed by the declining-balance method over the useful lives of the respective assets.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	2 to 60 years
Machinery and equipment	2 to 17 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(g) Leases

Non-cancelable leases related to the Company and the domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(h) Research and development costs and computer software

Research and development costs are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their useful lives, generally a period of 5 years.

(i) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period.

The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

(j) Retirement benefits

The Company and certain of its domestic consolidated subsidiaries have non-contributory defined benefit pension plans and retirement benefit plans. Certain overseas consolidated subsidiaries principally have defined contribution retirement plans.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the year 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 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.

In addition, directors and statutory auditors of the Company are customarily entitled to lump-sum payments under an unfunded retirement benefit plan. The provision for retirement allowances for these officers has been made at estimated amounts based on the Company's internal rules.

(k) Derivatives

Derivative financial instruments are utilized by the Company principally to reduce the risk of fluctuation in foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of derivative transactions. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

The Company is exposed to certain market risks arising from its forward foreign exchange contracts. The Company is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency contracts; however, the Company does not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

(l) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 16.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥120.20 = U.S.$1.00, the approximate rate of exchange on March 31, 2003. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Held-to-maturity debt securities and other securities at March 31, 2003 and 2002 were as follows:

(1) Held-to-maturity debt securities

	Millions of yen			
	2003			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures ...	**¥40,688**	**¥808**	**¥(0)**	**¥41,496**

	Millions of yen			
	2002			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures	¥41,053	¥26	¥(1)	¥41,078

	Thousands of U.S. dollars			
	2003			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures	**$338,502**	**$6,723**	**$(0)**	**$345,225**

(2) Other securities

	Millions of yen			
	2003			
	Other securities			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**¥14,206**	**¥7,796**	**¥(168)**	**¥21,834**
Bonds and debentures	**2,789**	**1,535**	**—**	**4,324**
Other securities	**5,065**	**66**	**(587)**	**4,544**
	¥22,060	**¥9,397**	**¥(755)**	**¥30,702**

	Millions of yen			
	2002			
	Other securities			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	¥ 8,700	¥19,694	¥ (38)	¥28,356
Bonds and debentures	2,865	1,664	(0)	4,529
Other securities	5,265	56	(527)	4,794
	¥16,830	¥21,414	¥(565)	¥37,679

	Thousands of U.S. dollars			
	2003			
	Other securities			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**$118,186**	**$64,859**	**$(1,398)**	**$181,647**
Bonds and debentures	**23,203**	**12,770**	**—**	**35,973**
Other securities	**42,138**	**549**	**(4,883)**	**37,804**
	$183,527	**$78,178**	**$(6,281)**	**$255,424**

(3) The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Proceeds from sales	**¥ 72**	¥4	**$ 599**
Gross realized gain	**161**	0	**1,339**

(4) The carrying value of investments in non-marketable securities at March 31, 2003 and 2002 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Other securities:			
Unlisted equity securities	**¥1,931**	¥892	**$16,065**

(5) The carrying value of held-to-maturity debt securities and debt securities classified as other securities at March 31, 2003 and 2002 is summarized as follows:

	Millions of yen	
	2003	
	Bonds and debentures	Other
Due within one year	**¥ 2,031**	**¥ 127**
Due after one year through five years	**28,503**	**—**
Due after five years through ten years	**10,154**	**2,700**
Due after ten years	**—**	**1,497**

	Millions of yen	
	2002	
	Bonds and debentures	Other
Due within one year	¥ 2,173	¥ —
Due after one year through five years	28,581	461
Due after five years through ten years	10,312	1,770
Due in one year or less	—	2,285

	Thousands of U.S. dollars	
	2003	
	Bonds and debentures	Other
Due within one year	**$ 16,897**	**$ 1,057**
Due after one year through five years	**237,129**	**—**
Due after five years through ten years	**84,476**	**22,462**
Due after ten years	**—**	**12,454**

5. INVENTORIES

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Merchandise	**¥ 4,353**	¥16,392	**$ 36,215**
Finished goods	**13,345**	15,951	**111,023**
Semifinished goods and work in process	**15,799**	14,593	**131,439**
Raw materials and supplies	**7,778**	9,979	**64,709**
	¥41,275	¥56,915	**$343,386**

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The annual average interest rates applicable to short-term bank loans at March 31, 2003 and 2002 were 0.5% and 0.6%, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Loans from banks, insurance companies and financial institutions at rates from 2.44% to 4.65%, due through 2032			
Secured	**¥ 725**	¥ 725	**$ 6,032**
Unsecured	**316**	415	**2,629**
2.0% unsecured bonds, payable in yen, due 2005	**20,000**	20,000	**166,389**
	21,041	21,140	**175,050**
Less current portion	**(27)**	(66)	**(225)**
	¥21,014	¥21,074	**$174,825**

The assets pledged as collateral for short-term bank loans and long-term debt at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Cash and cash equivalents	**¥ 6**	¥ 6	**$ 50**
Investments in securities	**116**	300	**965**
	¥122	¥ 306	**$1,015**

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥ 27	$ 225
2005	750	6,240
2006	20,024	166,589
2007	22	183
2008	21	175
2009 and thereafter	197	1,638
	¥21,041	$175,050

7. SHAREHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Retained earnings include the legal reserve provided in accordance with the provisions of the Code. The legal reserve of the Company and its consolidated subsidiaries included in retained earnings at March 31, 2003 and 2002 amounted to ¥6,179 million ($51,406 thousand) and ¥6,092 million, respectively.

Effective the year ended March 31, 2003, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Treasury Stock and Reversal of Legal Reserves." The adoption of this standard had no effect on the consolidated statements of income for the year ended March 31, 2003.

8. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 42.0% for the years ended March 31, 2003 and 2002.

The overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The effective tax rates for the years ended March 31, 2003 and 2002 differ from the statutory tax rate above for the following reasons:

	2003	2002
Statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**15.0**	8.8
Amortization of excess of cost over net assets acquired	**0.9**	0.6
Inhabitants' per capita taxes	**1.7**	1.1
Difference between statutory tax rate in Japan and income tax rates applied for overseas consolidated subsidiaries	**(1.9)**	—
Tax loss carryforward of consolidated subsidiaries	**1.8**	4.0
Tax loss carryforward from prior year	**(6.6)**	—
Tax credit	**(2.0)**	—
Income tax refund of overseas consolidated subsidiaries	**(3.2)**	—
Loss on liquidation of a consolidated subsidiary	**(10.8)**	—
Change in deferred tax assets at end of year due to change in statutory tax rate	**1.3**	—
Other	**(1.4)**	0.3
Effective tax rates	**36.8%**	56.8%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 42.0% to 41.2% effective for fiscal years beginning after March 31, 2004. As a result, the Company applied a statutory tax rate of 41.2% at March 31, 2003 to the calculation of deferred tax assets and liabilities which are expected to be reversed on April 1, 2004 and thereafter. The effect of this change in statutory tax rate was to decrease deferred tax assets (net of deferred tax liabilities) by ¥60 million ($499 thousand) at March 31, 2003, and to increase income taxes — deferred and net unrealized holding gain on securities by ¥124 million ($1,032 thousand) by ¥64 million ($533 thousand), respectively, for the year ended March 31, 2003.

The tax effects of temporary differences at March 31, 2003 and 2002 which gave rise to significant deferred tax assets (liabilities) are presented below:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Accrued expenses	¥ 2,733	¥ 2,748	$ 22,737
Retirement benefits	6,125	6,065	50,956
Accrued enterprise tax	343	841	2,854
Research and development expenses	343	1,318	2,854
Inventories	—	892	—
Reserve for sales rebates	267	242	2,221
Loss on revaluation of investments in securities	617	295	5,133
Depreciation of computer software	122	196	1,015
Unrealized gain arising from Corporate Division	—	1,820	—
Tax loss carryforwards of consolidated subsidiaries	228	757	1,897
Other	1,841	1,133	15,316
Valuation allowance	(510)	(794)	(4,243)
Total deferred tax assets	12,109	15,513	100,740
Deferred tax liabilities:			
Unrealized gain on other securities	(3,510)	(8,666)	(29,201)
Unrealized gain on consolidated subsidiaries	(533)	(533)	(4,434)
Depreciation	(187)	(281)	(1,556)
Other	(567)	(614)	(4,717)
Total deferred tax liabilities	(4,797)	(10,094)	(39,908)
Net deferred tax assets	¥ 7,312	¥ 5,419	$ 60,832

9. LEASES

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and its consolidated subsidiaries at March 31, 2003 and 2002, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized:

	Millions of yen		
	2003		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	¥283	¥147	¥136

	Millions of yen		
	2002		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	¥2,242	¥1,366	¥876

	Thousands of U.S. dollars		
	2003		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	$2,354	$1,223	$1,131

Finance lease payments of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease payments	¥337	¥574	$2,804

Future minimum payments (including the interest portion thereon) subsequent to March 31, 2003 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥54	$ 449
Due after one year	82	682
Total	¥136	$1,131

10. RETIREMENT BENEFITS

The following table sets forth the changes in the retirement benefit obligation, plan assets and funded status of the Company and the consolidated subsidiaries at March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Retirement benefit obligation at end of year	¥(150,850)	¥(155,183)	$(1,254,992)
Fair value of plan assets at end of year	81,818	88,838	680,682
Unfunded retirement benefit obligation	(69,032)	(66,345)	(574,310)
Unrecognized prior service cost	(9,420)	(10,507)	(78,369)
Unrecognized actuarial loss	52,114	43,130	433,561
Accrued retirement benefits	¥ (26,338)	¥ (33,722)	$ (219,118)

For the year ended March 31, 2002, prior service cost of ¥10,507 million incurred since the Company's retirement pension plan was amended effective December 1, 2001.

The components of retirement benefit expenses for the years ended March 31, 2003 and 2002 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 4,802	¥ 5,762	$ 39,950
Interest cost	4,338	5,253	36,090
Expected return on plan assets	(2,030)	(2,618)	(16,889)
Amortization of actuarial loss	4,463	2,477	37,130
Amortization of prior service cost	(1,087)	(362)	(9,043)
Retirement benefit expenses	¥10,486	¥10,512	$ 87,238

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Discount rates	2.5%	3.0%
Expected rates of return on plan assets	2.0%–3.0%	2.7%–3.5%

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2003 and 2002 amounted to ¥31,284 million ($260,266 thousand) and ¥30,602 million, respectively.

12. CONTINGENT LIABILITIES

The Company had the following contingent liabilities at March 31, 2003:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to employees	**¥15**	**$125**

13. AMOUNTS PER SHARE

Amounts per share for the years ended March 31, 2003 and 2002 are as follows:

	Yen		U.S. dollars
	2003	2002	**2003**
Net income	**¥ 16.66**	¥ 24.28	**$0.14**
Net assets	**789.91**	806.02	**6.57**
Cash dividends applicable to the year	**8.50**	8.50	**0.07**

Effective April 1, 2002, the Company adopted Financial Accounting Standard No. 2, "Accounting Standard for Earnings per Share" and Financial Accounting Standards Implementation Guidance No. 4: "Implementation Guidance for Accounting Standard for Earnings per Share," issued by the Accounting Standards Board of Japan.

Until the year ended March 31, 2002, basic net income (loss) per share was computed based on the net income (loss) reported in the consolidated statements of operations and the weighted average number of shares of common stock outstanding during each year, and the amount per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share for the year ended March 31, 2003 has been computed based on the net income attributable to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year and the amount per share of net assets at March 31, 2003 has been computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

If the Company had adopted the new standards for the year ended March 31, 2002, the per share amount of net assets at March 31, 2002 and the basic net income for the year ended March 31, 2002, would have been ¥805.62 ($6.70) and ¥23.89 ($0.20), respectively.

The basic financial data for the computation of basic consolidated net income per share for the year ended March 31, 2003 based on the above standards is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Information on basic net income per share:		
Net income	**¥5,904**	**$49,118**
Deduction from net income:		
Bonuses to directors and statutory auditors	**105**	**873**
Adjusted net income allocated to common stock	**¥5,799**	**$48,245**
Weighted average number of shares of common stock outstanding April 1, 2002 to March 31, 2003:	348,034 thousand shares	

Diluted net income per share is not presented since no potentially dilutive securities have been issued.

14. SUPPLEMENTARY CASH FLOW INFORMATION

In October 2002, the assets and liabilities of Ohmori Co., Ltd., were excluded from consolidation due to this merger with its alliance partner, which resulted in decrease in Company's interest in Ohmori Co., Ltd. The following summarizes the assets and liabilities excluded from consolidation for the year ended March 31, 2003.

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥78,672**	**$654,509**
Non-current assets	**10,518**	**87,504**
Total assets	**¥89,190**	**$742,013**
Current liabilities	**¥79,696**	**$663,028**
Non-current liabilities	**21**	**175**
Total liabilities	**¥79,717**	**$663,203**

15. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of pharmaceutical products and in related marketing activities in Japan and overseas, primarily in North America and Europe, in two major segments. The pharmaceuticals segment is conducted principally by the Company and the capsules segment is conducted principally by its consolidated subsidiary, Shionogi Qualicaps Co., Ltd.

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 is outlined as follows:

	Millions of yen					
	Year ended March 31, 2003					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	**¥268,382**	**¥11,859**	**¥ 4,991**	**¥285,232**	**¥ —**	**¥285,232**
Intergroup sales and transfers	**—**	**245**	**5,800**	**6,045**	**(6,045)**	**—**
Total sales	**268,382**	**12,104**	**10,791**	**291,277**	**(6,045)**	**285,232**
Operating expenses	**252,035**	**10,685**	**9,343**	**272,063**	**(6,097)**	**265,966**
Operating income	**¥ 16,347**	**¥ 1,419**	**¥ 1,448**	**¥ 19,214**	**¥ 52**	**¥ 19,266**
II. Assets, depreciation and capital expenditures:						
Total assets	**¥228,026**	**¥20,526**	**¥13,736**	**¥262,288**	**¥109,416**	**¥371,704**
Depreciation	**9,008**	**1,113**	**578**	**10,699**	**—**	**10,699**
Capital expenditures	**9,272**	**764**	**539**	**10,575**	**—**	**10,575**

	Millions of yen					
	Year ended March 31, 2002					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income (loss):						
Sales to third parties	¥397,499	¥12,088	¥10,601	¥420,188	¥ —	¥420,188
Intergroup sales and transfers	—	379	5,333	5,712	¥ (5,712)	—
Total sales	397,499	12,467	15,934	425,900	(5,712)	420,188
Operating expenses	382,624	10,916	16,205	409,745	(5,741)	404,004
Operating income (loss)	¥ 14,875	¥ 1,551	¥ (271)	¥ 16,155	¥ 29	¥ 16,184
II. Assets, depreciation and capital expenditures:						
Total assets	¥313,284	¥20,821	¥20,689	¥354,794	¥125,874	¥480,668
Depreciation	8,543	1,382	541	10,466	—	10,466
Capital expenditures	8,749	601	362	9,712	—	9,712

	Thousands of U.S. dollars					
	Year ended March 31, 2003					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	**$2,232,795**	**$ 98,661**	**$ 41,522**	**$2,372,978**	**$ —**	**$2,372,978**
Intergroup sales and transfers	**—**	**2,038**	**48,253**	**50,291**	**(50,291)**	**—**
Total sales	**2,232,795**	**100,699**	**89,775**	**2,423,269**	**(50,291)**	**2,372,978**
Operating expenses	**2,096,797**	**88,894**	**77,729**	**2,263,420**	**(50,725)**	**2,212,695**
Operating income	**$ 135,998**	**$ 11,805**	**$ 12,046**	**$ 159,849**	**$ 434**	**$ 160,283**
II. Assets, depreciation and capital expenditures:						
Total assets	**$1,897,055**	**$170,765**	**$114,276**	**$2,182,096**	**$910,283**	**$3,092,379**
Depreciation	**74,942**	**9,259**	**4,809**	**89,010**	**—**	**89,010**
Capital expenditures	**77,138**	**6,356**	**4,484**	**87,978**	**—**	**87,978**

As more than 90% of the consolidated net sales for the years ended March 31, 2003 and 2002 were made in Japan, the disclosure of geographical segment information has been omitted.

16. SUBSEQUENT EVENT

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2003, were approved at a shareholders' meeting held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.25 = $0.04 per share)	¥1,490	$12,396
Bonuses to directors and statutory auditors	80	666

Report of Independent Auditors

Shin Nihon & Co.

Osaka Kokusai Building
3-13, Azuchimachi 2-chome,
Chuo-ku, Osaka 541-0052, Japan
Tel. 06-4964-6655 Fax. 06-6263-0710

The Board of Directors
Shionogi & Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shionogi & Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shionogi & Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Shin Nihon & Co.

Shin Nihon & Co.

Osaka, Japan
June 27, 2003

See Note 1 to the consolidated financial statements which explains the basis of presentation of the consolidated financial statements of Shionogi & Co., Ltd and consolidated subsidiaries under Japanese accounting principles and practices.

Board of Directors and Corporate Auditors

(As of June 27, 2003)

Left to right: **Kiyoshi Miyamoto,** Senior Managing Director; **Motozo Shiono,** President; **Takashi Maeda,** Executive Vice President

President

Motozo Shiono

Executive Vice President

Takashi Maeda

Senior Managing Director

Kiyoshi Miyamoto

Managing Directors

Hideo Shibagaki
Hideki Okuda

Directors

Hitoshi Arita
Mitsuaki Ohtani, Ph.D.
Reiji Takeda, Ph.D.
Moriyasu Takami
Tomiyasu Hirachi
Nobuzo Takeda
Norio Yamada
Sachio Tokaji
Isao Teshirogi

Standing Corporate Auditors

Mikihiko Matsumiya
Teruo Sasaki

Corporate Auditors

Sotoo Tatsumi
Toshiomi Uragami

Subsidiaries and Affiliates

(As of March 31, 2003)

Company	Location	Business	Ownership (%)
OVERSEAS—7 COMPANIES			
Taiwan Shionogi & Co., Ltd.	Taipei, Taiwan, R.O.C.	Manufacture and and sale of pharmaceuticals	100.0
Shionogi Europe B.V.	Amsterdam, The Netherlands	Holding company	100.0
Shionogi Qualicaps, Inc.	North Carolina, U.S.A.	Manufacture and sale of capsules	100.0*
Shionogi Qualicaps, S.A.	Madrid, Spain	Manufacture and sale of capsules	100.0*
Shionogi USA, Inc.	New Jersey, U.S.A.	Contract research for pharmaceuticals	100.0
SG Holding, Inc.	Delaware, U.S.A.	Holding company	100.0
Shionogi-GlaxoSmithKline Holding LP**	Cayman Islands	Holding company	50.0*
DOMESTIC—14 COMPANIES			
Shionogi Qualicaps Co., Ltd.	Nara, Japan	Manufacture and sale of capsules	100.0
Bushu Pharmaceuticals Ltd.	Saitama, Japan	Contract manufacture of pharmaceuticals	100.0
Nichia Pharmaceutical Industries Ltd.	Tokushima, Japan	Manufacture of pharmaceutical raw materials	75.0
Daiwa Trading Co., Ltd.	Osaka, Japan	Sale of industrial chemicals, etc.	100.0
Ohmori Group Honsha Co., Ltd.	Tokyo, Japan	Wholesaling of pharmaceuticals	100.0*
Saishin Igaku Co., Ltd.	Osaka, Japan	Publication of medical literature	100.0
Shionogi Medical Information Co., Ltd.	Osaka, Japan	Collection of medical information	100.0
Shionogi Engineering Service Co., Ltd.	Hyogo, Japan	Inspection and maintenance of pharmaceutical manufacturing equipment	100.0
Shionogi Buturyuu Service & Co., Ltd.	Osaka, Japan	Warehousing and logistic services	100.0*
Shionogi General Service Co., Ltd.	Osaka, Japan	Travel and insurance agency	100.0*
Soei Co., Ltd.	Osaka, Japan	Real estate rental	100.0*
Osaka Yakuhin Co., Ltd.	Osaka, Japan	Asset management	100.0
Wakayama Yakuhin Co., Ltd.	Wakayama, Japan	Asset management	100.0*
Kyosaido Co., Ltd.	Kyoto, Japan	Asset management	100.0*

* Includes indirect ownership
** Affiliated company accounted for by the equity method

Corporate Directory

(As of March 31, 2003)

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Akoh Plant
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Shionogi Qualicaps, S.A.
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Tel: 34-91-663-0800

Shionogi USA, Inc.
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NJ 07932, U.S.A.
Tel: 1-973-966-6900

SG Holding, Inc.
1209 Orange Street,
Wilmington, New Castle, DE, U.S.A.

Corporate Data

(As of March 31, 2003)

Company Name
Shionogi & Co., Ltd.

Web Page
http://www.shionogi.co.jp/

Head Office
1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6202-2161
Fax: +81-6-6229-9596

Established
March 17, 1878

Incorporated
June 5, 1919

Paid-in Capital
¥21,280 million

Number of Employees
4,744

Dividends
March 31—Date for confirming the shareholders receiving year-end dividends
September 30—Date for confirming the shareholders receiving interim dividends

Stock (Securities) Listings
Osaka, Tokyo, Nagoya, Fukuoka, and Sapporo (#4507)

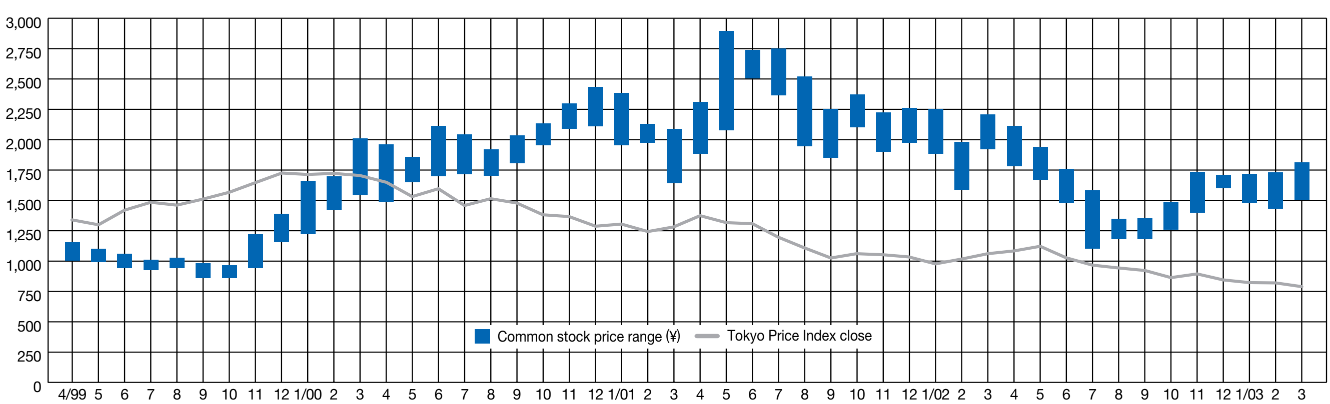
Common Stock
Authorized: 1,000,000,000 shares
Outstanding: 351,136,165 shares
Number of Shareholders: 15,430

Transfer Agent
The Sumitomo Trust & Banking Co., Ltd.
Stock Transfer Agency Department,
5-33, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan

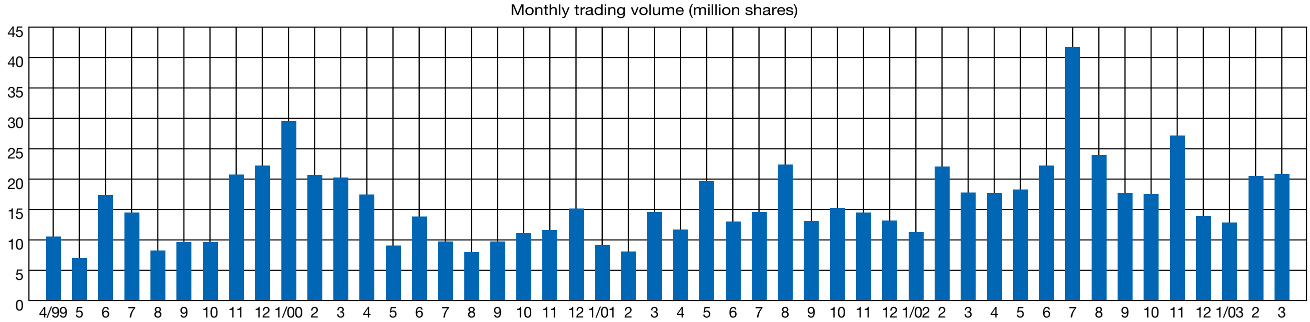
Major Shareholders

	Number of Shares (thousands)	Percentage of Total Shares
The Chase Manhattan Bank, NA London	32,526	9.26%
State Street Bank & Trust Company	20,175	5.75
Nippon Life Insurance Company	18,768	5.35
Sumitomo Life Insurance Company	18,604	5.30
The Sumitomo Mitsui Banking Corporation	16,313	4.65
The Chase Manhattan Bank, NA London, SL Omnibus Account	15,763	4.49
Boston Safe Deposit BSDT Treaty Clients Omnibus	11,296	3.22
The Master Trust Bank of Japan, Ltd. (trust account)	11,151	3.18
NIPPONKOA Insurance Company, Limited	9,825	2.80
Japan Trustee Services Bank., Ltd. (trust account)	6,795	1.94
Total	161,220	45.94%

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Monthly trading volume (million shares)



SHIONOGI & CO., LTD.

The *fundo* mark was registered as a trademark in 1909, and continues to be used as our corporate emblem today. *Fundo* were used as weights for scales during the Edo period (1600-1868), and they appropriately symbolize Shionogi's relentless pursuit of precision and accuracy.

http://www.shionogi.co.jp/

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