SHIONOGI & CO., LTD.

Continually providing the superior medicines essential to people's health

Better Human Health Is Our Commitment, Improved Performance Is Our Goal

Annual Report 2004

Year ended March 31, 2004

SONG for you!

Profile

"Continually providing the superior medicines essential to people's health" — this has been the corporate mission of the Shionogi Group since 1957. Today, this mission takes the form of an integrated approach to drug creation, manufacturing and marketing of products that effectively improve both healthcare and the quality of life for people worldwide. Shionogi is currently in the final stage of a major re-engineering of its business structure to focus on its core ethical drug business in order to increase corporate value and better carry out its corporate mission. By doing so, we will continue to grow and expand our operations globally, thus meeting the expectations of our customers, shareholders, employees, society and other stakeholders.

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About the Cover

Shionogi began corporate advertising in October 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 SHIONOGI 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.

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

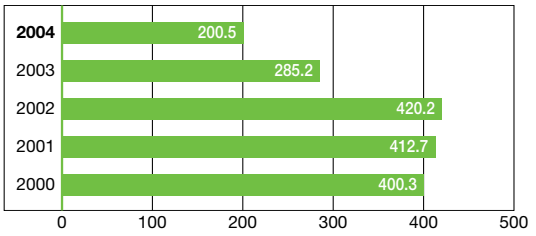
Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Percentage change	Thousands of U.S. dollars
	2004	2003	2004/2003	2004
For the years ended March 31:				
Net sales	¥200,485	¥285,232	(29.7)%	$1,896,915
Operating income	20,292	19,266	5.3	191,995
Income before income taxes and minority interests	5,178	9,139	(43.3)	48,992
Net income	2,204	5,904	(62.7)	20,853
Research and development expenses	29,808	31,284	(4.7)	282,032
Capital investments	4,404	9,012	(51.1)	41,669
Depreciation and amortization	9,705	10,185	(4.7)	91,825
As of March 31:				
Total assets	¥376,161	¥371,704	1.2%	$3,559,097
Total shareholders' equity	292,187	274,824	6.3	2,764,567
Per share amounts (in yen and U.S. dollars):				
Net income	¥ 6.06	¥ 16.66	(63.6)%	$0.06
Net assets	844.53	789.91	6.9	7.99
Cash dividends applicable to the year	8.50	8.50	–	0.08
Return on equity	0.8%	2.1%	(1.3) points	
Number of employees	5,589	6,149	(9.1)	

Note: The U.S. dollar figures have been calculated, for convenience only, at the rate of ¥105.69=US$1, the approximate exchange rate on March 31, 2004.

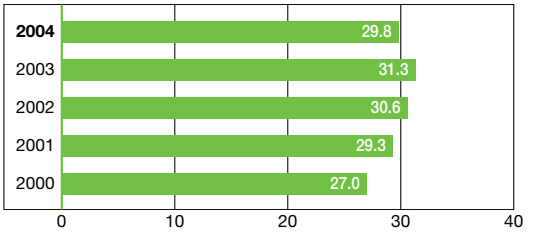
Net Sales

(Billions of yen)



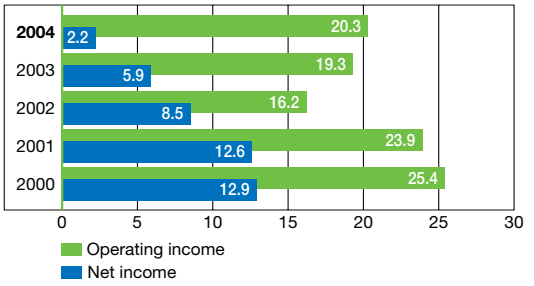
Research and Development Expenses

(Billions of yen)



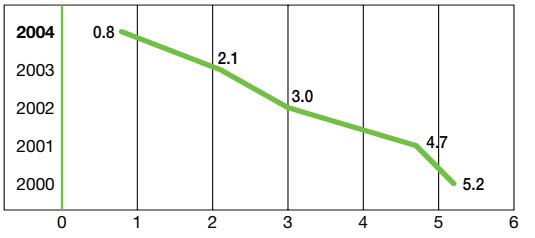
Operating Income/Net Income

(Billions of yen)



Return on Equity

(%)



To Our Stakeholders

The final stages of the re-engineering of Shionogi's business structure had an unavoidable negative impact on sales and income during fiscal 2003, the year ended March 31, 2004. Having established a business structure to generate high earnings, Shionogi will work to increase corporate value in the final year of its medium-term management plan.

Performance in Fiscal 2003

In the Japanese pharmaceutical industry during fiscal 2003, measures to shore up the health insurance system by controlling medical costs, including the introduction of the Diagnosis-Related Group/Prospective Payment System (DRG/PPS) at special function hospitals, increased the pressure on drug costs. Competition intensified among pharmaceutical manufacturers, including major European and U.S. companies, in the area of global new drug development and marketing, making the operating environment increasingly challenging.

Shionogi responded by further reinforcing research and development and marketing in its core ethical drug business. We also consolidated our manufacturing facilities to build a more efficient production network.

Net sales in fiscal 2003 decreased 29.7 percent compared with the previous fiscal year to ¥200,485 million. The primary reason for the decrease was the exclusion of the Ohmori Group of drug wholesalers from the scope of consolidation after each company's merger with its respective alliance partner. This represented a significant step in re-engineering our business structure. Other factors included a contraction in the market for our main products and intensified competition in the ethical drug business. Operating income increased 5.3 percent compared with the previous fiscal year to ¥20,292 million, and the ratio of operating income to net sales improved from 6.8 percent to 10.1 percent, as the consolidation of manufacturing plants and a reduction in our workforce helped to reduce manufacturing costs and selling, general and administrative expenses. Shionogi recorded extraordinary losses of ¥7,082 million in costs related to its outplacement support program and ¥3,846 million in additional retirement benefits to employees who transferred to joint venture companies of the clinical testing services and industrial chemicals businesses. Consequently, consolidated net income decreased 62.7 percent compared with the previous fiscal year to ¥2,204 million, and net income per share was ¥6.06. Cash dividends per share totaled ¥8.50, unchanged from the previous fiscal year.

Toward Completion of the Medium-Term Management Plan

The scale of Shionogi Group sales has decreased by nearly half compared with the start of the medium-term management plan due to the re-engineering of its business structure. However, we expect the positive effects of this initiative to begin to appear during fiscal 2004 and thereafter.

The outplacement support program and reform of the retirement benefit plans are expected to contribute to the stabilization of Shionogi's finances by reducing expenses associated with retirement benefits while assisting employees who wanted to start a new career path. Through these measures, we made significant progress in building the infrastructure necessary to achieve our targeted business reforms.

In fiscal 2004, the final year of the medium-term management plan, Shionogi will concentrate on strengthening its sales force for ethical drugs. We have introduced Shionogi Advanced MR Information Technology (SAMIT), a system that aids medical representatives (MRs) in providing timely information to meet the individual needs of healthcare practitioners. In addition, our Pre-Launch Marketing Project lays the groundwork to swiftly maximize the value of new products after their launch. Sales structure reorganization to date has included the introduction of an Area Marketing System in 2002 to develop detailed strategies for each region. We have dispatched area support MRs specializing in the oncology and cardiovascular fields to each area to direct activities toward opinion leaders while supporting and training other MRs. This is just one aspect of our broad and varied MR training methods and content.

To date, these measures have contributed to an increase in market share during fiscal 2003 for our core antibiotic Flomox. However, I am confident we have further room for growth. To ensure that we achieve that growth, we are implementing management reforms in the current fiscal year to further clarify authority and responsibility. Other measures to further strengthen Shionogi's business infrastructure include the creation of a Marketing Department in the Human Health Care Division to devise timely marketing strategies based on an accurate grasp and analysis of market trends.

Following the launches of Claritin in 2002 and OxyContin in 2003, we expect S-4522 (rosuvastatin calcium), which we plan to launch in Japan in fiscal 2004, to become another market-leading product. I believe that the measures now under way, with the active support of each employee in achieving our objectives, will ensure the success of these new products and contribute to an increase in market share for Shionogi.

Our medium-term management plan objective for fiscal 2004 is to increase the corporate value of the Shionogi Group by improving the profitability of the Group's core ethical drug business. Achieving this objective will lead to improved returns for shareholders and all stakeholders, and we ask for your continued support.

June 2004

Motozo Shiono
President and Representative Director

Interview with President Motozo Shiono

Q What progress have you made in re-engineering Shionogi's business structure, a central theme of the medium-term management plan?

In the four years since the start of the plan in 2000, we have transferred our non-core businesses to joint ventures or mergers. I believe this initiative has made the best use of our business assets in agrochemicals, animal health products, clinical testing services and industrial chemicals, as well as the Ohmori Group of drug wholesalers. In addition, we sold Shionogi BioResearch Corp., based in Boston, U.S.A., and Shionogi absorbed six subsidiaries in businesses including real estate and leasing.

Business structure re-engineering has proceeded on schedule. I believe we now have a structure in place that allows us to concentrate on our core ethical drug business.

Q Shionogi has been conducting internal structural reforms in tandem with its business structure re-engineering. To what extent have you succeeded in improving management efficiency?

Shionogi has aggressively implemented internal structural reforms. We have consolidated manufacturing plants and increased efficiency in connection with the re-engineering. We have set up a Business Support Center in the Corporate Administration Division and systems for business process re-engineering, enterprise business planning and enterprise resource planning in production. Also, in addition to an outplacement support program for employees affected by these changes, we have introduced a performance-based remuneration policy and changed our retirement benefit plans.

We expect the increased efficiency generated by these reforms to result in future improvements to both the cost of sales and selling, general and administrative expenses.

➤ Better Human Health Is Our Commitment, Improved Performance Is Our Goal

Medium-Term Management Plan

- To increase the corporate value of the Shionogi Group by positioning ethical drugs as our core business for greater profits and business value.
- To continuously discover new blockbuster drugs, and to develop and market them globally in a timely manner.
- To maintain a sales and distribution force recognized as the best in Japan.
- Numerical targets (consolidated basis)
  Net income: Over ¥20 billion
  ROE (Return on Equity): 6% level

➤ Chronology of Business Structure Re-Engineering

➤ **October 2001**
Transfer of agrochemical business to a joint venture with Aventis CropScience S.A. (currently Bayer CropScience K.K.)

➤ **April 2002**
Transfer of animal health products business to a joint venture with Boehringer Ingelheim GmbH; transfer of clinical testing services business to a joint venture with SRL Co., Ltd.

➤ **April-October 2002**
Five Ohmori Group companies merged with major regional wholesalers

➤ **October 2003**
Transfer of industrial chemicals business to a joint venture with Degussa Japan Co., Ltd.

➤ **April 2004**
Transfer of manufacturing operations for agrochemicals and animal health products to Hayashi AgroScience Co., Ltd.

Chronology of Internal Structural Reforms

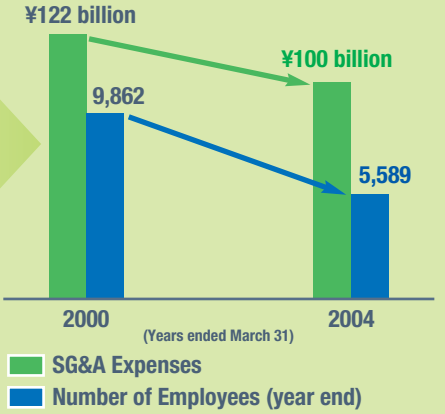
October 2002:	Established the Business Support Center; concentration and streamlining of common work in the Corporate Administration Division
December 2002:	208 manufacturing employees applied for the outplacement support program
April 2003:	Launched the Enterprise Resource Planning (ERP) system
May 2003:	Fukuoka Distribution Center closed
June 2003:	Reform of compensation system; change to performance-based remuneration
September 2003:	375 employees applied for the outplacement support program
October 2003:	Sapporo Distribution Center closed
March 2004:	38 employees applied for the outplacement support program
April 2004:	Introduction of the new retirement benefit plans: suspension of the tax-qualified pension plan and replacement with new defined benefit pension plan consisting of a cash balance plan, defined contribution pension plan and lump-sum retirement allowance plan.

Q Shionogi aims for continuous discovery of innovative new drugs, followed by timely development and marketing on a global level. What have been the progress and results of your measures to strengthen R&D?

In research, we have made significant progress in the major tasks of narrowing our focus on selected research themes, concentrating resources in these areas, restructuring our research organization based on target diseases, and establishing a disease-based project management system. Moreover, we have expanded the scope of our drug discovery technologies by conducting joint research with external research institutions. These initiatives are helping us achieve our medium-term management plan objective of accelerating discovery of original, innovative new drugs.

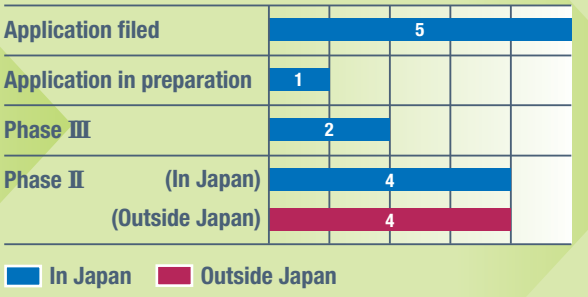
In development, our major tasks are to construct a system for timely, global development and marketing of the new drugs we create, shorten development time and improve the quality of clinical trials. One initiative is the ESPRIT drug development project management system introduced in 2002. It helps to

➤ Reductions in SG&A Expenses and Number of Employees



➤ Products under Development by Stage

(As of August 2004)



expedite development, enabling simultaneous scheduling of multiple projects while controlling costs. For overseas development, Shionogi USA, Inc. began clinical trials under local management in fiscal 2003. These measures are clear, substantial contributions to the development of our R&D infrastructure.

Q How much progress has Shionogi made in globalizing its operations?

This is a major objective of our medium-term management plan. In February 2001 we established Shionogi USA as a base for clinical studies and business development in the United States. Since then, the company has been aggressively recruiting locally to fill major positions including those of the CEO and medical directors, and building the most appropriate infrastructure for development and business growth. In 2003, Shionogi USA held its first clinical trial of a compound created at the Shionogi Research Laboratories. To accelerate overseas clinical trials of other promising compounds created in-house, we plan to increase the number of employees at Shionogi USA and promote clinical trials there.

As another step toward globalization, Shionogi established a joint venture with GlaxoSmithKline plc in October 2001. The company is currently developing drugs with novel mechanisms of action, including a treatment for cerebrovascular diseases. The advancement of these compounds through the development process will be a key factor in accelerating Shionogi's globalization.

Q What progress has Shionogi made toward the medium-term management plan objective of developing a sales force recognized as the best in the domestic market?

We have taken various measures over the past four years to strengthen sales. In the Human Health Care Division, we introduced Shionogi Advanced MR Information Technology (SAMIT), a system that aids MRs in providing timely information to meet the individual needs of healthcare practitioners. In addition, our Pre-Launch Marketing Project lays the groundwork to swiftly maximize the value of new products after their launch. In addition, we established a Marketing Department in the Human Health Care Division to devise timely marketing strategies based on an accurate grasp and analysis of market trends.

Sales structure reorganization to date has included the introduction of an Area Marketing System in 2002

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➤ Strategic Alliances for Joint Research

Research Field	Research Partner
Osteoarthritis	Quark Biotech, Inc.
Cancer (lung, prostate, breast)	OncoTherapy Science, Inc.
Diabetic nephropathy	RIKEN Genomic Sciences Center
Glycoprotein synthesis	Nishimura Project (Hokkaido University)

➤ Global Development

Overseas Partner	Product (Indication)
Shionogi USA, Inc.	S-3304 (Anticancer)
GlaxoSmithKline plc	S-8510 (Antidementia)
	S-0139 (Cerebrovascular diseases)
Out-Licensing	**Product (Generic Name)**
AstraZeneca plc	S-4522 (rosuvastatin calcium)
Peninsula Pharmaceuticals, Inc.	S-4661 (doripenem)
Pfizer Inc.	S-1153 (capravirine)

to develop detailed strategies for each region. We have dispatched area support MRs specializing in the oncology and cardiovascular fields to each area to direct activities toward opinion leaders while supporting and training other MRs.

We basically use a traditional one-on-one meeting system with field managers to provide on-the-job training for MRs. In addition, the Product Managers and Training Department uses state-of-the-art technologies to regularly provide a variety of information on basic subjects including infectious and cardiovascular diseases, rules and regulations, and systems and data related to post-marketing surveillance.

These initiatives to build a stronger sales force will provide solid support for our efforts to expand market share of existing and new products.

Q Japanese companies are working to improve corporate governance and compliance from the viewpoint of social responsibility. What initiatives has Shionogi taken in this area?

To deal appropriately with management tasks in this challenging operating environment, rapid and appropriate decision-making and execution are essential. Clearly establishing checks and balances, compliance with laws and highly transparent operations are all important.

Based on these beliefs, the Board of Directors voted to implement management reforms in March 2004. These included the introduction of a corporate officer system in April 2004 to clarify authority and responsibility for business execution. Following approval at the Ordinary General Meeting of Shareholders held in June 2004, we reduced the number of directors from 14 to 5 to accelerate management decision-making. Moreover, in order to clarify directors' responsibilities for management and supervision, we shortened the term of office of directors from two years to one year. We abolished retirement bonuses for directors and corporate auditors, and instituted an executive compensation system more closely linked to performance.

Corporate auditors, including two outside auditors, attend important meetings including those of the Board of Directors and the corporate executive committee. In addition, they aggressively audit the Company and observe its Group companies to check legal compliance and the appropriateness of operations.

From the perspective of internal controls, the Internal Auditing Unit conducts necessary audits as required. In addition, we overhauled our compliance system in fiscal 2003 to more clearly delineate the role of the Compliance Committee, which was established in fiscal 2001. Initiatives in fiscal 2004, led by the Legal Department, will aim to further raise the level of awareness of legal compliance and ethical behavior in our business activities, as we aggressively work to educate our personnel about compliance.

Q What are your plans for increasing shareholder returns?

We expect the measures we have taken over the past four years in business structure re-engineering and internal structural reforms, strengthening R&D and sales, and globalization of the ethical drug business to produce substantial results in achieving the objectives and numerical targets of the medium-term management plan in its final year. Achieving these objectives will be a milestone in Shionogi's growth. However, for that growth to be sustainable, we need to further enhance our product pipeline. This means we must increase our investment in R&D. We expect income to increase in the future, and we would like to increase returns to shareholders while keeping in mind both our profit growth rate and the requirements of the product pipeline.

RESEARCH AND DEVELOPMENT

Development of original, world-class pharmaceuticals is essential for Shionogi to carry out its corporate mission of continually providing the superior medicines essential to people's health. In order to create novel products, Shionogi is concentrating investment of its resources on focused research fields and diseases.

Long-Term Drug Discovery Strategy and a Stronger R&D System

Shionogi's R Project, initiated in November 2002, has clarified the themes and future direction of the Company's research. During fiscal 2003, Shionogi added the Long-term Drug Discovery Strategy to prioritize research fields and diseases in order to further strengthen areas of specialization.

Under this new strategy, Shionogi has narrowed its focus to nine diseases in four areas and created a new organization to allocate research staff and resources accordingly. Moreover, Shionogi strengthened research planning and surveys to more firmly establish a system for managing the progress of its drug creation research program based on its business plan, while setting up a framework for promoting strategic alliances with outside institutions.

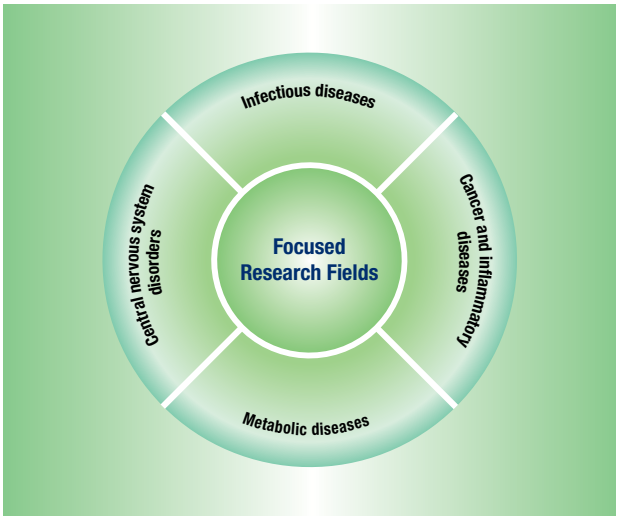
Active Collaboration with External Research Partners

Collaboration with external research institutions and organizations strengthens Shionogi's basic drug discovery research. During fiscal 2003, Shionogi began participating in projects including Hokkaido University's Nishimura Project for glycoprotein synthesis; the Japan Health Sciences Foundation's Proteome Factory Consortium; and Kyoto University's Biosimulation Project.

Shionogi also collaborates in new target gene drug discovery. Partners include U.S. company Quark Biotech, Inc. in the area of osteoarthritis; OncoTherapy Science, Inc. in the areas of lung cancer, prostate cancer and breast cancer; and RIKEN Genomic Sciences Center in the area of diabetic nephropathy. Shionogi selected several of the compounds that have resulted from these programs for high-throughput screening to determine potential new drug discovery targets. Shionogi is also conducting internal and external research into toxicogenomics.

Progress toward New Breakthrough Drugs

Accelerating the creation of original breakthrough drugs is a key goal of Shionogi's medium-term management plan. In addition to the above initiatives,



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

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

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 used leading-edge technologies such as ultra-high-throughput screening and genomic drug discovery to discover several new drug candidate compounds with novel mechanisms of action during fiscal 2003. Shionogi has assigned these compounds RSC and S development numbers. In addition, a number of promising candidate compounds for diseases targeted under the Long-term Drug Discovery Strategy are moving into the higher stages of evaluation, where they receive S development numbers.

Status of Development and Pipeline

Another goal of the medium-term management plan is timely global development of original in-house products. A clearly defined development strategy for Japan and overseas supports efforts in this area by shortening development time and improving the quality of clinical trials. The ESPRIT project management system, introduced in 2002 to reduce development time and prioritize resources, enables simultaneous scheduling of numerous products under development. Shionogi also began management of budgets and results at the project level in 2003. The result is an efficient infrastructure that reduces development time while raising the efficiency of resources. This in turn supports more strategic development.

Results in Fiscal 2003

During fiscal 2003, Shionogi received manufacturing approval for S-8117 (oxycodone hydrochloride), a long-lasting analgesic for cancer pain, and for an additional indication of enzyme treatment uromitexan for cyclophosphamide-induced bladder disorder. Sales of S-8117 began in July 2003, and prescriptions have increased steadily.

Shionogi also filed applications for manufacturing approval for the glycopeptide antibiotic Vancomycin for the additional indication of sepsis, pneumonia and meningitis caused by penicillin-resistant *Streptococcus pneumoniae* (PRSP) in March 2003, and for S-4661 (doripenem), an original carbapenem antibiotic created in-house, in September 2003. In addition to these two new core drugs, Shionogi has filed NDAs for NS75A (luteinizing hormone-releasing hormone antagonist for prevention of premature ovulation during a controlled ovarian stimulation followed by ART), SR47436 (angiotensin II receptor antagonist for treating hypertension) and S-8116 (analgesic for cancer pain). As a result, Shionogi now has five drugs for which it has filed NDAs. In addition, an NDA application is currently in preparation for SCH29851 (additional indication of anti-allergic for pediatric use), which Shionogi intends to file during 2004. Shionogi also has two drugs in Phase III clinical trials: LY248686 (antidepressant); and S-7701 (treatment for idiopathic interstitial pulmonary fibrosis).

To create an infrastructure for expedited clinical testing outside Japan, Shionogi USA will move promising candidates created in-house to proof-of-concept testing.

Toward the Internationalization of Shionogi

Shionogi USA

Shionogi USA, Inc. began Phase I/II clinical trials for S-3304 (anticancer) in May 2003. As a rule, Shionogi USA will move promising candidates created in-house to proof-of-concept testing to create an infrastructure for expedited clinical testing outside Japan. The first such candidates are S-2367 (anti-obesity) and S-3536 (anti-osteoarthritis). Shionogi also expects Shionogi USA to play an important role in the Company's internationalization as a business development base.

Shionogi-GSK

Shionogi-GlaxoSmithKline Pharmaceuticals, LLC, established in October 2001, is expected to contribute strongly to rapid globalization. Although two of the four initial compounds being developed by the joint venture have been discontinued, development of the remaining two compounds is progressing steadily. These are S-8510 for Alzheimer's disease and dementia and S-0139 for cerebrovascular diseases. In addition, joint development is underway on an HIV integrase inhibitor as a replacement for the compound whose development was discontinued.

Out-Licensing Activity

Licensing is one means Shionogi employs to use its assets effectively and accelerate global development. Shionogi currently has three drugs licensed to overseas companies.

AstraZeneca Obtains U.S. Approval for S-4522

S-4522 (rosuvastatin calcium) is a treatment for hyperlipidemia that Shionogi licensed to AstraZeneca plc in 1998. AstraZeneca has developed this drug globally, and has filed NDAs around the world. This product was first approved in the Netherlands in November 2002, and received approval in the United States in August 2003. As of August 1, 2004, S-4522 has received approval in 61 countries and substantial growth in sales is anticipated.

S-1153 NDA Scheduled for 2005 or 2006

S-1153 (capravirine) is a non-nucleoside reverse transcriptase inhibitor anti-HIV drug that Shionogi licensed to Pfizer Inc., which is now conducting Phase II clinical trials. An NDA is planned for the latter half of 2005 or 2006.

S-4661 Licensed to Peninsula Pharmaceuticals

S-4661 (doripenem) is a carbapenem antibiotic created in-house by Shionogi, which filed an application for manufacturing approval in Japan in September 2003. In May 2003, Shionogi announced a contract with Peninsula Pharmaceuticals, Inc. covering U.S. development and marketing of S-4661. Peninsula's development of the product has proceeded smoothly and reached the recruitment stage for participants for Phase III clinical trials in December 2003, followed by recruitment for other pivotal clinical studies.

Status of Products under Development

(In Japan)

(As of August 2004)

Stage	Code No.	Category/Indication	Origin/Status
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)
	SR47436	Antihypertensive [angiotensin II receptor antagonist]	Co-developed with Bristol Pharmaceuticals K.K.; Licensed from Sanofi-Synthelabo SA (France)
	Vancomycin	Glycopeptide antibiotic [additional indications: sepsis, pneumonia, meningitis caused by PRSP]	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)
Application in preparation	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 III	LY248686	Antidepressant [SNRI (serotonin & norepinephrine reuptake inhibitor)]	Licensed from Eli Lilly and Co. (U.S.)
	S-7701	Anti-fibrosis (idiopathic interstitial pulmonary fibrosis)	Licensed from Marnac, Inc. (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) Phase IIa completed
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)
	EP-013420	Ketolide antibiotic	Licensed from Enanta Pharmaceuticals, Inc. (U.S.)

(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
	S-3013	Anti-inflammatory	Developed in collaboration with Eli Lilly and Co. (U.S.)
Phase I	S-2367	Anti-obesity agent [central nervous system antagonist]	Created in-house Europe, U.S.: Phase I
	S-3536	Drug for osteoarthritis (OA) [disease-modifying anti-OA drug, selective matrix metalloproteinase inhibitor]	Created in-house Europe: Phase I

(Shionogi-GSK)

	S-8510	Alzheimer's disease/Dementia [benzodiazepine receptor partial inverse agonist]	Japan: Phase II, Europe: Phase I
	S-0139	Cerebrovascular diseases (acute ischemic stroke) [endothelin A receptor antagonist]	Japan: Phase II, Europe: 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 (except Japan) Approved in 61 countries
Licensed to Pfizer Inc. (U.S.)	S-1153	Anti-HIV [non-nucleoside reverse transcriptase inhibitor]	Licensed in June 1998 Phase II trials ongoing
Licensed to Peninsula Pharmaceuticals, Inc. (U.S.)	S-4661	Carbapenem antibiotic	Licensed in May 2003 Phase III trials ongoing

(Discontinued)

	RSC-1838	HIV integrase inhibitor	

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

MARKETING

Shionogi's MRs aim to further increase the number of satisfied patients by providing the most appropriate products in response to patient health concerns. Their efforts support Shionogi's goal of further strengthening a sales force recognized as the best in Japan.

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.

Achieving Medium-Term Management Plan Objectives

To achieve the medium-term management plan objective of developing marketing capabilities that are recognized as the best in Japan, Shionogi has introduced several initiatives to strengthen its sales force. These include MR education, restructuring the sales organization to enhance awareness of emerging market trends, introducing the Pre-Launch Marketing Project and assigning area support MRs with specialized knowledge of the cardiovascular field and oncology to each of the geographic marketing areas Shionogi has defined.

During fiscal 2003, Shionogi prepared detailed information on the indications and features of each of its main products to make them more persuasive choices for healthcare practitioners. Backed by a full understanding of this information, all Shionogi MRs began thorough new efforts in the field. In addition, the creation of a Marketing Department in the Human Health Care Division is expected to further strengthen sales activities as a link between the head office and medical institutions, supporting steady progress toward the objectives of the medium-term management plan.

Shionogi's comprehensive MR training program is an integral part of the Company's drive to develop marketing capabilities that are recognized as the best in Japan.

Shionogi plans to build new products Claritin (top), an anti-allergic, and OxyContin (bottom), a controlled-release analgesic for cancer pain, into the leaders of their respective markets.

ACROSS, a quarterly medical newsletter for hospital physicians and academic medical specialists published by Shionogi and AstraZeneca, was a finalist at the 2003 Global Awards for the best in healthcare communications worldwide.

Acceleration of the In-Licensing Strategy

Shionogi has aggressively used alliances and in-licensing to fill gaps between its development pipeline and sales strategy. This has enhanced Shionogi's product portfolio and supported a strategic focus on raising MR efficiency and productivity.

Shionogi reached a basic agreement with GlaxoSmithKline for co-promotion of the antiviral agents Valtrex and Zovirax in March 2003, and began promoting these new therapy options in Japan and explaining their proper use. In October 2003, Shionogi received exclusive distribution rights in Japan for moxifloxacin, a new quinolone antibiotic, from Bayer Yakuhin, Ltd. These new products fortify the Company's product lineup in immunology and treatments for infectious diseases, and provide synergy that will contribute to improved productivity for MRs.

Rapidly Maximizing the Value of High-Potential New Products

Two new products in Shionogi's lineup are expected to contribute substantially to sales growth. Shionogi entered the anti-allergic market in September 2002 with the launch of Claritin, marketed under license from Schering-Plough K.K. The product made a strong start in fiscal 2002, although sales growth slowed in fiscal 2003 due to the relatively low prevalence of pollen allergies. However, Shionogi has stepped up its efforts to provide detailed information on Claritin's superior features in order to achieve the Company's objective of attaining leadership in Japan's anti-allergic market.

In July 2003, Shionogi launched OxyContin, a controlled-release analgesic for cancer pain licensed from Mundipharma AG, and the Company has been providing detailed product information in order to secure leadership in this market as well. First-year sales got off to a slow start, as the approval process at hospitals delayed their decisions to change to OxyContin. However, the number of hospitals using OxyContin has been rising sharply in 2004, and sales are expected to increase accordingly in the future.

Following these newly launched products that are establishing their own track records, NDA approval for NS75A (cetrorelix) and ZD-4522 (rosuvastatin calcium) is expected within this fiscal year. Added to the MR education, sales organization restructuring, aggressive in-licensing and other initiatives implemented during the four years to date of the medium-term management plan, Shionogi expects these new products to make a substantial contribution to sales growth.

MANUFACTURING

Shionogi's manufacturing operations have made remarkable progress in implementing the medium-term management plan, and have nearly achieved its objectives one year ahead of schedule.

Re-Engineering of Operations

Shionogi has concentrated manufacturing at the Settsu Plant, the Kanegasaki Plant, Bushu Pharmaceuticals Ltd. and Nichia Pharmaceutical Industries Ltd. At the same time, new equipment and integration of operations from pharmaceutical manufacturing to packaging have raised productivity, while promoting specialization toward manufacturing pharmaceutical products. Specifically, production of Shionogi products at the Akoh Plant was terminated after transferring production of silica-related products to DSL. Japan Co., Ltd. and manufacturing operations for agrochemicals and animal health products to Hayashi AgroScience Co., Ltd. At the Kuise Plant, manufacturing functions for all products except biological products have been transferred to the Settsu Plant or consigned to other companies. The Kuise Plant now specializes in research and development. Moreover, Shionogi has dismantled 10 unnecessary facilities at the Kuise Plant and is preparing them for other uses in the future.

Following the consignment of sugar-coated tablets and liquid and solid dosage forms to external manufacturers in fiscal 2002, Shionogi also consigned some of its packaging processes to outside manufacturers during fiscal 2003. The Company has also aggressively outsourced specific processes of manufacturing and testing operations. As a result, Shionogi has successfully converted fixed costs into variable costs.

Following the outplacement support program in 2002, Shionogi implemented a second program for employees with retirement dates of September 30, 2003 and March 31, 2004. As a result, by the end of fiscal 2003, Shionogi had reduced its manufacturing staff to approximately 1,100, a decrease of about one-third compared with fiscal 1999.

Building a Solid Infrastructure for Future Operations

The Manufacturing Technology R&D Laboratory promotes three main policies: response to global regulations; systematization of development; and cost reductions for commercialization of new products and accumulation of technological advantages in order to support independent manufacturing facilities. Moreover, to prepare for the launch of S-4661, production facilities that meet global regulations are now under construction at the Kanegasaki Plant.

Efforts to further enhance competitiveness include strategic planning for the next medium-term management plan. Manufacturing divisions continue to work to accelerate development based on strong production technology, value-added products and improved production efficiency.

Consolidation of manufacturing facilities has improved productivity and promoted specialization in pharmaceutical products.

CORPORATE SOCIAL RESPONSIBILITY

Ensuring Thorough Compliance

Shionogi has established the Compliance Committee to further improve legal compliance and ethical behavior in all operations. The Company also energetically fosters compliance in ways such as issuing the Shionogi *Compliance Handbook*.

During fiscal 2003, each business division made a complete overview of its compliance risk as part of efforts to promote awareness of the issue throughout the Company. Shionogi also presented compliance lectures companywide using the *Compliance Handbook*, and focused on sales divisions in presenting lectures on the Antimonopoly Law. Lectures at purchasing and manufacturing divisions centered on subcontractor law. Shionogi worked to fortify compliance through these and other measures that met the relevant needs of each division.

Shionogi also participated in compliance surveys conducted by external organizations. This added an additional perspective to Shionogi's compliance efforts that the Company will incorporate into future efforts to expand awareness and develop its compliance program.

Environmental Protection

Keenly aware of its role as a member of society, Shionogi stipulates in its Basic Environmental Policy that it will place priority on environmental protection, pollution prevention and human safety in its pharmaceuticals and related business activities. Shionogi is now working to achieve the objectives of Phase II of its Environmental Protection Plan covering fiscal years 2000 to 2004.

www.shionogi.co.jp/contents_e/environment/index.html

ISO 14001 Certification and Environmental Audits

All of Shionogi's domestic manufacturing and research facilities and subsidiaries have acquired ISO 14001 certification of their environmental management systems. In addition, at group companies in Japan and overseas, particularly among production and research facilities, the Company conducts environmental audits to ascertain compliance with relevant environmental regulations and efforts to reduce environmental load.

Please visit Shionogi's website for additional information on Shionogi's environmental activities:
www.shionogi.co.jp/contents_e/corporate/environment/index.html

Social Contribution and Support

During fiscal 2003, Shionogi continued to provide energetic financial support to organizations involved in the medical field and social welfare, including the Japan Red Cross Society, UNICEF and the Eyebank. Shionogi also supports blood donation at all offices, and as a company intimately involved with protecting human life and health, will continue to promote simple yet effective contributions from individual employees.

Management's Discussion and Analysis of Operations

ETHICAL DRUGS

For fiscal 2003, the year ended March 31, 2004, consolidated net sales of ethical drugs decreased 31.4 percent compared with the previous year to ¥173,471 million (US$1,641 million), primarily due to the exclusion of the Ohmori Group of drug wholesalers from the scope of consolidation. In addition, non-consolidated net sales of ethical drugs decreased 3.5 percent year-on-year. Although sales of mainstay antibiotic Flomox and new anti-allergic Claritin increased, sales of other antibiotics and drugs for cardiovascular and metabolic diseases declined.

In the Japanese pharmaceutical industry, measures to control medical costs included an increase in the patient co-payment ratio and the introduction of the Diagnosis-Related Group/Prospective Payment System (DRG/PPS) at special function hospitals, placing even greater pressure on drug costs. In addition, competition among firms intensified with the addition of major pharmaceutical manufacturers from Europe and the United States.

The market for antibiotics, the core sector of Shionogi's ethical drug business, continued to contract during fiscal 2003, leading to decreased sales for Shionogi's overall lineup. However, Flomox, an oral cephem antibiotic for microbial infections created in-house, achieved a marginal increase in both sales and market share. Sales of the original Shionogi product Flumarin, an oxacephem antibiotic that is the domestic injectable antibiotic market leader, decreased 10.2 percent, due to measures to contain healthcare costs. Sales of Vancomycin, an injectable glycopeptide antibiotic that is effective in treating methicillin-resistant *Staphylococcus aureus* (MRSA) infections, decreased 6.2 percent, reflecting growing use of generic brands and heightened competition, as well as increasing awareness in hospitals of the importance of preventative measures against the spread of MRSA infection. Despite these conditions, Shionogi was able to maintain its leading share of the domestic market for both oral and injectable antibiotics. In the field of antibiotics, Shionogi has filed a New Drug Application (NDA) for S-4661, a carbapenem antibiotic, and for an additional indication for Vancomycin. In addition, in October 2003 Shionogi agreed to distribute moxifloxacin (NDA filed by Bayer Yakuhin, Ltd.) in Japan.

In the market for cardiovascular and metabolic therapies, sales of Longes declined 10.9 percent in a contracting market for ACE inhibitors. Sales of Landel, a calcium channel receptor antagonist for treating hypertension, decreased 8.7 percent due to intensifying competition. At present, NDAs have been filed for SR47436 (irbesartan) and S-4522 (rosuvastatin calcium; NDA filed by AstraZeneca K.K.) in Japan.

In the cancer and related chronic pain therapy market, sales of Imunace, an interleukin-2 product, increased 1.1 percent. Sales of MS Contin, a long-lasting oral analgesic for chronic cancer-related pain, decreased 17.2 percent due to increasing competition with existing products and the launch of new controlled-release OxyContin tablets.

Regarding sales of new products, sales of Claritin, Shionogi's entry into the anti-allergic market, were limited to growth of only 3.8 percent year-on-year due to a lower than usual level of pollen allergies during the year. OxyContin is a new controlled-release analgesic for cancer pain licensed from Mundipharma AG that Shionogi launched in July 2003. Sales totaled ¥900 million (US$8.5 million) for fiscal 2003, as hospitals took more time than expected to make official decisions to use OxyContin.

Net Sales of Principal Ethical Drugs (Non-consolidated; Years ended March 31; Billions of yen)

Product name	Category	2004	2003	2002
Flomox	Oral cephem antibiotic	¥34.5	¥34.3	¥33.6
Flumarin	Injectable oxacephem antibiotic	19.3	21.5	23.3
Vancomycin	Injectable antibiotic effective in treating methicillin-resistant *Staphylococcus aureus* (MRSA)	18.2	19.4	21.0
Rinderon	Synthetic adrenal cortical hormone agent	10.1	10.1	10.3
Imunace	Anticancer agent	9.5	9.4	7.5
MS Contin Tablets	Oral morphine sulfate analgesic	7.7	9.3	10.4
Longes	Antihypertensive (ACE inhibitor)	5.7	6.4	7.4
Claritin	Anti-allergic	5.5	5.3	–
Kefral	Oral cephem antibiotic	4.9	6.2	8.1
Dobutrex	Agent for the treatment of acute circulatory insufficiency	3.9	4.2	4.6
PL Granules	Cold remedy	3.0	3.4	3.3
Broact	Injectable cephem antibiotic	2.9	3.5	4.0

S-4522 is a hyperlipidemia treatment Shionogi created and licensed to AstraZeneca plc in 1998. Beginning with the Netherlands in November 2002, the product has received approval in 61 countries as of August 1, 2004, including launches in the United States in September 2003 and France and Italy in April 2004. NDA approval in Japan is expected in the second half of fiscal 2004, after which the product will be marketed jointly by Shionogi and AstraZeneca K.K. In fiscal 2003, AstraZeneca plc began paying Shionogi royalties for S-4522, which are accounted for under net sales.

Other out-licensing activities include S-1153 (capravirine), an anti-HIV drug licensed to Pfizer Inc. of the United States in 1998. Also, in May 2003 Shionogi licensed S-4661 (doripenem), a broad spectrum carbapenem antibiotic developed in-house, to Peninsula Pharmaceuticals, Inc. of the United States.

Other products for which NDAs have been filed as of August 2004 include NS75A (cetrorelix), for prevention of premature ovulation during a controlled ovarian stimulation followed by assisted reproductive technology, and an immediate-release formulation of S-8116 (oxycodone). An NDA application is in preparation for an additional indication of SCH29851 (loratadine) for pediatric use. In addition, two products are currently in Phase III clinical trials: LY248686, an antidepressant; and S-7701 (pirfenidone) for anti-fibrosis.

OVER-THE-COUNTER (OTC) PRODUCTS

Consolidated sales of OTC products decreased 43.7 percent year-on-year to ¥6,752 million (US$64 million) due mainly to the exclusion from consolidation of the Ohmori Group companies. On a non-consolidated basis, sales decreased due to the suspension of manufacture and shipment of the oral rhinitis treatment Pylon L24 and weak sales of core products Sedes, an analgesic and antipyretic, and Popon-S multivitamins with calcium.

Shionogi plans to work to use its Sedes and Popon-S brands, which are widely known among consumers, as the basis for efforts to increase sales, expand the product pipeline and build a stronger direct presence among consumers in the OTC market.

DIAGNOSTICS

Sales of diagnostics increased 5.9 percent year-on-year to ¥3,795 million (US$36 million). Shionogi's leading cardiovascular diagnostic product is Shionoria BNP, the only blood test for cardiac functions. Users range from specialists to general internists, and the cumulative number of uses increased 23.8 percent year-on-year. Moreover, the percentage of tests performed by licensees in Japan rose to nearly 10 percent during fiscal 2003. BNP testing is listed in medical guidelines for treatment of chronic heart failure in Japan, the United States and Europe, promoting further expansion of use overseas.

In allergy-related diagnostics, HRT Shionogi can be used to determine both the causes of food allergies, atopic dermatitis and other allergies and the effectiveness of therapies. It is gaining attention among specialists, and Shionogi expects it to form the basis for further expansion in this field. Sales of the allergen-specific Lumiward Immunoassay System decreased 10.1 percent year-on-year.

CAPSULE BUSINESS

Net sales in the capsule business decreased 3.6 percent year-on-year to ¥11,431 million (US$108 million). Primary factors included a temporary decline in sales volume of capsules in Europe and lower sales of machinery, reflecting a slump in investment in production equipment in Japan.

During fiscal 2003, diversification of demand for capsules gained momentum with outbreaks of bovine spongiform encephalopathy (BSE) in the United States and Canada. Shionogi worked to increase sales and reduce costs by meeting customer needs with HPMC plant cellulose-based capsules, developing gelatin-based capsules, entering the health food market and promoting standardization of specifications and equipment at its manufacturing plants in Japan, North America and Europe. Shionogi also worked to increase sales of drug manufacturing machinery by developing new products, improving existing ones, and aggressively promoting overseas business.

OTHER BUSINESSES

Shionogi transferred its industrial chemicals business to a joint venture company with Degussa Japan Co., Ltd. on October 1, 2003. Due to its removal from the scope of consolidation, sales of the industrial chemicals business decreased 56.7 percent to ¥966 million (US$9 million). In addition, on April 1, 2004, Shionogi transferred its manufacturing operations for animal health products and agrochemicals that had been conducted at its Akoh Plant to Hayashi AgroScience Co., Ltd.

The leasing business is conducted by the parent company and primarily consists of real estate leasing, and the distribution business mainly handles Shionogi products. Combined sales of these two businesses totaled ¥2,832 million (US$27 million), a slight year-on-year increase.

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
	2004	2003	2002	2001	2000	1999	2004
For the year ended March 31:							
Net sales	¥200,485	¥285,232	¥420,188	¥412,664	¥400,281	¥372,167	$1,896,915
Cost of sales	79,856	153,402	273,692	263,629	253,202	232,449	755,568
Selling, general and administrative expenses	100,337	112,564	130,312	125,126	121,658	116,807	949,352
Operating income	20,292	19,266	16,184	23,909	25,421	22,911	191,995
Income before income taxes and minority interests	5,178	9,139	18,755	24,556	27,697	23,966	48,992
Net income	2,204	5,904	8,456	12,614	12,868	9,807	20,853
Research and development expenses	29,808	31,284	30,602	29,255	27,027	26,374	282,032
Capital investments	4,404	9,012	8,810	8,331	9,355	10,105	41,669
As of March 31:							
Property, plant and equipment, net	¥ 71,993	¥ 75,585	¥ 86,387	¥ 87,971	¥ 86,613	¥ 73,269	$ 681,171
Total assets	376,161	371,704	480,668	496,591	442,547	409,169	3,559,097
Total long-term liabilities	49,005	49,145	58,971	67,592	50,812	45,250	463,667
Total shareholders' equity	292,187	274,824	280,675	286,728	255,171	239,253	2,764,567
Working capital	179,382	162,926	155,239	197,686	192,656	176,986	1,697,247
Number of shares of common stock issued (in thousands)	351,136	351,136	351,136	351,136	351,136	351,136	
Per share amounts (in yen and U.S. dollars):							
Net income	¥ 6.06	¥ 16.66	¥ 24.28	¥ 36.29	¥ 37.07	¥ 27.94	$0.06
Net assets	844.53	789.91	806.02	823.27	735.14	681.63	7.99
Cash dividends applicable to the year	8.50	8.50	8.50	8.50	8.50	8.50	0.08

Note: U.S. dollar figures have been calculated, for convenience only, at the rate of ¥105.69=US$1.00, the approximate rate of exchange on March 31, 2004.

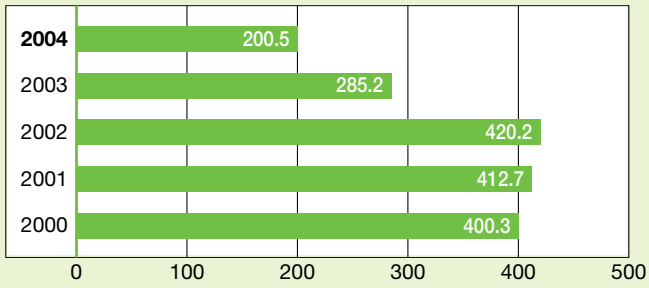
Financial Strategy

The Shionogi Group emphasizes profitability and cash flow in managing its businesses in order to generate the capital resources required to fund research and development and expand internationally. Shionogi & Co., Ltd. and other Shionogi Group companies make 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 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 2003, the year ended March 31, 2004, consolidated net sales decreased 29.7 percent to ¥200,485 million (US$1,897 million). The year-on-year comparison reflects the impact on net sales of Shionogi's progress toward its targeted business

structure. Sales of the companies of the Ohmori Group were included in the scope of consolidation through the first half of the year to March 2003. These companies merged with their respective alliance partners between April and October 2002, and Shionogi removed them from the scope of consolidation. Moreover, Shionogi transferred its industrial chemicals business to a joint venture with Degussa Japan Co., Ltd. on October 1, 2003, which also contributed to the decrease in net sales. In addition to these changes, parent company sales in the core ethical drug business declined due to factors including lower prevalence of influenza and pollen allergies during the fiscal year and intensified market competition.

Costs, Expenses and Income as Percentages of Net Sales

Years ended March 31	2004	2003	2002
Cost of sales	39.8%	53.8%	65.1%
Gross profit	60.2	46.2	34.9
SG&A expenses	50.0	39.5	31.0
R&D expenses	14.9	11.0	7.3
Operating income	10.1	6.8	3.9
Income before income taxes and minority interests	2.6	3.2	4.5
Net income	1.1	2.1	2.0

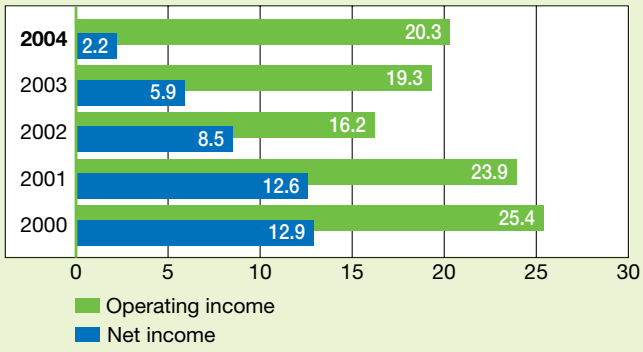
Cost of sales decreased 47.9 percent to ¥79,856 million (US$756 million) as a result of business structure re-engineering and improved efficiency from the consolidation of manufacturing operations. Cost of sales represented 39.8 percent of net sales, compared to 53.8 percent in the previous fiscal year. This improvement demonstrates the value of transferring the industrial chemicals business and the pharmaceutical wholesaling business, which had a high cost of sales and therefore a lower ratio of gross profit to net sales compared to the ethical drug business. Gross profit decreased 8.5 percent in absolute terms to ¥120,629 million (US$1,141 million), but increased as a percentage of net sales to 60.2 percent from 46.2 percent for the previous fiscal year. Shionogi's re-engineering program has nearly doubled the gross margin over the past four years from 36.7 percent for the year ended March 2000 by focusing resources on core businesses with the greatest profitability.

Selling, general and administrative (SG&A) expenses decreased 10.9 percent to ¥100,337 million (US$949 million), and represented 50.0 percent of net sales, compared to 39.5 percent for the previous fiscal year. Research and development expenses, which are included in SG&A expenses, decreased 4.7 percent to ¥29,808 million (US$282 million), and accounted for 14.9 percent of net sales, compared to 11.0 percent for the previous fiscal year. In addition, a decrease in personnel expenses reflected the reduction in the number of employees through re-engineering programs.

The improved gross profit margin resulted in a 5.3 percent increase in operating income to ¥20,292 million (US$192 million). The ratio of operating income to net sales was 10.1 percent, compared to 6.8 percent for the previous fiscal year, again demonstrating the progress of Shionogi's re-engineering strategy.

Operating Income and Net Income

(Billions of yen)



Other Income (Expenses)

Net other expenses totaled ¥15,114 million (US$143 million), compared to net other expenses of ¥10,127 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 costs related to its outplacement support program totaling ¥7,082 million (US$67 million). Also, Shionogi incurred one-time expenses for additional retirement benefits totaling ¥3,846 million (US$36 million) for employees who transferred to joint venture companies of the clinical testing services business and the industrial chemicals business.

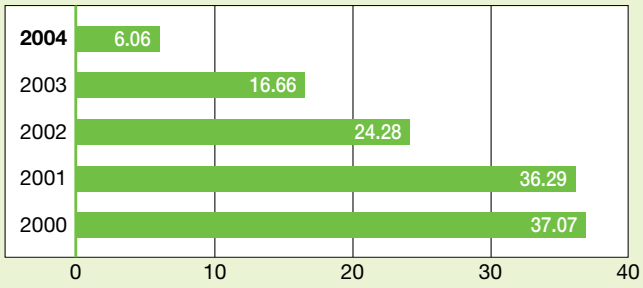
Income before Income Taxes and Minority Interests and Net Income

The one-time additional payments discussed above offset the increase in operating income, resulting in a decrease of ¥3,961 million in income before income taxes and minority interests to ¥5,178 million (US$49 million). Income taxes net of deferrals decreased 12.5 percent to ¥2,945 million (US$28 million), and the effective tax rate increased to 56.9 percent from 36.8 percent for the previous fiscal year. As a result, net income decreased 62.7

percent to ¥2,204 million (US$21 million), and represented 1.1 percent of net sales, compared to 2.1 percent for the previous fiscal year. Net income per share was ¥6.06 (US$0.06), compared to ¥16.66 for the previous fiscal year. Cash dividends per share of common stock totaled ¥8.50 (US$0.08) for the fiscal year, unchanged from the previous fiscal year, while the payout ratio was 140.3 percent, compared to 51.0 percent for the previous fiscal year.

Net Income per Share

(Yen)



Liquidity and Cash Flows

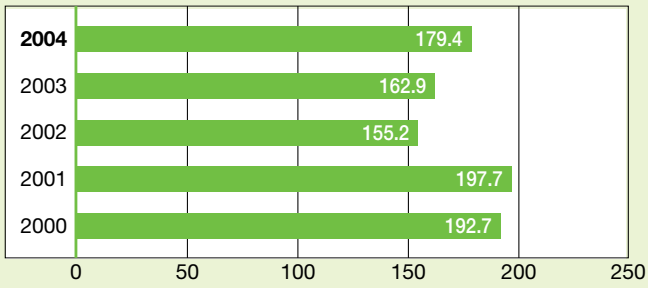
Statements of Cash Flows Highlights (Millions of yen)

Years ended March 31	2004	2003	2002
Net cash provided by operating activities	¥ 15,060	¥ 7,771	¥ 26,224
Net cash (used in) provided by investing activities	(8,045)	6,036	(51,016)
Net cash used in financing activities	(10,340)	(14,870)	(3,225)
Cash and cash equivalents at end of year	68,624	71,497	79,716

Net cash provided by operating activities increased 93.8 percent to ¥15,060 million (US$142 million). Net contribution to cash flow from changes in operating assets and liabilities compensated for the reduction in cash flow due to the decrease in income before income taxes and minority interests. The transfer of the industrial chemicals business and agrochemical and animal health product manufacturing operations resulted in a substantial reduction in inventories, which contributed to cash provided by operations. Depreciation and amortization decreased 4.7 percent to ¥9,705 million (US$92 million), and net cash flow, defined as the sum of net income and depreciation and amortization, was ¥11,909 million (US$113 million), compared to ¥16,089 million for the previous fiscal year. Working capital increased 10.1 percent to ¥179,382 million (US$1,697 million). The current ratio was 6.2 to 1, compared to 4.4 to 1 a year earlier, indicating the positive effect that the re-engineering program has had on Shionogi's liquidity and ability to meet short-term obligations.

Working Capital

(Billions of yen)



Net cash used in investing activities totaled ¥8,045 million (US$76 million); in the previous fiscal year, investing activities provided net cash of ¥6,036 million. A primary factor in the year-on-year change was the absence of proceeds from collection of loans receivable, which primarily represented obligations to Shionogi that the companies in the Ohmori Group settled prior to their respective mergers in the previous fiscal year. In addition, proceeds from sales of investments in subsidiaries and an affiliate decreased substantially from the previous year. An increase in investments in securities also contributed to the year-on-year change. Purchases of property, plant and equipment decreased 51.1 percent to ¥4,404 million (US$42 million). These capital expenditures were well within the scope of net cash flow as defined above, and Shionogi funded them using internal capital resources.

Net cash used in financing activities totaled ¥10,340 million (US$98 million), compared to ¥14,870 million for the previous fiscal year. The change was primarily the result of reduced use of cash to repay short-term bank loans. As of March 31, 2004, Shionogi had virtually eliminated the balance of short-term bank loans.

Cash and cash equivalents at the end of the year decreased 4.0 percent to ¥68,624 million (US$649 million), reflecting the use of cash to supplement cash provided by operations in funding operating needs without the use of external debt.

Assets and Capital Structure

Total assets increased 1.2 percent, or ¥4,457 million, to ¥376,161 million (US$3,559 million). Increased deployment of cash in securities in managing liquidity more than compensated for reduction in assets due to lower capital investment in

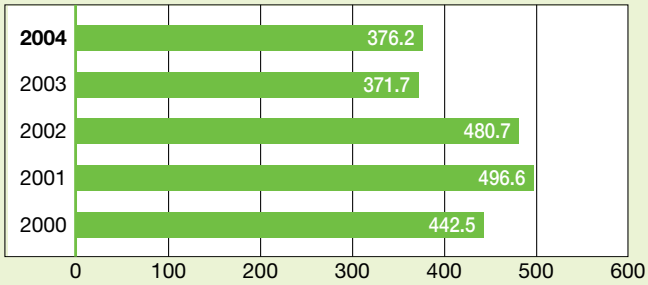
Balance Sheet Highlights (Millions of yen)

As of March 31	2004	2003	% change 2004/2003
Current assets	¥214,151	¥210,489	1.7
Property, plant and equipment	71,993	75,585	(4.8)
Investments and other assets	90,017	85,630	5.1
Current liabilities	34,769	47,563	(26.9)
Long-term liabilities	49,005	49,145	(0.3)
Minority interests	200	172	16.3
Shareholders' equity	292,187	274,824	6.3

property, plant and equipment and transfers of operations as part of the re-engineering program. Total liabilities decreased 13.4 percent, or ¥12,934 million, to ¥83,774 million (US$793 million), reflecting reduction in short-term bank loans and a decrease in accrued retirement benefits for employees as a result of the transfer of operations and the outplacement support program.

Total Assets

(Billions of yen)



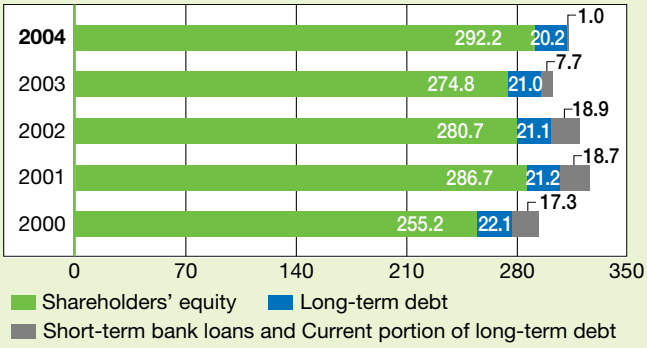
Shareholders' equity increased 6.3 percent, or ¥17,363 million, to ¥292,187 million (US$2,765 million), primarily due to changes in the value of securities that substantially increased unrealized capital gains.

Total capital, the sum of short-term bank loans, the current portion of long-term debt, long-term debt and shareholders' equity, increased 3.2 percent to ¥313,397 million (US$2,965 million). Higher shareholders' equity accounted for this increase, given the reduction in short-term bank loans as of the end of the fiscal year. Shareholders' equity accounted for 93.2 percent of total capital, compared to 90.5 percent a year earlier, underscoring the soundness of Shionogi's capital structure and its 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 0.19 to 1, compared to 0.25 to 1 a year earlier. Shareholders' equity represented 77.7 percent of total assets, compared to 73.9 percent a year earlier. The return on average total shareholders' equity was 0.8 percent, compared to 2.1 percent for the previous fiscal year.

Total Capital

(Billions of yen)



Risk Factors

The following business risks and other factors to which the Shionogi Group is subject may exert a significant influence on investor decisions.

(1) Health Care System and Regulatory Risks

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

(2) Risks of Side Effects of Pharmaceuticals

The possibility of events such as termination of production or recall of pharmaceutical products due to the occurrence of unforeseen side effects may affect the Shionogi Group's business results.

(3) Pharmaceutical Research and Development Risks

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

(4) Intensifying Global Competition

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

(5) Other Risks

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

Consolidated Balance Sheets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen 2004	2003	Thousands of U.S. dollars (Note 3) 2004
Current assets:			
Cash and cash equivalents (Note 6)	**¥ 68,624**	¥ 71,497	**$ 649,295**
Short-term investments (Note 4)	**29,480**	8,386	**278,929**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**5,833**	7,184	**55,190**
Trade	**68,270**	73,450	**645,946**
Allowance for doubtful accounts	**(64)**	(61)	**(606)**
	74,039	80,573	**700,530**
Inventories (Note 5)	**33,550**	41,275	**317,438**
Deferred income taxes (Note 8)	**3,990**	4,221	**37,752**
Other current assets	**4,468**	4,537	**42,274**
Total current assets	**214,151**	210,489	**2,026,218**
Property, plant and equipment:			
Land	**17,282**	17,172	**163,516**
Buildings and structures	**97,496**	97,865	**922,471**
Machinery and equipment	**90,684**	91,882	**858,018**
Furniture and fixtures	**30,019**	29,692	**284,029**
Construction in progress	**1,269**	2,020	**12,007**
Accumulated depreciation	**(164,757)**	(163,046)	**(1,558,870)**
Property, plant and equipment, net	**71,993**	75,585	**681,171**
Investments and other assets:			
Investments in securities (Notes 4 and 6)	**78,469**	71,500	**742,445**
Investments in and advances to unconsolidated subsidiaries and affiliates	**3,283**	2,299	**31,063**
Intangible assets	**5,187**	5,321	**49,077**
Prepaid expenses	**1,069**	847	**10,114**
Deferred income taxes (Note 8)	**385**	3,564	**3,643**
Other assets	**1,624**	2,099	**15,366**
Total investments and other assets	**90,017**	85,630	**851,708**
Total assets	**¥ 376,161**	¥ 371,704	**$ 3,559,097**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	2003	Thousands of U.S. dollars (Note 3) 2004
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 289**	¥ 7,692	**$ 2,734**
Current portion of long-term debt (Note 6)	**744**	27	**7,040**
Notes and accounts payable:			
Trade	**10,346**	12,121	**97,890**
Construction	**2,082**	998	**19,699**
Accrued expenses	**11,923**	14,202	**112,811**
Accrued income taxes (Note 8)	**1,487**	3,924	**14,069**
Deferred income taxes (Note 8)	**—**	137	**—**
Other current liabilities	**7,898**	8,462	**74,728**
Total current liabilities	**34,769**	47,563	**328,971**
Long-term liabilities:			
Long-term debt (Note 6)	**20,177**	21,014	**190,907**
Accrued retirement benefits for employees (Note 10)	**18,829**	26,338	**178,153**
Accrued retirement benefits for directors and statutory auditors	**462**	416	**4,371**
Deferred income taxes (Note 8)	**8,339**	336	**78,901**
Other long-term liabilities	**1,198**	1,041	**11,335**
Total long-term liabilities	**49,005**	49,145	**463,667**
Minority interests	**200**	172	**1,892**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 7)**:**			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2004 and 2003	**21,280**	21,280	**201,344**
Additional paid-in capital	**20,227**	20,227	**191,380**
Retained earnings (Note 16)	**232,589**	230,882	**2,200,672**
Net unrealized holding gain on securities	**21,023**	5,015	**198,912**
Translation adjustments	**(1,588)**	(1,565)	**(15,025)**
Less treasury stock, at cost	**(1,344)**	(1,015)	**(12,716)**
Total shareholders' equity	**292,187**	274,824	**2,764,567**
Total liabilities and shareholders' equity	**¥376,161**	¥371,704	**$3,559,097**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Net sales (Note 15)	**¥200,485**	¥285,232	**$1,896,915**
Cost of sales	**79,856**	153,402	**755,568**
Gross profit	**120,629**	131,830	**1,141,347**
Selling, general and administrative expenses (Note 11)	**100,337**	112,564	**949,352**
Operating income (Note 15)	**20,292**	19,266	**191,995**
Other income (expenses):			
Interest and dividend income	**1,223**	1,193	**11,572**
Interest expense	**(494)**	(570)	**(4,674)**
Royalty income	**—**	1,088	**—**
Loss on disposal of property, plant and equipment	**(853)**	(695)	**(8,071)**
Loss on disposal of inventories	**(806)**	(606)	**(7,626)**
Costs related to outplacement support	**(7,082)**	(3,013)	**(67,007)**
Additional retirement benefits	**(3,846)**	(5,326)	**(36,390)**
Other, net	**(3,256)**	(2,198)	**(30,807)**
	(15,114)	(10,127)	**(143,003)**
Income before income taxes and minority interests	**5,178**	9,139	**48,992**
Income taxes (Note 8)**:**			
Current	**2,101**	6,135	**19,879**
Deferred	**844**	(2,771)	**7,986**
	2,945	3,364	**27,865**
Income before minority interests	**2,233**	5,775	**21,127**
Minority interests	**(29)**	129	**(274)**
Net income (Note 13)	**¥ 2,204**	¥ 5,904	**$ 20,853**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Common stock:			
Balance at beginning and end of year	**¥ 21,280**	¥ 21,280	**$ 201,344**
Additional paid-in capital:			
Balance at beginning and end of year	**¥ 20,227**	¥ 20,227	**$ 191,380**
Retained earnings:			
Balance at beginning of year	**¥230,882**	¥228,898	**$2,184,521**
Add:			
Net income	**2,204**	5,904	**20,853**
Net increase arising from merger of unconsolidated subsidiaries	**2,581**	—	**24,420**
Deduct:			
Cash dividends	**(2,960)**	(2,959)	**(28,006)**
Bonuses to directors and statutory auditors	**(104)**	(118)	**(984)**
Net decrease arising from exclusion of consolidated subsidiaries	**(14)**	(843)	**(132)**
Balance at end of year	**¥232,589**	¥230,882	**$2,200,672**
Net unrealized holding gain on securities:			
Balance at beginning of year	**¥ 5,015**	¥ 12,060	**$ 47,450**
Net change during the year	**16,008**	(7,045)	**151,462**
Balance at end of year	**¥ 21,023**	¥ 5,015	**$ 198,912**
Translation adjustments:			
Balance at beginning of year	**¥ (1,565)**	¥ (1,476)	**$ (14,807)**
Net change during the year	**(23)**	(89)	**(218)**
Balance at end of year	**¥ (1,588)**	¥ (1,565)	**$ (15,025)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Operating activities:			
Income before income taxes and minority interests	**¥ 5,178**	¥ 9,139	**$ 48,992**
Adjustments for:			
Depreciation and amortization	**9,705**	10,185	**91,825**
Reversal of retirement benefits, net of payments	**(7,463)**	(6,446)	**(70,612)**
Bonuses to directors and statutory auditors	**(105)**	(118)	**(993)**
Interest and dividend income	**(1,223)**	(1,193)	**(11,572)**
Interest expense	**494**	570	**4,674**
Other	**(204)**	4,404	**(1,929)**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**4,705**	76,210	**44,517**
Inventories	**7,286**	89	**68,937**
Other current assets	**1,775**	1,759	**16,794**
Notes and accounts payable	**(1,631)**	(70,991)	**(15,432)**
Accrued expenses	**(890)**	(1,492)	**(8,421)**
Other current liabilities	**928**	(4,354)	**8,780**
Subtotal	**18,555**	17,762	**175,560**
Interest and dividends received	**1,490**	1,525	**14,098**
Interest paid	**(464)**	(522)	**(4,390)**
Income taxes paid	**(4,521)**	(10,994)	**(42,776)**
Net cash provided by operating activities	**15,060**	7,771	**142,492**
Investing activities:			
Increase in short-term investments	**(5,430)**	(10,319)	**(51,377)**
Proceeds from sales of short-term investments	**7,143**	14,263	**67,585**
Increase in investments in securities	**(4,360)**	(2,094)	**(41,253)**
Purchases of property, plant and equipment	**(4,404)**	(9,012)	**(41,669)**
Proceeds from collection of loans receivable	**—**	10,520	**—**
Increase in investments in affiliates	**(206)**	—	**(1,949)**
Proceeds from sales of investments in subsidiaries and an affiliate	**23**	4,251	**218**
Proceeds from sale of industrial chemical business	**263**	—	**2,488**
Other	**(1,074)**	(1,573)	**(10,162)**
Net cash (used in) provided by investing activities	**(8,045)**	6,036	**(76,119)**
Financing activities:			
Decrease in short-term bank loans, net	**(7,087)**	(11,152)	**(67,055)**
Repayment of long-term debt	**(120)**	(66)	**(1,135)**
Cash dividends paid	**(2,936)**	(2,959)	**(27,779)**
Other	**(197)**	(693)	**(1,864)**
Net cash used in financing activities	**(10,340)**	(14,870)	**(97,833)**
Effect of exchange rate changes on cash and cash equivalents	**457**	(285)	**4,324**
Net decrease in cash and cash equivalents	**(2,868)**	(1,348)	**(27,136)**
Cash and cash equivalents at beginning of year	**71,497**	79,716	**676,479**
Increase in cash and cash equivalents resulting from merger of subsidiaries	**46**	—	**435**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(51)**	(6,871)	**(483)**
Cash and cash equivalents at end of year	**¥ 68,624**	¥ 71,497	**$ 649,295**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2004

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Shionogi Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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, 2003 to the 2004 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

Effective April 1, 2003, a certain amount of royalty income, which was presented as "other income (expenses) – royalty income" of ¥1,088 million for the year ended March 31, 2003, has been included in net sales in the statement of income for the year ended March 31, 2004. This change was made in order to reflect the increasing materiality of royalty income derived from licensing fees as the Company has actively promoted business related to its own intellectual property and has increased net sales in this area.

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 of all 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, 2004 and 2003.

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.

(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 the 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 overseas 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 the foreign currency financial statements are not included in the determination of net income and have been reported as "Translation adjustments" in shareholders' equity 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 securities, 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 unless 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 of the consolidated subsidiaries have defined contribution retirement plans.

Effective April 1, 2004, the Company plans to adopt a new type of defined benefit pension plan known as a "cash balance plan," which allows pension benefits to fluctuate in accordance with market interest rates. The Company also plans to transfer a certain portion of its non-contributory defined benefit pension plan and retirement benefit plan into one defined contribution pension plan. See Note 10.

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 each year following the year in which the gain or loss is recognized, principally by the straight-line method over 10 years, which falls 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 the 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 ¥105.69 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2004. This 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, 2004 and 2003 were as follows:

(1) Held-to-maturity debt securities

	Millions of yen			
	2004			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures	**¥40,432**	**¥236**	**¥(92)**	**¥40,576**

	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

	Thousands of U.S. dollars			
	2004			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures	**$382,553**	**$2,232**	**$(870)**	**$383,915**

(2) Other securities

	Millions of yen			
	2004			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**¥14,213**	**¥34,051**	**¥(2)**	**¥48,262**
Bonds and debentures	**2,646**	**960**	**—**	**3,606**
Other securities	**5,005**	**74**	**(0)**	**5,079**
	¥21,864	**¥35,085**	**¥(2)**	**¥56,947**

	Millions of yen			
	2003			
	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

	Thousands of U.S. dollars			
	2004			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**$134,478**	**$322,178**	**$(19)**	**$456,637**
Bonds and debentures	**25,035**	**9,083**	**—**	**34,118**
Other securities	**47,356**	**701**	**(0)**	**48,057**
	$206,869	**$331,962**	**$(19)**	**$538,812**

(3) The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Proceeds from sales	**¥4**	¥ 72	**$38**
Gross realized gain	**2**	161	**19**

(4) The carrying value of investments in non-marketable securities at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Other securities:			
Unlisted equity securities	**¥4,225**	¥1,931	**$39,975**

(5) The carrying value of held-to-maturity debt securities and debt securities classified as other securities at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen	
	2004	
	Bonds and debentures	Other
Due within one year	**¥22,179**	**¥ 855**
Due after one year through five years	**8,202**	**—**
Due after five years through ten years	**10,031**	**1,424**
Due after ten years	**—**	**1,327**

	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

	Thousands of U.S. dollars	
	2004	
	Bonds and debentures	Other
Due within one year	**$209,850**	**$ 8,090**
Due after one year through five years	**77,604**	**—**
Due after five years through ten years	**94,910**	**13,473**
Due after ten years	**—**	**12,556**

5. INVENTORIES

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Merchandise	**¥ 3,627**	¥ 4,353	**$ 34,317**
Finished goods	**8,736**	13,345	**82,657**
Semifinished goods and work in process	**13,982**	15,799	**132,293**
Raw materials and supplies	**7,205**	7,778	**68,171**
	¥33,550	¥41,275	**$317,438**

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

The annual average interest rate applicable to short-term bank loans at March 31, 2004 and 2003 was 0.5%.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans from banks, insurance companies and financial institutions at rates from 1.80% to 4.63%, due through 2012			
Secured	**¥ 725**	¥ 725	**$ 6,860**
Unsecured	**196**	316	**1,854**
2.0% unsecured bonds, payable in yen, due 2005	**20,000**	20,000	**189,233**
	20,921	21,041	**197,947**
Less current portion	**(744)**	(27)	**(7,040)**
	¥20,177	¥21,014	**$190,907**

The assets pledged as collateral for short-term bank loans and long-term debt at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash and cash equivalents	**¥ 6**	¥ 6	**$ 57**
Investments in securities	**438**	116	**4,144**
	¥444	¥ 122	**$4,201**

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	**¥ 744**	**$ 7,040**
2006	**20,175**	**190,888**
2007	**0**	**0**
2008	**0**	**0**
2009	**0**	**0**
2010 and thereafter	**2**	**19**
	¥20,921	**$197,947**

At March 31, 2004, the Company had unused line-of-credit commitments for short-term financing arrangements totaling ¥20,000 million ($189,233 thousand). These lines of credit have commitment fee requirements.

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, 2004 and 2003 amounted to ¥6,298 million ($59,589 thousand) and ¥6,179 million, respectively.

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, 2004 and 2003.

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, 2004 and 2003 differ from the statutory tax rate above for the following reasons:

	2004	2003
Statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**26.7**	15.0
Dividends not taxable for income tax purposes	**(0.5)**	—
Amortization of excess of cost over net assets acquired	**0.7**	0.9
Inhabitants' per capita taxes	**2.5**	1.7
Differences between statutory tax rate in Japan and income tax rates applied at overseas consolidated subsidiaries	**(1.3)**	(1.9)
Tax loss carryforwards of consolidated subsidiaries	**1.4**	1.8
Tax loss carryforward arising from the merger of an unconsolidated subsidiary	**(3.0)**	—
Tax loss carryforward from prior year	**—**	(6.6)
Tax credits	**(14.9)**	(2.0)
Income tax refunds 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	**4.8**	1.3
Other	**(1.5)**	(1.4)
Effective tax rates	**56.9%**	36.8%

The tax effects of temporary differences at March 31, 2004 and 2003 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Accrued expenses	**¥ 2,592**	¥ 2,733	**$ 24,525**
Retirement benefits	**5,197**	6,125	**49,172**
Accrued enterprise tax	**154**	343	**1,457**
Research and development expenses	**1,059**	343	**10,020**
Reserve for sales rebates	**252**	267	**2,384**
Loss on revaluation of investments in securities	**510**	617	**4,825**
Depreciation of computer software	**49**	122	**464**
Tax loss carryforwards of consolidated subsidiaries	**89**	228	**842**
Other	**1,583**	1,841	**14,978**
Valuation allowance	**(137)**	(510)	**(1,296)**
Total deferred tax assets	**11,348**	12,109	**107,371**
Deferred tax liabilities:			
Unrealized gain on other securities	**(13,951)**	(3,510)	**(131,999)**
Unrealized gain on consolidated subsidiaries	**(533)**	(533)	**(5,043)**
Depreciation	**(311)**	(187)	**(2,943)**
Other	**(517)**	(567)	**(4,892)**
Total deferred tax liabilities	**(15,312)**	(4,797)	**(144,877)**
Net deferred tax (liabilities) assets	**¥ (3,964)**	¥ 7,312	**$ (37,506)**

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, 2004 and 2003, 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		
	2004		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	**¥287**	**¥195**	**¥92**

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

	Thousands of U.S. dollars		
	2004		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	**$2,715**	**$1,845**	**$870**

Finance lease payments of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Lease payments	**¥55**	¥337	**$520**

Future minimum payments (including the interest portion thereon) subsequent to March 31, 2004 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	¥49	$463
Due after one year	43	407
Total	¥92	$870

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, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Retirement benefit obligation at end of year	**¥(121,402)**	¥(150,850)	**$(1,148,661)**
Fair value of plan assets at end of year	**101,070**	81,818	**956,287**
Unfunded retirement benefit obligation	**(20,332)**	(69,032)	**(192,374)**
Unrecognized prior service cost	**(26,825)**	(9,420)	**(253,808)**
Unrecognized actuarial loss	**28,328**	52,114	**268,029**
Accrued retirement benefits for employees	**¥ (18,829)**	¥ (26,338)	**$ (178,153)**

For the year ended March 31, 2004, prior service cost of ¥19,130 million ($181,001 thousand) was incurred since the Company's retirement pension plan was amended.

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 4,238**	¥ 4,802	**$ 40,098**
Interest cost	**3,682**	4,338	**34,838**
Expected return on plan assets	**(1,564)**	(2,030)	**(14,798)**
Amortization of actuarial loss	**5,897**	4,463	**55,795**
Amortization of prior service cost	**(1,725)**	(1,087)	**(16,321)**
Other	**55**	—	**520**
Retirement benefit expenses	**¥10,583**	¥10,486	**$100,132**

"Other" presents the contributions to the defined contribution retirement plans.

Effective April 1, 2004, the Company plans to adopt a new type of defined benefit pension plan known as a "cash balance plan," which allows pension benefits to fluctuate in accordance

with market interest rates. The Company also plans to transfer a certain portion of its non-contributory defined benefit pension plan and retirement benefit plan into one defined contribution pension plan. With respect to this transfer, the Company will adopt "Accounting for Transfers Among Retirement Benefit Plans" ("Financial Accounting Standard Implementation Guidance No. 1"). The effect of the adoption of this accounting standard is projected to generate gain of ¥3,563 million ($33,712 thousand) on the transfer of these retirement benefit plans for the year ending March 31, 2005.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rates	**2.0%**	2.5%
Expected rates of return on plan assets	**2.0%**	2.0%–3.0%

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2004 and 2003 amounted to ¥29,808 million ($282,032 thousand) and ¥31,284 million, respectively.

12. CONTINGENT LIABILITIES

The Company had the following contingent liabilities at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to employees	**¥11**	**$104**

13. AMOUNTS PER SHARE

Amounts per share for the years ended March 31, 2004 and 2003 are as follows:

	Yen		U.S. dollars
	2004	2003	**2004**
Net income	**¥ 6.06**	¥ 16.66	**$0.06**
Net assets	**844.53**	789.91	**7.99**
Cash dividends applicable to the year	**8.50**	8.50	**0.08**

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

Net income per share 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. The amounts per share of net assets have 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.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The basic financial data for the computation of basic consolidated net income per share for the year ended March 31, 2004 and 2003 based on the above standards are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Information on basic net income per share:			
Net income	**¥2,204**	¥5,904	**$20,853**
Deduction from net income:			
Bonuses to directors and statutory auditors	**106**	105	**1,003**
Adjusted net income allocated to common stock	**¥2,098**	¥5,799	**$19,850**

	Thousands of shares	
	2004	2003
Weighted-average number of shares of common stock outstanding	**345,902**	348,034

14. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Millions of yen
Current assets	**¥78,672**
Non-current assets	**10,518**
Total assets	**¥89,190**
Current liabilities	**¥79,696**
Non-current liabilities	**21**
Total liabilities	**¥79,717**

15. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are engaged primarily 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 business of the pharmaceuticals segment is conducted principally by the Company and that of the capsules segment is conducted principally by consolidated subsidiary, Shionogi Qualicaps Co., Ltd.

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is outlined as follows:

	Millions of yen					
	Year ended March 31, 2004					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	**¥185,256**	**¥11,431**	**¥ 3,798**	**¥200,485**	**¥ —**	**¥200,485**
Intergroup sales and transfers	**—**	**221**	**5,791**	**6,012**	**(6,012)**	**—**
Total sales	**185,256**	**11,652**	**9,589**	**206,497**	**(6,012)**	**200,485**
Operating expenses	**167,546**	**10,345**	**8,351**	**186,242**	**(6,049)**	**180,193**
Operating income	**¥ 17,710**	**¥ 1,307**	**¥ 1,238**	**¥ 20,255**	**¥ 37**	**¥ 20,292**
II. Assets, depreciation and capital expenditures:						
Total assets	**¥206,209**	**¥19,976**	**¥16,944**	**¥243,129**	**¥133,032**	**¥376,161**
Depreciation	**8,560**	**1,048**	**617**	**10,225**	**—**	**10,225**
Capital expenditures	**7,570**	**466**	**186**	**8,222**	**—**	**8,222**

	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

	Thousands of U.S. dollars					
	Year ended March 31, 2004					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	**$1,752,824**	**$108,156**	**$ 35,935**	**$1,896,915**	**$ —**	**$1,896,915**
Intergroup sales and transfers	**—**	**2,091**	**54,792**	**56,883**	**(56,883)**	**—**
Total sales	**1,752,824**	**110,247**	**90,727**	**1,953,798**	**(56,883)**	**1,896,915**
Operating expenses	**1,585,259**	**97,881**	**79,013**	**1,762,153**	**(57,233)**	**1,704,920**
Operating income	**$ 167,565**	**$ 12,366**	**$ 11,714**	**$ 191,645**	**$ 350**	**$ 191,995**
II. Assets, depreciation and capital expenditures:						
Total assets	**$1,951,074**	**$189,006**	**$160,318**	**$2,300,398**	**$1,258,699**	**$3,559,097**
Depreciation	**80,992**	**9,916**	**5,838**	**96,746**	**—**	**96,746**
Capital expenditures	**71,625**	**4,409**	**1,760**	**77,794**	**—**	**77,794**

As more than 90% of the consolidated net sales for the years ended March 31, 2004 and 2003 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, 2004, were approved at a shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.25 = $0.04 per share)	**¥1,470**	**$13,909**
Bonuses to directors and statutory auditors	**80**	**757**

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, 2004 and 2003, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

Shin Nihon & Co.

Shin Nihon & Co.

Osaka, Japan
June 29, 2004

Members of the Board, Corporate Auditors and Corporate Officers

(As of June 29, 2004)

Motozo Shiono (left), President; **Kiyoshi Miyamoto** (right), Executive Vice President

Members of the Board

President and Representative Director

Motozo Shiono

Executive Vice President and Representative Director

Kiyoshi Miyamoto*

Senior Executive Officer; General Manager, Corporate Administration Division

Director and Adviser

Takashi Maeda

Directors

Sachio Tokaji*

Corporate Officer; General Manager, Accounting & Financial Department

Isao Teshirogi*

Executive Officer; General Manager, Pharmaceutical Research & Development Division

*Serves concurrently as a corporate officer.

Corporate Auditors

Standing Corporate Auditors

Teruo Sasaki
Mitsuaki Ohtani

Corporate Auditors

Sotoo Tatsumi
Toshiomi Uragami

Corporate Officers

Executive Officers

Hideki Okuda
Hitoshi Arita
Norio Yamada

Corporate Officers

Reiji Takeda
Tomiyasu Hirachi
Nobuzo Takeda
Hirosato Kondo
Keiichiro Nouda
Hitoshi Maeda
Kazuyoshi Fujii
Satoshi Komatsu
Yasuhiro Mino

Subsidiaries and Affiliates

(As of March 31, 2004)

Company	Location	Main 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.	Pharmaceutical development/ Conducting clinical trials	100.0
SG Holding, Inc.	Delaware, U.S.A.	Holding company	100.0
Shionogi-GlaxoSmithKline Holding LP**	Cayman Islands	Holding company	50.0*
DOMESTIC—8 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
Ohmori Group Honsha Co., Ltd.	Osaka, Japan	Pharmaceuticals and related business***	100.0
Saishin Igaku Co., Ltd.	Osaka, Japan	Publication of medical literature	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

* Includes indirect ownership
** Affiliated company accounted for by the equity method
*** Main business is asset management as of April 1, 2004

Corporate Directory

(As of March 31, 2004)

Head Office
1-8, Doshomachi 3-chome,
Chuo-ku, Osaka 541-0045, Japan
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Shibuya-ku, Tokyo 150-0002, Japan
Tel: 81-3-3406-8111

Nagoya Branch Office
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Chigusa-ku, Nagoya 464-0848, Japan
Tel: 81-52-761-7111

Fukuoka Branch Office
Shin KBC Building
1-35, Nagahama 1-chome, Chuo-ku,
Fukuoka 810-0072, Japan
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Sapporo Branch Office
Daisan Kouan Building
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Chuo-ku, Sapporo 064-0807, Japan
Tel: 81-11-530-0360

Shionogi Research Laboratories
12-4, Sagisu 5-chome,
Fukushima-ku, Osaka 553-0002, Japan
Tel: 81-6-6458-5861

Developmental Research Laboratories
1-1, Futaba-cho 3-chome,
Toyonaka, Osaka 561-0825, Japan
Tel: 81-6-6331-8081

Shionogi Institute for Medical Science
5-1, Mishima 2-chome,
Settsu, Osaka 566-0022, Japan
Tel: 81-6-6382-2612

Aburahi Laboratories
1405, Ooaza-Gotanda, Koka-cho,
Koka-gun, Shiga 520-3423, Japan
Tel: 81-748-88-3281

Kuise Plant
1-3, Kuise Terajima 2-chome,
Amagasaki, Hyogo 660-0813, Japan
Tel: 81-6-6401-1221

Settsu Plant
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Osaka 566-0022, Japan
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Kanegasaki Plant
7, Moriyama, Nishine, Kanegasaki-cho,
Isawa-gun, Iwate 029-4503, Japan
Tel: 81-197-44-5121

Akoh Plant*
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Hyogo 678-0239, Japan
Tel: 81-791-42-2036

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Taiwan Shionogi & Co., Ltd.
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Tel: 886-2-2551-6336

Shionogi Qualicaps Co., Ltd.
321-5, Ikezawacho, Yamatokoriyama,
Nara 639-1032, Japan
Tel: 81-743-56-0651

Shionogi Qualicaps, Inc.
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Tel: 1-336-449-3900

Shionogi Qualicaps, S.A.
Calle de la Granja, 49,
28108 Alcobendas, Madrid, Spain
Tel: 34-91-663-0800

Shionogi USA, Inc.
100 Campus Drive, Florham Park,
NJ 07932, U.S.A.
Tel: 1-973-966-6900

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

*On April 1, 2004, manufacturing operations for agrochemicals and animal health products were transferred from the Akoh Plant to Hayashi AgroScience Co., Ltd.

Corporate Data

(As of March 31, 2004)

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
4,334

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)

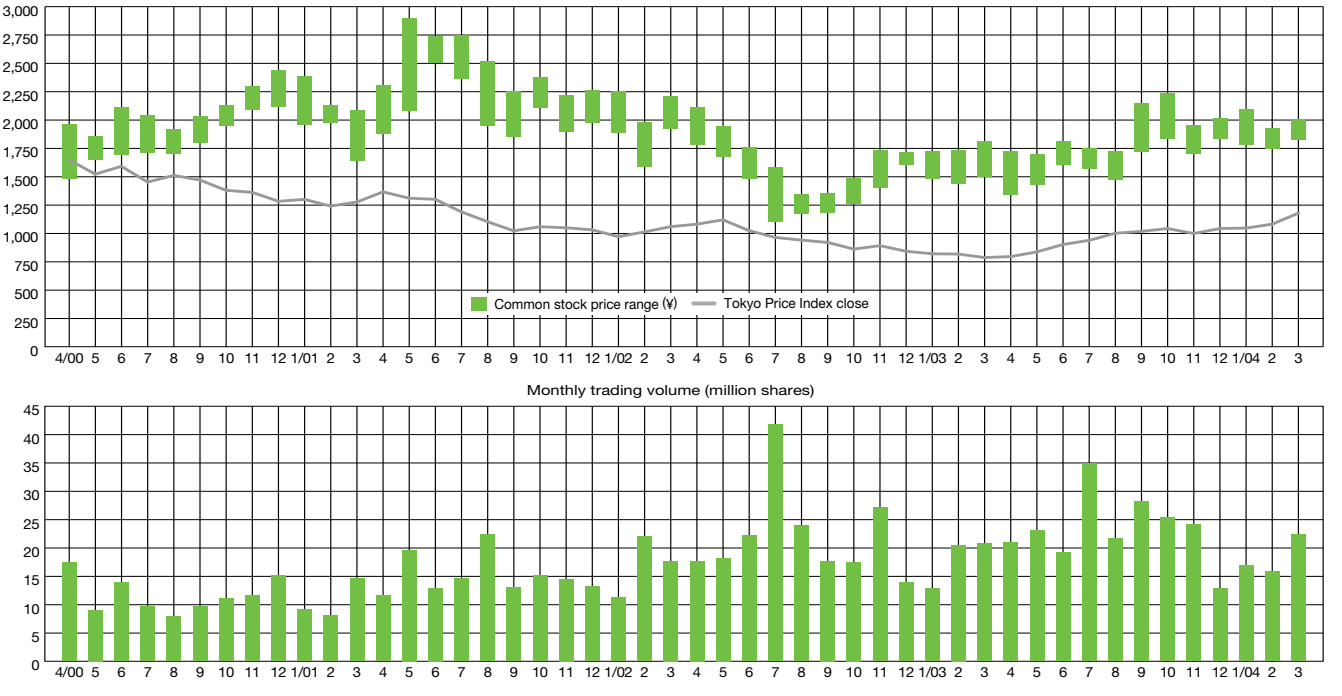
Common Stock
Authorized: 1,000,000,000 shares
Issued: 351,136,165 shares
Number of Shareholders: 23,028

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	45,309	12.90%
Nippon Life Insurance Company	18,768	5.35
Sumitomo Life Insurance Company	18,604	5.30
State Street Bank & Trust Company	17,828	5.08
The Chase Manhattan Bank, NA London, SL Omnibus Account	17,651	5.03
The Sumitomo Mitsui Banking Corporation	16,049	4.57
Japan Trustee Services Bank, Ltd. (trust account)	11,636	3.31
The Master Trust Bank of Japan, Ltd. (trust account)	10,279	2.93
NIPPONKOA Insurance Company, Limited	9,825	2.80
Mellon Bank Treaty Clients Omnibus	9,725	2.77
Total	175,678	50.03%

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



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/

Printed in Japan with soy ink on recycled paper.

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