SHIONOGI & CO., LTD.

Continually providing the superior medicines essential to people's health

An Intense Focus on Human Health, Innovation and Value

Annual Report 2005

Year ended March 31, 2005

Profile

"Continually providing the superior medicines essential to people's health" has been the corporate mission of the Shionogi Group since its establishment in 1957. We fulfill this mission today by maximizing value for patients through integrated drug creation, manufacturing and marketing. Shionogi has completed a major re-engineering of its business structure to focus on its core prescription drug business, and is now implementing a new medium-term management plan designed to generate strong growth in Japan and internationally. As we grow and expand operations globally, we will maintain our staunch commitment to patient safety and fulfilling the expectations of our customers, shareholders, employees, society and other stakeholders.

Contents

Forward-Looking Statements

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

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

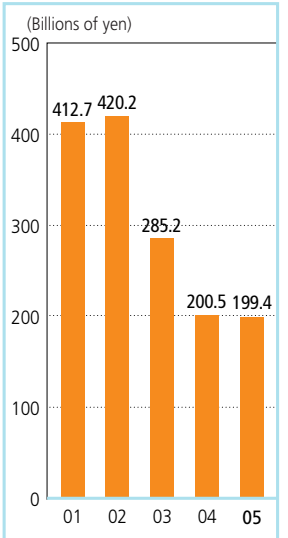
FINANCIAL HIGHLIGHTS

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

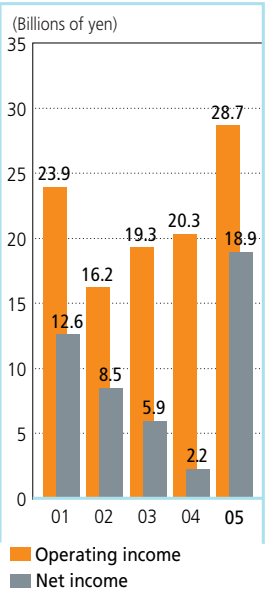
	Millions of yen			Percentage change	Thousands of U.S. dollars
	2005	2004	2003	2005/2004	**2005**
For the years ended March 31:					
Net sales	**¥199,365**	¥200,485	¥285,232	(0.6) %	**$1,857,669**
Operating income	**28,729**	20,292	19,266	41.6	**267,695**
Income before income taxes and minority interests	**31,655**	5,178	9,139	511.3	**294,959**
Net income	**18,942**	2,204	5,904	759.4	**176,500**
Research and development expenses	**29,409**	29,808	31,284	(1.3)	**274,031**
Capital investments	**5,424**	4,404	9,012	23.2	**50,540**
Depreciation and amortization	**9,412**	9,705	10,185	(3.0)	**87,700**
As of March 31:					
Total assets	**¥396,999**	¥376,161	¥371,704	5.5 %	**$3,699,209**
Total shareholders' equity	**299,847**	292,187	274,824	2.6	**2,793,954**
Per share amounts (in yen and U.S. dollars):					
Net income	**¥ 54.64**	¥ 6.06	¥ 16.66	801.7 %	**$0.51**
Net assets	**879.79**	844.53	789.91	4.2	**8.20**
Cash dividends applicable to the year	**12.00**	8.50	8.50	—	**0.11**
Return on equity	**6.4 %**	0.8 %	2.1 %	5.6 points	
Number of employees	**5,522**	5,589	6,149	—	

Note: The U.S. dollar figures have been calculated, for convenience only, at the rate of ¥107.32 = US$1, the approximate exchange rate on March 31, 2005.

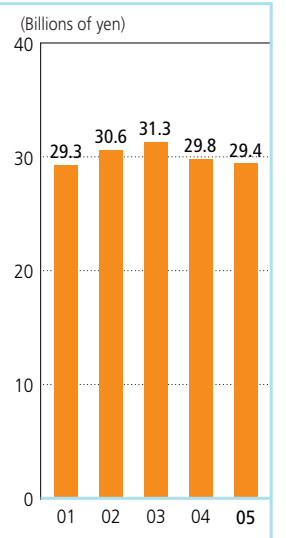
Net Sales



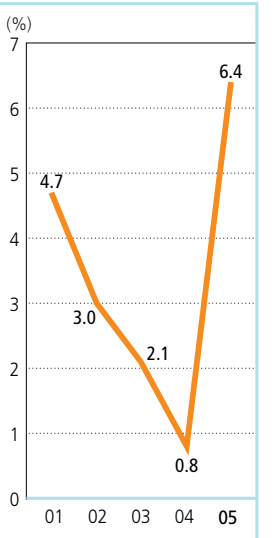
Operating Income / Net Income



Research and Development Expenses



Return on Equity



The New Shionogi: An Interview with President Motozo Shiono

In fiscal 2004, the final year of the first medium-term management plan, sales declined due to factors including the reduction of National Health Insurance (NHI) prices and the spread of the Diagnostic Procedure Combination (DPC) system. However, concentration on the prescription drug business and other measures Shionogi has taken to build a more profitable business structure resulted in substantial growth in net income.

Shionogi is now implementing measures for sustained long-term growth under the second medium-term management plan, which commenced in April 2005.

Motozo Shiono
President and Representative Director >

How did Shionogi perform in fiscal 2004?

Royalty income increased substantially due to full-scale overseas sales of the hyperlipidemia treatment Crestor, which Shionogi licensed to AstraZeneca plc. However, net sales decreased slightly year-on-year to ¥199,364 million due to a decline in sales of prescription drugs resulting from factors such as a downward revision in NHI drug prices and a shrinking market for antibiotics.

Operating income increased 41.6 percent year-on-year to ¥28,729 million, reflecting decreases in production costs and selling, general and administrative expenses. These lower costs were a result of internal structural reforms we undertook during the first medium-term management plan as well as revisions to the retirement benefit system implemented in April 2004. In addition, we booked extraordinary income of ¥3,667 million in connection with changes in the retirement benefit system. As a result, consolidated net income for fiscal 2004 increased to ¥18,942 million from ¥2,204 million in the previous fiscal year, and was ¥54.64 on a per-share basis.

The year-end cash dividend was ¥7.75 per share. Coupled with the interim dividend, this resulted in total cash dividends of ¥12.00 per share, an increase of ¥3.50 from the previous fiscal year.

How would you evaluate the results of the first medium-term management plan?

Business Structure Re-engineering

During the four years of the first medium-term management plan, which started in 2000, we transferred the agrochemical, animal health products, clinical testing services and industrial chemical businesses as well as the Ohmori Group of drug wholesalers to

joint ventures or mergers, in our effort to make the most effective use of assets in each business. In addition, we sold Shionogi BioResearch Corp. in the United States, and Shionogi absorbed six subsidiaries that conducted real estate, leasing and other businesses. Through those processes, Shionogi has essentially completed business structure re-engineering.

Reforming the Profit Structure

Shionogi has taken a number of measures to increase operational efficiency. We consolidated manufacturing plants to raise productivity, set up a Business Support Center to enhance administrative efficiency, and rebuilt production, marketing, purchasing, accounting and personnel systems through the introduction of enterprise resource planning (ERP) packages. At the same time, in addition to an outplacement support program for employees who chose to seek employment elsewhere, we changed to performance-based systems for personnel evaluation, remuneration and retirement benefits. As a result of these reforms, Shionogi established the foundation for achieving one of the objectives of the first medium-term management plan: increasing the corporate value of the Shionogi Group by positioning prescription drugs as our core business for greater profits. Structural reforms have reduced the scale of the Shionogi Group's sales by about half, but the success of measures to improve profitability is evident in the significant increase in operating income in fiscal 2004.

Development

Another objective of the medium-term management plan was to continuously discover new blockbuster drugs, and develop and market them globally in a timely manner. While I am not satisfied with the speed of development, new products that will drive future growth have been added to the launch schedule.

Shionogi has been sharpening its focus on selected research themes to make the most efficient use of limited management resources in order to accelerate discovery and development of original new drugs. In May 2004, we filed an application in Japan for an immediate-release formulation of OxyContin, an oral analgesic for cancer-related pain, and in July 2005 we received approval for the carbapenem antibiotic Finibax (doripenem). Work continues in Japan on developing an antidepressant and a treatment for idiopathic interstitial pulmonary fibrosis. Overseas, Shionogi USA, Inc. and Shionogi-GlaxoSmithKline Pharmaceuticals, LLC are working simultaneously on the development of several new drugs, including a treatment for asthma, an anti-obesity agent and a treatment for cerebrovascular disease.

Crestor

Crestor is a hyperlipidemia treatment that Shionogi licensed to AstraZeneca plc, which subsequently obtained approvals for Crestor and is marketing it worldwide. In January 2005, Crestor was approved in Japan, where AstraZeneca and Shionogi have commenced co-marketing. Because approval in Japan was based on a large volume of clinical trial data from overseas, both companies are presently conducting intensive post-marketing surveillance to gather data on Crestor's safety among Japanese people. We have positioned Crestor as a key drug for driving Shionogi's future growth and will work toward strong expansion of sales.

Net income for fiscal 2004 was ¥18.9 billion, short of Shionogi's goal of ¥20.0 billion. What factors do you think led to this?

I believe this was the result of two factors: behind-schedule launches of newly developed drugs, and delays in strengthening our marketing capabilities.

In research, Shionogi's priorities were narrowing our focus on selected research themes and investing resources in those areas; restructuring our research organization based on target diseases; and establishing process management through our R&D portfolio. We also vigorously promoted collaboration with outside research institutions to expand the scope of our drug discovery technologies. Through these measures, we established a structure that permits concentration of management resources.

In development, our major tasks were to create a system for timely, global development of the new drugs we create, shorten development time and improve the quality of clinical trials. One initiative in this regard was the introduction of the ESPRIT drug

development project management system in 2002, which has expedited development by enabling simultaneous scheduling of multiple products while controlling costs. Overseas, we increased the local staff of Shionogi USA, which began conducting clinical trials under their management in fiscal 2003. However, in an environment of rising approval standards and increasing demands for safety, factors such as insufficient internal reforms, inadequate grasp of future trends and an unclear decision-making structure impeded the timely discovery, development and launch of high-quality compounds.

We have analyzed and seriously reflected on these issues, and in the second medium-term management plan we intend to take more practical measures for effective use of management resources in research and development.

We have also taken various measures to strengthen sales. We introduced Shionogi Advanced MR Information Technology (SAMIT), the Pre-Launch Marketing Project, which is aimed at swiftly maximizing the value of new products after their launch, and an Area Marketing System to develop detailed strategies for each region. In addition, we dispatched area support MRs (medical representatives) specializing in the oncology and cardiovascular fields to each area, thus maximizing the benefits of the Area Marketing System. Shionogi also developed and implemented various MR training programs. Moreover, we concentrated on reinforcing our sales foundation through such initiatives as establishing a Marketing Department in the Human Health Care Division to devise timely marketing strategies based on accurate awareness and analysis of trends in a rapidly diversifying market. In spite of our efforts, prescription drug sales did not increase due in part to the challenging operating environment. Under the second medium-term management plan, we will narrow our focus to three target areas and continue working to establish a strong marketing presence centered on new products scheduled for launch during the second medium-term management plan.

Please outline the operating environment you envision under the second medium-term management plan and Shionogi's plans for dealing with it.

The operating environment for pharmaceutical companies is changing dramatically. Approval standards for new drugs are rising and we expect global-scale competition in development and marketing to intensify further. In Japan, stronger measures to restrain healthcare costs can be expected as the number of elderly people grows. We foresee continuing mergers and integration in the domestic pharmaceutical industry as well as further restructuring in pharmaceutical wholesaling and greater competition among both local and foreign companies.

Given these conditions, under the second medium-term management plan, which began in April 2005 and runs until fiscal 2009, we intend to increase sales in our core prescription drug business based on the profit structure established during the first medium-term management plan. We view this as a period to reinforce our management foundations in preparation for a significant leap forward, and are committed to making Shionogi a company that will still be growing ten to fifteen years in the future while continuing to contribute to society.

The second medium-term management plan consists of three main elements: clarification of target research areas, establishment of a strong marketing presence and steady development of our business overseas, starting with treatments for infections.

R&D: We have positioned infections, pain and metabolic syndrome as the three target research areas in which we will concentrate R&D resources. By fiscal 2009, Shionogi intends to move at least five compounds currently in the preclinical stages of drug discovery to Phase II clinical trials or beyond in order to strengthen our presence as a pharmaceutical innovator. In addition, we will enhance the product pipeline through aggressive in- and out-licensing strategies, and use alliances and collaboration with other companies, universities and other institutions to increase the efficiency and success rate of our R&D efforts. We will also promote lifecycle management from the early stages by expanding the range of indications and adding new formulations for items proven to be safe. Through these and other initiatives, we intend to maximize the potential of our products and facilitate the steady advancement of clinical development and the acquisition of approvals.

Marketing: Shionogi will increase its leading share in the Japanese market for antibiotics with new products such as Finibax (doripenem) and moxifloxacin by aggressively dispatching its regional hospital MRs – the driving force of our marketing organization – to acute care facilities. In the pain category, we will strive to provide detailed information toward the goal of complete elimination of pain. We also plan to broaden the exposure of Crestor by establishing evidence through rigorous post-marketing surveillance at key hospitals and effectively using this evidence in coordination between hospitals and primary care physicians. To increase the efficiency of information activities tailored to specific diseases and clinical specialties, Shionogi will also concentrate on training MRs with ingenuity and communication skills who have an accurate perception of healthcare providers' needs and the ability to offer treatment options.

Second Medium-Term Management Plan

	Year ended March 31, 2005 (Actual)	Year ending March 31, 2010 (Target)
Net sales	¥199.4 billion	¥320 billion
Operating income	¥28.7 billion	¥100 billion
Net income	¥18.9 billion	¥60 billion
Return on equity (ROE)	6.4%	14%

Business Globalization: Shionogi will steadily develop its business in the United States and China with a focus on the area of infections. In the United States, we will operate mainly through Shionogi USA, and in China we will engage in business activities taking outside resources into consideration.

The chart to the left shows the numerical targets Shionogi has set for fiscal 2009. The net sales figure is an indicator of our marketing capability, and we are totally committed to achieving these targets.

What were the intentions behind the Action Guidelines announced in 2004?

The medium-term management plan is a set of clearly defined targets that Shionogi works toward, but in the end everything comes back to our corporate mission, which is to "continually provide the superior medicines essential to people's health." I felt strongly that in preparing to make a significant leap forward, we must once again ensure that all employees are aware of our common mission and encourage them to act in concert to fulfill it; we therefore formulated the Shionogi Action Guidelines and announced them in November 2004.

The three pillars of the Shionogi Action Guidelines are Mission, which delineates our guiding principles; Vision, which clarifies our goals; and Values, which defines our code of conduct.

I believe that the strong determination and vigorous efforts of all Shionogi employees in practicing the Action Guidelines will put us on track for achieving the targets of the second medium-term management plan.

What sort of company is Shionogi aiming to be by the end of the second medium-term management plan in 2010 and what message would you like to offer Shionogi's shareholders and other stakeholders?

As I said previously, Shionogi will focus on the three target areas of infections, pain and metabolic syndrome under the second medium-term management plan. In addition to offering existing products, we will undertake active R&D as well as in- and out-licensing to further expand our product pipeline and develop, manufacture and sell products quickly and precisely, thereby contributing to healthcare worldwide. Through our efforts, we hope to realize a world that is free of infections, pain and cardiovascular events. To do so would be to achieve Shionogi's mission and would contribute to advancing the interests of patients and all our stakeholders.

Shionogi will continue working to increase its corporate value by improving quality of life for patients and their families through the delivery of pharmaceuticals that offer an even higher level of satisfaction to patients, their families and healthcare providers. I ask for the ongoing trust and support of all stakeholders as we work to build the Shionogi of the future.

July 2005

M. Shiono

Motozo Shiono
President and Representative Director

Now We're Ready to Grow

During the recently completed first medium-term management plan, Shionogi built a foundation to focus resources on the core prescription drug business, reduced fixed costs, enhanced its operating infrastructure and invested in raising productivity. During the next five years, we plan to intensively foster three selected research areas for treatments of infections, pain and metabolic syndrome.

We will work hard to establish a strong business presence by adding new products in the pain and metabolic syndrome fields in addition to the anti-infective market. Concrete plans include measures like maximizing the value of Crestor, enhancing product promotion and information activities, and strengthening sales support and medical representative (MR) training. Concurrently, we will steadily develop overseas business, starting with the anti-infective market. Shionogi has been transforming itself into a globally focused pharmaceutical research and marketing organization, even when change was wrenching. Now we're ready to grow and increase the value we offer to patients and shareholders.

Re-engineering to Focus on Prescription Drugs Now Complete

2001: Agrochemical business transferred to a joint venture with Aventis CropScience S.A. (now Bayer CropScience K.K.)

2002: Animal health products business transferred to a joint venture with Boehringer Ingelheim GmbH; clinical testing services business transferred to a joint venture with SRL Co., Ltd.; five Ohmori Group companies merged with major regional wholesalers

2003: Industrial chemicals business transferred to a joint venture with Degussa Japan Co., Ltd.

2004: Agrochemical and animal health product manufacturing transferred to Hayashi AgroScience Co., Ltd.

2005: Capsule business to be transferred to The Carlyle Group

2001

Initiatives for Growth and Efficiency

2001: Start of operations at Shionogi USA, Inc.; joint venture Shionogi-GlaxoSmithKline Pharmaceuticals LLC established with GlaxoSmithKline

2002: ESPRIT drug development project management system introduced; R Project introduced to set research themes and direction; Area Marketing System introduced; start of sales of Claritin

2003: Sales of Crestor by AstraZeneca plc started; start of sales of OxyContin

2004: New pension system introduced; management structure reforms executed

2005: Start of sales of Crestor and Finibax (doripenem) in Japan; Johnson & Johnson acquired Peninsula Pharmaceuticals to include doripenem in their pipeline

The Second Medium-Term Management Plan

Shionogi has established a sound infrastructure that it will now use to grow. The second medium-term management plan will guide Shionogi as it works to generate strong growth while fulfilling its mission to patients and society. We intend to enhance our reputation and the trust of our stakeholders as we implement three primary initiatives:

1. Focus management resources on the selected disease areas
2. Establish a strong business presence
3. Steadily develop overseas business, starting with treatments for infections

Product Launch Schedule

2005

2005

Metabolic syndrome: **Crestor**

Infections: **Finibax (Doripenem)**

Moxifloxacin

2006

2006 ~

Pain: **Oxycodone**
(additional formulation)

NS75A (Prevention of premature ovulation during a controlled ovarian stimulation followed by assisted reproductive technology)

Metabolic syndrome: **Claritin** (pediatric use)

Infections: **Doripenem** (overseas)

Metabolic syndrome: **Pirfenidone** (anti-fibrosis)

Irbesartan (anti-hypertensive)

Duloxetine (antidepressant)

2010

Consolidated Targets for Fiscal 2009
(Year ending March 31, 2010)

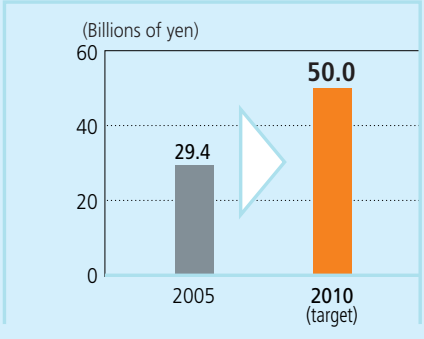
Net sales: **¥320** billion

Operating income: **¥100** billion

Net income: **¥60** billion

ROE: **14%**

Investment in R&D



CRESTOR®

CRESTOR®

- Launched: April 2005
- Origin: Shionogi
- Projected fiscal 2005 sales: ¥0.2 billion
  Intensive post-marketing surveillance is now under way.

Crestor (rosuvastatin calcium) is used to treat hyperlipidemia. It belongs to a group of medicines called HMG-CoA reductase inhibitors, or "statins." It lowers cholesterol by inhibiting reductase, an enzyme that catalyzes the conversion of HMG-CoA to mevalonate, an early and rate-limiting step in cholesterol biosynthesis.

Studies have shown that, for many people, diet and exercise alone do not lower cholesterol sufficiently. One reason is that the liver makes most of the cholesterol in people's blood. Crestor lowers the amount of total cholesterol in the bloodstream by reducing the cholesterol produced by the liver. It lowers low-density lipoproteins (LDL), the "bad" cholesterol, and triglycerides, a form of fat that is carried through the bloodstream. Crestor can also increase the amount of high-density lipoproteins (HDL), the "good" cholesterol, in the blood.

Crestor has now received regulatory approvals in 74 countries and has been launched in 62 countries worldwide, including the United States, Canada and 19 European nations. More than 15 million prescriptions have been written for over 4 million patients worldwide.

Shionogi created Crestor and licensed it to AstraZeneca plc, which has developed it worldwide. AstraZeneca KK received approval in Japan in January 2005, and began co-marketing Crestor with Shionogi in April 2005. Crestor's application used overseas clinical trial data, and current clinical data for Japanese patients is limited. Shionogi and AstraZeneca always place patient safety first, and are implementing concentrated post-marketing surveillance to gather data on safety in Japanese patients so that patients and medical practitioners can use Crestor with confidence.

Claritin®/ Claritin RediTabs®

Finibax®

OxyContin®

Flomox®

1 Claritin® / Claritin RediTabs®

Long-acting selective H_1 receptor antagonist for treatment of allergic diseases

- Launched: September 2002
- RediTabs launched: November 2004
- Origin: Licensed from Schering-Plough Corp.
- Fiscal 2004 sales: ¥8.9 billion

Claritin sales have risen strongly with increased market awareness of its benefits. Claritin RediTabs are the first and only anti-allergic product available in Japan as an instantly dispersing tablet.

2 Finibax®

Carbapenem antibiotic

- Launched: September 2005
- Origin: Shionogi
- Projected fiscal 2005 sales: ¥1.0 billion

Shionogi created doripenem (Finibax) and developed it in Japan. Shionogi has also licensed it to U.S. firm Peninsula Pharmaceuticals, Inc. (now a subsidiary of Johnson & Johnson) to make effective use of its assets and expand its international presence.

3 OxyContin®

Controlled-release oral analgesic for cancer pain

- Launched: July 2003
- Origin: Licensed from Mundipharma AG
- Fiscal 2004 sales: ¥2.9 billion

OxyContin is available in several dosages. Sales expanded strongly in fiscal 2004 as numerous hospitals took official decisions to use it. Shionogi expects strong sales growth to continue in fiscal 2005.

4 Flomox®

Oral cephem antibiotic for microbial infections

- Launched: June 1997
- Origin: Shionogi
- Fiscal 2004 sales: ¥33.2 billion

Flomox is a core product supporting Shionogi's leadership in the domestic antibiotic market. While generating maximum value from this product, Shionogi is also expanding its antibiotic product lineup with in-house research and licensing.

"Shionogi is focusing resources on the three target research areas of infections, pain and metabolic syndrome to speed up the process from new drug discovery through clinical development to market launch. Successful R&D is vital to Shionogi's future growth, and we are therefore working to further increase productivity."

Isao Teshirogi, Ph.D.
Director, Executive Corporate Officer and
General Manager, Pharmaceutical Research & Development Division

Strengthened R&D Infrastructure as a Result of the First Medium-Term Management Plan

Under the first medium-term management plan, Shionogi focused on R&D to build the foundation for creating innovative products that can compete in the global market.

Based on the schedules set in the medium-term management plan, Shionogi's R Project, initiated in 2002, clarified the themes and future direction of the Company's research. In 2003, Shionogi established the Long-Term Drug Discovery Strategy and prioritized research fields and target diseases in order to further strengthen its areas of specialization. Furthermore, Shionogi aggressively worked to adopt and apply cutting-edge scientific technologies such as ultra-high-throughput screening and genomic drug discovery to facilitate the efficient development of innovative pharmaceuticals. In addition, Shionogi has actively collaborated with external research institutions to strengthen its drug discovery technology platform and targets.

As part of its efforts to strengthen its drug discovery technology platform, Shionogi has expanded the boundaries of its technology through participation in various projects, including toxicogenomics research under the National Institute of Health Science of the Ministry of Health, Labour and Welfare; Hokkaido University's Nishimura Project for glycoprotein synthesis; and drug discovery under the Japan Health Science Foundation's Drug Discovery Proteome Factory Consortium and Kyoto University's Biosimulation Project.

In new target gene drug discovery, Shionogi has entered into collaborative research agreements with various universities, research centers and venture companies including U.S.-based Quark Biotech, Inc. (osteoarthritis), OncoTherapy Science, Inc. (lung cancer, prostate cancer and breast cancer), and RIKEN Genomic Sciences Center (diabetic neuropathy). Research from some of these programs has already yielded significant advances.

As a result of these research activities, Shionogi has created S-2367 (anti-obesity) and S-5751 (bronchial asthma), two new candidate compounds that exhibit unique mechanisms of action. These compounds are presently in Phase I clinical trials in the United States.

Strategic Alliances for Joint Research

Research Field	Research Partner
Toxicogenomics	National Institute of Health Science of the Ministry of Health, Labour and Welfare
Glycoprotein synthesis	Nishimura Project (Hokkaido University)
Drug discovery	Kyoto University's Biosimulation Project
Osteoarthritis	Quark Biotech, Inc.
Cancer (lung, prostate, breast)	OncoTherapy Science, Inc.
Diabetic nephropathy	RIKEN Genomic Sciences Center
Drug discovery	Japan Health Science Foundation's Drug Discovery Proteome Factory Consortium

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

In development activities, Shionogi introduced a project management system in fiscal 2002 and a cost management system in fiscal 2003, and began project-level management of multiple project schedules, budgets and results. These measures were aimed at shortening development periods and improving the quality of clinical trials. In addition, Shionogi established a system for prioritizing each development project and optimizing resource and cost distribution with the D-Project in 2004.

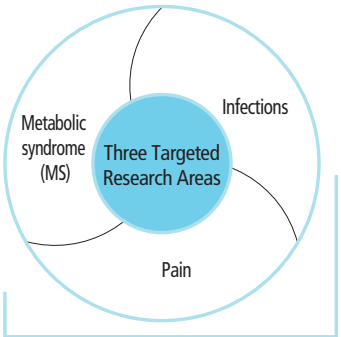
While building this infrastructure, Shionogi vigorously conducted global development in the United States and Europe. Established in 2001, Shionogi USA Inc. and Shionogi-GlaxoSmithKline Pharmaceuticals LLC, a joint venture with GlaxoSmithKline plc, function as bases for the development of drugs with new mechanisms. In domestic development, newspaper ads recruiting volunteers for clinical trials were run for the first time in Japan, and substantially accelerated the progress of trials. In addition, Shionogi aggressively worked to increase the efficiency of clinical testing by outsourcing to contract research organizations (CROs) and site management organizations (SMOs).

As a result of these development activities, Shionogi launched Claritin, an anti-allergic, and OxyContin, a controlled-release analgesic for cancer pain. Shionogi also obtained approval for the additional indications of uromitexan for cyclophosphamide-induced bladder disorder during preparation for hemopoietic stem cell transplantation, and Vancomycin for sepsis, pneumonia and meningitis caused by penicillin-resistant *Streptococcus pneumoniae* (PRSP). In addition, Shionogi received manufacturing approval in July 2005 for S-4661 (doripenem; brand name Finibax), a carbapenem antibiotic created in-house, and launched it in September.

In licensing activities, Shionogi licensed S-4661 to Peninsula Pharmaceuticals, Inc. (now part of Johnson & Johnson). In addition, AstraZeneca K.K. received approval in Japan in January 2005 for S-4522 (rosuvastatin calcium; brand name Crestor), a hyperlipidemia treatment that Shionogi had previously licensed to AstraZeneca, and began co-marketing this product with Shionogi in April 2005. An application has also been filed for moxifloxacin, an oral antibiotic that Shionogi licensed from Bayer Yakuhin, Ltd. Shionogi is also conducting Phase I clinical trials for EP-013420 (development No. S-013420), a novel macrolide antibiotic licensed from Enanta Pharmaceuticals, Inc. of the United States.

Commitment to Achieving the Second Medium-Term Management Plan

After reflecting on the results of the first medium-term management plan, Shionogi has further narrowed its target

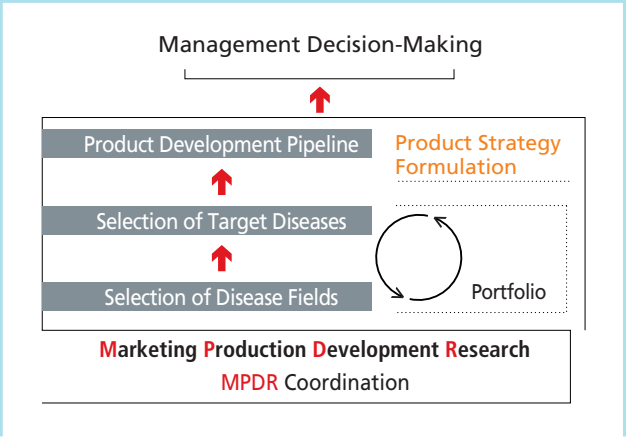


research areas, and will concentrate resources on pain and metabolic syndrome as its second and third target research areas, respectively, in addition to infections. By the time the new plan is completed in fiscal 2009, Shionogi intends to move at least five compounds currently in the preclinical stages of drug discovery to at least as far as Phase Ⅱ clinical trials or beyond, and to achieve the planned launches of compounds now in the late stages of development.

Building an Organization to Achieve Objectives

To achieve these objectives, Shionogi reorganized the Pharmaceutical Research & Development Division in 2004 to include the Discovery Research Laboratories, Development Research Laboratories, Strategic Development Department, Clinical Research Department, Biostatistics Department, License Department and Intellectual Property Department, Strategic Planning Department and General Affairs & Personnel Department. Moreover, from April 2005, Shionogi revised its operations, which had been divided according to function, and reorganized the internal structure of the Drug Discovery Division, the Development Division and other units according to target research area in order to strengthen focus on our three research areas and formulate product strategies based on MPDR (marketing, production, development and research) cooperation. Shionogi believes that this reorganization will help to maximize the value of its products and establish a foundation that will enable the Company to conduct business with a competitive advantage in each research area.

Strategy Formulation and Decision-Making



Measures for the Next Five Years

Infections

- In addition to cephem antibiotics, on which Shionogi has previously focused its efforts, we will cover all bacterial infections by working on a quinolone, a novel macrolide and other antibiotics with new chemical structures and mechanisms of action.
- Focus on fungal and viral infections, in addition to bacterial infection.
- Consider enhancing the pipeline through in-licensing in addition to the in-house drug discovery program.
- Develop operations overseas, centered on treatments for severe infections.

Pain

- Expand use of pain therapy by opioid analgesics to the same level as in Western countries, and expand into the area of non-cancer pain.
- Concentrate management resources on discovery of drugs for neuropathic pain and reduction of side effects of opioid analgesics where no effective treatments are available and unmet medical needs are clearly high.
- Steadily expand indications of Duloxetine to diabetic neuropathy pain and OxyContin to non-cancer pain.

Metabolic Syndrome

- Provide drugs that contribute to proper treatment of lifestyle-related diseases (hyperlipidemia, diabetes, hypertension) to reduce the risk of cardiovascular events.
- Create drug discovery strategies that can be expected to create synergy with existing products, based on advice from opinion leaders in fields related to Crestor.
- Enhance the product pipeline in this area through an active in-licensing program.
- Use alliances to quickly assess genes discovered from SNP analysis and the seeds of new drugs discovered with virtual screening, and develop them into innovative treatments.

In the second medium-term management plan, Shionogi will boldly implement selection and concentration to make effective use of finite management resources. By doing so,

the Company aims to become a specialist in its research areas and to conduct aggressive research and development with a venturesome spirit. Shionogi hopes that the pharmaceutical products it creates and manufactures will contribute to medical care and help to realize as soon as possible a world that is free from infections, pain and cardiovascular events.

Intellectual Property Strategy

Patent Application Strategy

The source of industrial competitiveness used to be manufacturing and the mass-production of low-price, high-quality products. In recent years, it has shifted to information, with emphasis on creating value through technological innovation and the ability to differentiate products and services. Shionogi has increasingly been placing emphasis on maximizing corporate value through research, development and other activities to acquire and manage intellectual property that creates new value.

Shionogi's patent application strategy includes maintaining an accurate awareness of other companies' patent applications in regard to promising drug discovery targets selected in the research process. Shionogi then efficiently acquires strong, comprehensive patents for broad classes of compounds among the drug creation targets that demonstrate activity. In addition, Shionogi carefully considers ways to extend the lifecycle of products after their launches, and also aggressively acquires patents in areas including manufacturing techniques, intermediates, product applications, formulation and crystalline structures. As part of efforts to strengthen protection of its own products, Shionogi makes use of the systems of various countries for extending existing patent rights to maximize the life of its patents.

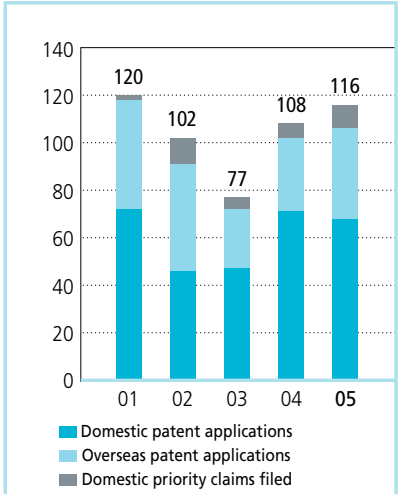
Patent Acquisition and Portfolio Management

At Shionogi, personnel from the Intellectual Property Division are actively involved in research and development from the first stages of research, which serves to eliminate duplication of internal discovery and development efforts and the research of other companies, and facilitates the efficient acquisition of patents. Shionogi made 116 patent applications during fiscal 2004, of which 38 were in countries outside Japan. Moreover, Shionogi is educating researchers about intellectual property and is working to raise awareness of intellectual property in moving to create an internationally competitive research environment. Of note, Shionogi responds to changes in research and development and operating strategy, and at the end of each fiscal year reviews its portfolio of patents on products and on products under development to optimize the patents the Company holds. As of the end of fiscal 2004, Shionogi held approximately 350 patents in Japan and a family of approximately 270 patents overseas. Income from licensing patents during fiscal 2004 totaled approximately ¥6.0 billion, an increase of about five times over approximately ¥1.2 billion in fiscal 2003.

Invention Reward System

Shionogi has enhanced the motivation of its researchers and engineers to conduct creative research and technology development by establishing an invention reward system. This internal reward system creates fertile ground for new breakthrough drugs by providing open-ended bonuses based on actual worldwide product sales performance, including licensing income. In addition, in response to revisions to Article 35 of Japan's Patent Law enacted on April 1, 2005 that streamlined the procedures for paying invention rewards, Shionogi clarified procedures for accommodating the opinions of inventors, and revised the invention reward system on April 1, 2005, after consulting with all employees and asking for their opinions.

Patent Applications



Status of Products under Development

(As of August 1, 2005)

Stage	Code No.	Category/Indication	Origin/Status
In Japan			
Approved	► S-4661	Carbapenem antibiotic	Created in-house; approved in July 2005 (to be launched on September 16)
Application filed	► NS75A	Prevention of premature ovulation during a controlled ovarian stimulation followed by assisted reproductive technology (ART) [gonadotropin releasing hormone antagonist]	Co-developed with Nippon Kayaku Co., Ltd.; Licensed from Zentaris AG (Germany)
	► S-8116	Analgesic for cancer pain [immediate-release oxycodone preparation]	Licensed from Mundipharma AG (Netherlands)
	► SCH29851	Anti-allergic [histamine H_1 receptor antagonist] [additional indication: pediatric use (allergic rhinitis and itch caused by various types of dermatitis)]	Co-developed with Schering-Plough K.K.; Licensed from Schering-Plough Corp. (U.S.)
Phase III	► SR47436	Antihypertensive [angiotensin II receptor antagonist]	Co-developed with Bristol Pharmaceuticals K.K.; Licensed from Sanofi-Synthelabo SA (France)
	► LY248686	Antidepression [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	► NS75A	Uterine myoma [gonadotropin releasing hormone antagonist]	Co-developed with Nippon Kayaku Co., Ltd.; Licensed from Zentaris AG (Germany)
	► LY248686	Diabetic peripheral neuropathic pain [SNRI (serotonin & norepinephrine reuptake inhibitor)]	Licensed from Eli Lilly and Company (U.S.)
Phase I (including Phase I preparation)	► S-013420	Novel macrolide antibiotic for bacterial infection	Licensed from Enanta Pharmaceuticals, Inc. (U.S.)
	► NS75B	Benign prostatic hypertrophy [gonadotropin releasing hormone antagonist]	Co-developed with Nippon Kayaku Co., Ltd. Licensed from Zentaris AG (Germany)
	► S-0373	Spinocerebellar ataxia, Parkinson's disease	Created in-house
Outside Japan			
	► S-5751	Bronchial asthma [prostaglandin D2 receptor antagonist]	Created in-house Japan: Phase I, / U.S.: Phase I / II
	► S-2367	Anti-obesity agent [central nervous system antagonist]	Created in-house UK: Phase I, U.S.: Phase Ib
Shionogi-GSK			
	► S-0139	Cerebrovascular diseases (acute ischemic stroke) [endothelin A receptor antagonist]	Japan: Phase IIa, Europe: Phase I
Out-Licensing Activity			
Licensed to Peninsula Pharmaceuticals, Inc. (U.S.) (Johnson & Johnson (U.S.) merged PPI in June 2005)	S-4661	Bacterial infection [carbapenem antibiotic]	Licensed in May 2003 Phase III
In-Licensed Drug without Development By Shionogi			
Licensed from Bayer Yakuhin, Ltd. (Japan)	BAY12-8039 (Moxifloxacin hydrochloride)	Bacterial infection [new quinolone antibiotic]	Application filed

► **In-House** ► **Licensed** ► **Licensed & Co-Developed**

MARKETING

"Shionogi is contributing to healthcare in target areas and maximizing product value to establish a strong marketing presence and the industry's highest level of customer trust."

Norio Yamada
Executive Corporate Officer and
General Manager, Human Health Care Division

Activities under the First Medium-Term Management Plan

Shionogi has been working to strengthen its sales force and build marketing capabilities recognized as the best in Japan, one of the objectives of the first medium-term management plan. To achieve this objective, Shionogi has provided information accurately and efficiently in an environment where it foresaw ongoing government measures to control medical costs, increasing competition from foreign companies and diversification in provision of drug information.

Shionogi has taken wide-ranging initiatives to strengthen marketing capabilities and achieve its goals. Examples include commencing e-Detailing in 2001 with the introduction of MR-kun; in 2002, adopting an Area Marketing System to increase speed and accuracy in responding to healthcare practitioner needs and assigning area support MRs specializing in the cardiovascular and oncology fields; in 2003, restructuring the sales organization to enhance awareness of emerging market trends and introducing the Pre-Launch Marketing Project to strengthen pre-launch preparations; and in May 2004, establishing a new Marketing Department to link head office marketing functions with sales activities at medical institutions.

Shionogi and AstraZeneca K.K. launched Crestor in Japan in April 2005.

Maintaining and Expanding Sales of Core Products in a Challenging Healthcare Environment

The market for antibiotics, which is the franchise area of Shionogi's business, continues to contract year by year. National Health Insurance (NHI) drug price revisions in fiscal 2004 affected mainstay product Flomox, contributing to a slight drop in sales year on year to ¥33.2 billion. However, Flomox solidified its position as the leading domestic oral cephem antibiotic by capturing a 37.5 percent share of the market. Sales of the injectable oxacephem antibiotic Flumarin and the glycopeptide antibiotic Vancomycin each dropped by about 12 percent due to the continued pervasion of medical cost restraints and other factors, but retained top share in the domestic Japanese markets for injectable cephem antibiotics and treatment of MRSA infections, respectively.

Sales of Claritin, an anti-allergic launched during the first medium-term management plan, increased 62 percent year on year to ¥8.9 billion, and market share increased to 7.1 percent. In the area of cancer and related chronic pain therapies, sales of MS Contin declined 27 percent due to market preference for the more recently introduced OxyContin, another controlled-release oral analgesic for chronic cancer-related pain. Sales of OxyContin grew 322 percent year-on-year, reaching ¥2.9 billion. The effectiveness of sales measures was also reflected in results such as a 9 percent increase in sales of Imunace, an interleukin-2 product.

As these results indicate, the benefits from the various measures Shionogi has taken under the first medium-term management plan are now becoming apparent in sales of core products amid a challenging environment.

Shionogi's highly knowledgeable medical representatives are central to its effort to build marketing capabilities that are recognized as the best in Japan.

Establishing a Stronger Marketing Presence under the Second Medium-Term Management Plan

Under the first medium-term management plan, Shionogi expanded its presence in the area of treatments for infections. Shionogi's objective under the second medium-term management plan is to establish a stronger marketing presence in the areas of pain and metabolic syndrome, in addition to infection. Shionogi believes that this recently established objective will be achieved more effectively through the sale of new products planned for launch during the second medium-term management plan period.

In the area of treatments for infections, Shionogi will increase its presence by providing detailed product information tailored to the specific characteristics of patients' infections, such as bacterial strain, infected region and immunity level. Products Shionogi will focus on include Flumarin, Broact, Vancomycin and Flomox, as well as two scheduled additions to the lineup: Finibax (doripenem), an original carbapenem antibiotic developed in-house, and moxifloxacin, a new quinolone antibiotic licensed from Bayer Yakuhin, Ltd.

Shionogi aims to establish a presence in the area of pain through the detailed provision of information by its MRs, who are focused on completely eliminating the pain of cancer patients. Shionogi has filed an application for an instant-release formulation of OxyContin. With the addition of this product to currently existing controlled-release OxyContin and MS Contin, Shionogi will further expand the range of protection against cancer-related pain.

Shionogi plans to establish a presence in the area of metabolic syndrome by concentrating efforts on the prevention of cardiovascular events with a focus on the hyperlipidemia treatment Crestor (rosuvastatin calcium) as well as antihypertensives Longes and Landel. Shionogi is currently undertaking post-marketing surveillance in Japan for Crestor, and will use the evidence obtained to establish trust and maximize the product's value.

In addition, Shionogi plans to enhance sales support by establishing an organization-wide sales support system and reinforcing the education of MRs to ensure they are focused on current healthcare needs. Shionogi will also aggressively implement an alliance and in-licensing strategy to fill gaps in its development and sales pipelines, and will expand its sales portfolio.

Based on the above, Shionogi's numerical targets for fiscal 2009 are net sales of ¥320 billion, operating income of ¥100 billion and net income of ¥60 billion.

MANUFACTURING

"Shionogi will continue to increase its technological capabilities and its competitiveness in global pharmaceutical development and production by focusing on quality, cost and speed while minimizing environmental impact and maximizing safety."

Hitoshi Arita, Ph.D.
Executive Corporate Officer and
General Manager, Manufacturing Division

Results of the First Medium-Term Management Plan

In manufacturing operations, Shionogi has implemented measures to quickly achieve a production system with world-class competitiveness, one of the goals of the first medium-term management plan. These measures have yielded significant results, primarily the establishment of self-sufficient manufacturing plants, creation of an efficient production system, efficiency gains and cost reductions, and support for speeding up development to move items through the pipeline smoothly into commercial production.

In the establishment of self-sufficient operations at factories, Shionogi consolidated its six manufacturing bases (the Kuise Plant, Akoh Plant, Settsu Plant, Kanegasaki Plant, Bushu Pharmaceuticals Ltd. and Nichia Pharmaceutical Industries Ltd.) into four plants. The Kuise and Akoh plants have been excluded. Shionogi also established integrated operations at its pharmaceutical plants that extend from manufacturing to packaging. As part of this consolidation, the number of employees was reduced by 30 percent, or about 600 people, through an outplacement support program.

To create an efficient manufacturing system, Shionogi completed the foundation to outsource the full production process for planned products soon after the revision of the Pharmaceutical Affairs Law in 2005 becomes effective. In addition, Shionogi substantially improved manufacturing efficiency through supply chain management by adding new equipment in conjunction with the consolidation of manufacturing plants. These measures have brought a particularly noticeable improvement in parent-company cost of sales. Before the start of the first medium-term management plan in fiscal 1999, cost of sales represented 45.9 percent of non-consolidated net sales; upon the completion of the plan this figure had dropped to 35.5 percent.

Through these efforts, Shionogi's manufacturing operations have made significant progress toward a production system with world-class competitiveness.

Overview of the Second Medium-Term Management Plan

Shionogi has set the focus of the second medium-term management plan for its manufacturing operations as "enduring changes in the operating environment and working to maintain competitiveness and reduce risks to ensure Shionogi's future success." As concrete targets to accomplish this, Shionogi will:

- Attain a high level of manufacturing technology
- Promote the shift of manufacturing expenses to variable costs and retention of manufacturing technology; and
- Establish a system to enable a spin-off into a solutions-based contracting company.

To attain a high level of manufacturing technology, Shionogi will conduct product development that takes into account product lifecycle management and promote toll manufacturing through development of new manufacturing technologies and strong technological capabilities. For the second target, Shionogi is shifting manufacturing expenses to variable costs and will also build a production system that enables Shionogi to retain its manufacturing technologies and improve quality management and cost reduction management structures. For the third target, Shionogi will conduct toll manufacturing, which will improve its capacity utilization rate and manufacturing technology strengths, as well as further reduce costs.

In the area of manufacturing technology, Shionogi will aim to contribute to global pharmaceutical development and manufacturing through a high level of technological strength. The Company will handle integrated end-to-end projects from the initial stages of development to commercial production. In terms of cost and quality, Shionogi also plans to build a globally competitive Chemistry, Manufacturing and Control (CMC) system.

Shionogi is confident that by attaining these goals, its manufacturing operations will contribute to the achievement of the targets of the second medium-term management plan and the Company's further growth.

Corporate Social Responsibility

"Shionogi will work to meet the expectations and maintain the trust of its customers and all other stakeholders through timely and appropriate decision-making and use of management resources, thereby benefiting society and maximizing corporate value. Our business activities will continue to emphasize ethics and concern for society as well as a commitment to honest, highly transparent management."

Kiyoshi Miyamoto
Executive Vice President and Representative Director, Senior Executive Officer and General Manager, Corporate Administration Division

Corporate Social Responsibility

Shionogi's corporate mission is "continually providing the superior medicines essential to people's health." Shionogi believes that fulfilling this mission in its corporate activities, promoting timely and appropriate decision-making and execution, and ensuring legal compliance and highly transparent business operations contribute to the interests of all stakeholders, who include customers, shareholders, suppliers, society and employees.

Social Contribution and Support

Shionogi, its employees and the employee labor union together have established the Shionogi Social Contribution and Support Association to support activities that contribute to society. In fiscal 2004, the association continued to contribute to the Japan Red Cross Society, UNICEF Japan and other organizations. In addition, it also contributed monetary aid to the areas affected by Typhoon No. 23 and the Niigata-Chuetsu earthquake that occurred in Japan in 2004, and provided relief funds from the Company for the Sumatra earthquake and tsunami.

Shionogi's plants and branch offices also interact with their local communities in ways such as offering factory observation tours, conducting neighborhood cleanup campaigns, and contributing to local events.

Shionogi posts its annual Environmental Report on its website.

http://www.shionogi.co.jp/contents_e/corporate/environment/index.html

Environmental Preservation Activities

In its Basic Environmental Policy, Shionogi states that "a company is also a member of society. As such, Shionogi will contribute to building a richer society by placing priority on environmental protection, pollution prevention and human safety in its pharmaceutical-related business activities." Shionogi sets environmental action targets and conducts environmental preservation efforts in conformity with this policy. The Company is continuously reducing its impact on the environment in areas such as volume of waste generated and carbon dioxide emissions.

ISO 14001 Acquisition and Environment Audits

In the Shionogi Group, all domestic manufacturing and research facilities and subsidiaries acquired ISO 14001 certification of their environmental management systems in fiscal 2001. Shionogi Qualicaps, S.A. of Spain acquired ISO 14001 certification in February 2005. In addition, Shionogi conducts environmental audits at both domestic and overseas subsidiaries, with a focus on manufacturing and research sites, to ascertain matters such as compliance with environmental laws and regulations and measures to reduce environmental impact.

(For more details on Shionogi's environmental activities, please visit the Shionogi website.)

Enhancing Corporate Governance

Shionogi recognizes that corporate governance is a key issue for management. The Company believes that rapid and appropriate decision-making and execution, clarification of oversight functions, legal compliance and highly transparent operations are vitally important.

Shionogi reformed its management structure in April 2004. Management and executive functions were separated, which clarified responsibility and authority, in order to strengthen and speed up the management decision-making process and reinforce supervision of business execution. The Board of Directors, which currently consists of five directors, meets on a monthly basis, and is in charge of making management decisions and supervising execution. To clarify responsibility, the term of office of directors was reduced from two years to one year, and the system of awarding special retirement bonuses to directors was eliminated with the aim of linking directors' compensation more clearly to performance.

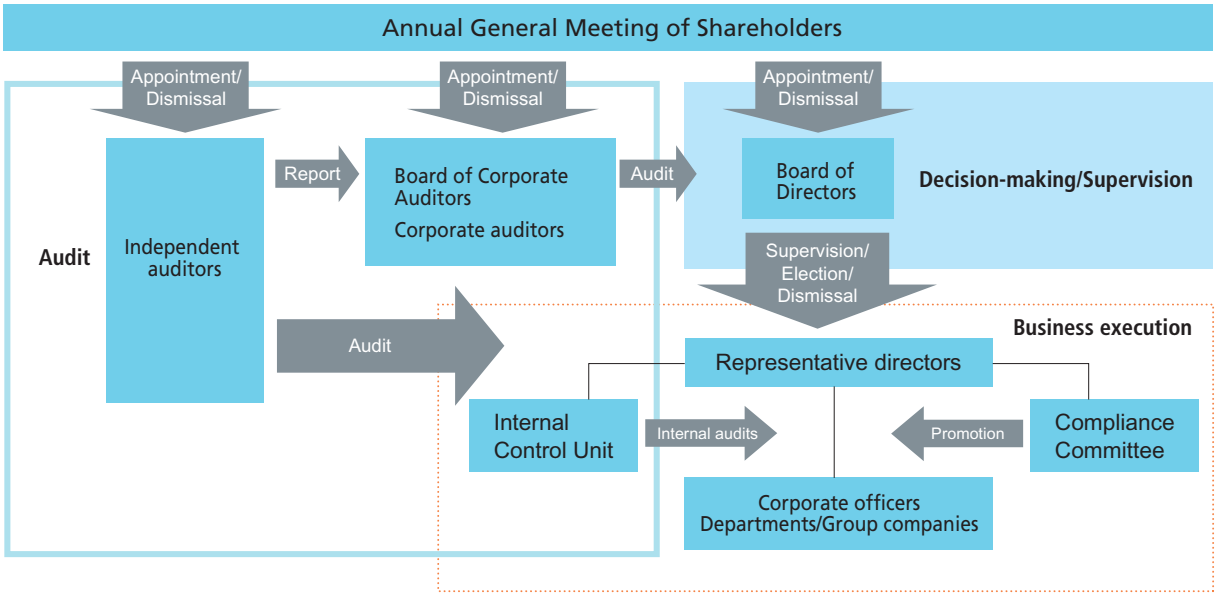
In addition, Shionogi has introduced a corporate officer system. Currently, Shionogi has 14 corporate officers, including three who serve concurrently as Company directors.

Shionogi uses a corporate auditor system. In addition to attending meetings of the Board of Directors, management meetings and other important meetings, corporate auditors enhance the auditing system by proactively performing audits of Shionogi and surveys of Group companies, and checking the legality and propriety of business execution. The four corporate auditors at present include two outside auditors.

In the area of internal controls, the Internal Auditing Unit, which had conducted internal audits, was dissolved in December 2004, and the Internal Control Unit was established. Composed of 11 members, the Internal Control Unit performs audits and provides reasonable assurance of the effectiveness and efficiency of business execution.

Ensuring Thorough Compliance

Shionogi has established the Compliance Committee, which reports directly to the president, to promote a high level of ethics and strict compliance with laws and regulations in its business activities. In addition, the Company is implementing various other measures, including issuing the Shionogi Compliance Handbook. In fiscal 2004, Shionogi conducted compliance lectures for all employees in conjunction with the revision of the Shionogi Compliance Handbook.



Members of the Board, Corporate Auditors and Corporate Officers

(As of June 29, 2005)

(Left) Motozo Shiono, President (Right) Kiyoshi Miyamoto, 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 and International Business Division

Isao Teshirogi, Ph.D.*

Executive Corporate Officer; General Manager, Pharmaceutical Research & Development Division

*Serves concurrently as a corporate officer

Corporate Officers

Executive Corporate Officers

Hitoshi Arita, Ph.D.

General Manager, Manufacturing Division

Norio Yamada

General Manager, Human Health Care Division

Corporate Officers

Tomiyasu Hirachi

(Representative Director and President) of Shionogi Qualicaps Co., Ltd.

Nobuzo Takeda

General Manager, Tokyo Branch Office

Hirosato Kondo

General Manager, Discovery Research Laboratories

Takuo Fukuda

Vice General Manager, Human Health Care Division

Hitoshi Maeda

Vice General Manager, Human Health Care Division & General Manager, Marketing Department

Kazuyoshi Fujii

Vice General Manager, Human Health Care Division & General Manager, Sales and Distribution Department

Keiichiro Nouda

General Manager, Diagnostics Department

Satoshi Komatsu

General Manager, General Affairs & Personnel Dept and Legal Affairs Department

Yasuhiro Mino

General Manager, Corporate Planning Department

Corporate Auditors

Standing Corporate Auditors

Teruo Sasaki

Mitsuaki Ohtani

Corporate Auditors

Toshiomi Uragami

Takeharu Nagata

Prescription Drugs

For fiscal 2004, the year ended March 31, 2005, consolidated sales of prescription drugs decreased 3.1 percent compared with the previous year to ¥168,040 million (US$1,566 million), primarily due to a reduction in National Health Insurance (NHI) drug prices and contraction in the market for antibiotics, a core Shionogi product. In April 2004, the Japanese government announced NHI drug price reductions that averaged 4.2 percent. In addition, a series of government measures to contain medical costs and increasing competition among both local and foreign companies made sales growth in the Japanese pharmaceutical industry more difficult.

The market for antibiotics, the core sector of Shionogi's prescription drug business, continued to contract during fiscal 2004. Sales of Flomox, an oral cephem antibiotic for microbial infections created in-house, decreased 3.8 percent year-on-year, although its market share increased to 37.5 percent in the oral cephem antibiotic category. Likewise, sales of Flumarin, an injectable oxacephem antibiotic, and Vancomycin, an injectable glycopeptide antibiotic that is effective in treating methicillin-resistant *Staphylococcus aureus* (MRSA) infections, decreased by 11.9 percent and 11.5 percent, respectively. However, both products maintained the leading position in their product categories.

Sales of Claritin, an anti-allergic, increased 61.8 percent year-on-year due to an increase in pollen allergies during the year and greater market recognition of Claritin's effectiveness. Sales growth was also supported by Claritin RediTabs, Japan's first and only anti-allergic product available as an instantly dispersing tablet, launched in November 2004.

In the cancer and related chronic pain therapy market, sales of Imunace, an interleukin-2 product, increased 9.5 percent. Sales of OxyContin, a new controlled-release analgesic for cancer pain licensed from Mundipharma AG that Shionogi launched in July 2003, more than tripled during fiscal 2004 as an increasing number of hospitals officially decided to use OxyContin. However, MS Contin, another Shionogi product in the same category, decreased 27.3 percent due to the growing popularity of OxyContin tablets.

In the market for cardiovascular and metabolic therapies, sales of Longes declined 14.0 percent in a contracting market for ACE inhibitors. Sales of Landel, a calcium channel receptor antagonist for treating hypertension, were flat year-on-year.

Reviewing overall sales of prescription drugs for fiscal 2004, Shionogi's measures to strengthen sales activities have yielded solid results, such as a higher market share for antibiotic products and the smooth penetration of new products into the market. However, the delay of new product launches from the pipeline made growth in sales difficult under the increasingly challenging conditions in the Japanese market.

Shionogi expects new products to contribute to overall sales growth in the next fiscal year, supported by the measures it has implemented. Shionogi launched S-4661, a carbapenem antibiotic, in Japan in September 2005 and plans to launch moxifloxacin, a new quinolone antibiotic licensed from Bayer Japan K.K., in the third to fourth quarter of fiscal 2005. In the field of cardiovascular and metabolic therapies, Crestor, an antihyperlipidemia treatment, was launched in April 2005 in Japan. Shionogi and AstraZeneca are collecting safety and efficacy data on Japanese patients based on ICH E2E guidelines, with the aim of growing Crestor into a core product for Shionogi in the near future. For SR47436 (irbesartan), an angiotensin II receptor antagonist for treatment of hypertension, Shionogi decided to conduct additional phase III studies and refile an NDA after talks with Japanese authorities. The purpose of the additional studies is to investigate whether the product's characteristics can be maximized by raising the dosage range.

In the cancer and related chronic pain therapy market, S-8116, an immediate-release formulation of OxyContin, has been

Net Sales of Principal Prescription Drugs

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

Product name	Category	**2005**	2004	2003
Flomox	Oral cephem antibiotic	**¥33.2**	¥34.5	¥34.3
Flumarin	Injectable oxacephem antibiotic	**17.0**	19.3	21.5
Vancomycin	Injectable antibiotic effective in treating methicillin-resistant *Staphylococcus aureus* (MRSA)	**16.1**	18.2	19.4
Imunace	Anticancer agent	**10.4**	9.5	9.4
Rinderon	Synthetic adrenal cortical hormone agent	**10.3**	10.1	10.1
Claritin	Anti-allergic	**8.9**	5.5	5.3
MS Contin Tablets	Oral morphine sulfate analgesic	**5.6**	7.7	9.3
Longes	Antihypertensive (ACE inhibitor)	**4.9**	5.7	6.4
Kefral	Oral cephem antibiotic	**4.1**	4.9	6.2
Dobutrex	Agent for the treatment of acute circulatory insufficiency	**3.3**	3.9	4.2
PL Granules	Cold remedy	**3.2**	3.0	3.4
OxyContin	Oral oxycodone hydrochloride analgesic	**2.9**	0.9	—

reviewed by the authorities for approval. This product is expected to provide rescue treatment for acute cancer-related pain, and will support further expansion of the market share of OxyContin tablets.

Other products for which NDAs have been filed as of August 2005 include NS75A (cetrorelix), for prevention of premature ovulation during a controlled ovarian stimulation followed by assisted reproductive technology, and 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.

Shionogi's licensing strategy has begun to produce results. Revenue from industrial property rights increased substantially due to expanding sales of Crestor by AstraZeneca plc. in fiscal 2004. Crestor is a hyperlipidemia treatment Shionogi created and licensed to AstraZeneca plc in 1998. Beginning with the Netherlands in November 2002, the product has been approved in more than 70 countries as of March 31, 2005, and was launched in the United States in September 2003 and France and Italy in April 2004. NDA approval in Japan came in January 2005, and sales began in April. In fiscal 2003, AstraZeneca plc began paying royalties under its licensing agreement with Shionogi that are accounted for under net sales. Other out-licensed items include S-4661 (doripenem), a broad spectrum carbapenem antibiotic developed in-house and licensed to Peninsula Pharmaceuticals, Inc. of the United States. In June 2005, Johnson & Johnson acquired Peninsula Pharmaceuticals to include doripenem in its pipeline. The compound is now in Phase III clinical trials.

Over-the-Counter (OTC) Products

Consolidated sales of OTC products decreased 5.9 percent year-on-year to ¥6,351 million (US$59 million) due mainly to the intensely competitive marketplace. Sales of core products Sedes, an analgesic and antipyretic, and Popon-S multivitamins with minerals decreased during the fiscal year.

Shionogi plans 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. In December 2004, Shionogi expanded the Popon lineup by launching Popon-C White, which is a compound of natural vitamin E, vitamins B2, B6, and vitamin C with L-cysteine to reduce skin discoloration and freckles. In July 2005, Shionogi also expanded the Sedes brand lineup with the launch of Sedes Cure, a non-pyrazolone antipyretic analgesic (ibuprofen compound).

Diagnostics

Sales of diagnostics decreased 5.7 percent year-on-year to ¥3,579 million (US$33 million). The BNP assay system, which was invented by Shionogi, is a specific blood marker for heart failure. Shionogi's leading cardiovascular diagnostic products are Shionoria BNP and MI02 Shionogi BNP. Users range from specialists to general internists, and the cumulative number of uses increased 107.8 percent year-on-year. Moreover, the percentage of tests performed by licensees in Japan rose by 334.1 percent during fiscal 2004. 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.

Capsule Business

Sales in the capsule business increased 4.1 percent year-on-year to ¥11,895 million (US$111 million). Sales were flat in Japan but increased in Europe. During fiscal 2004, Shionogi worked to increase sales and reduce costs by meeting customer needs with hydroxypropylmethyl cellulose (HPMC) plant cellulose-based capsules, developing gelatin-based capsules, expanding capsule sales in 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.

The Shionogi Qualicaps Group, which handles Shionogi's capsule business, already has the foundation to develop its business independently. Shionogi has therefore decided to transfer the capsule business to The Carlyle Group through a share sale agreement concluded in August 2005 to maximize the potential of this business.

Other Businesses

With the completion of Shionogi's re-engineering program, this segment consists of six businesses, including leasing and distribution. The parent company conducts the leasing business, which primarily consists of real estate leasing. The distribution business mainly handles Shionogi products. Combined sales of these businesses totaled ¥3,394 million (US$32 million), a year-on-year decrease of 10.6 percent.

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
	2005	2004	2003	2002	2001	2000	2005
For the year ended March 31:							
Net sales	**¥199,365**	¥200,485	¥285,232	¥420,188	¥412,664	¥400,281	**$1,857,669**
Cost of sales	**74,069**	79,856	153,402	273,692	263,629	253,202	**690,170**
Selling, general and administrative expenses	**96,567**	100,337	112,564	130,312	125,126	121,658	**899,804**
Operating income	**28,729**	20,292	19,266	16,184	23,909	25,421	**267,695**
Income before income taxes and minority interests	**31,655**	5,178	9,139	18,755	24,556	27,697	**294,959**
Net income	**18,942**	2,204	5,904	8,456	12,614	12,868	**176,500**
Research and development expenses	**29,409**	29,808	31,284	30,602	29,255	27,027	**274,031**
Capital investments	**5,424**	4,404	9,012	8,810	8,331	9,355	**50,540**
As of March 31:							
Property, plant and equipment, net	**¥ 68,191**	¥ 71,993	¥ 75,585	¥ 86,387	¥ 87,971	¥ 86,613	**$ 635,399**
Total assets	**396,999**	376,161	371,704	480,668	496,591	442,547	**3,699,209**
Total long-term liabilities	**27,783**	49,005	49,145	58,971	67,592	50,812	**258,880**
Total shareholders' equity	**299,847**	292,187	274,824	280,675	286,728	255,171	**2,793,954**
Working capital	**152,914**	179,382	162,926	155,239	197,686	192,656	**1,424,842**
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	**¥ 54.64**	¥ 6.06	¥ 16.66	¥ 24.28	¥ 36.29	¥ 37.07	**$0.51**
Net assets	**879.79**	844.53	789.91	806.02	823.27	735.14	**8.20**
Cash dividends applicable to the year	**12.00**	8.50	8.50	8.50	8.50	8.50	**0.11**

Note: U.S. dollar figures have been calculated, for convenience only, at the rate of ¥107.32 = US$1.00, the approximate rate of exchange on March 31, 2005.

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. Shionogi follows a policy of distributing dividends in proportion to results for each fiscal term, and aims to make stable increases in the dividend in the medium to long term. Shionogi also flexibly uses share repurchases as a means of improving capital efficiency. In addition, Shionogi will allocate retained earnings to investment in research and development, capital investment and reinforcement of its business infrastructure, with a focus on overseas operations, in order to maximize its corporate value.

Sales, Operating Expenses and Operating Income

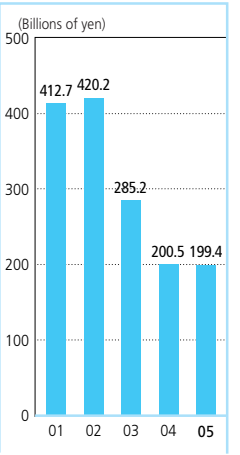
For fiscal 2004, the year ended March 31, 2005, consolidated net sales decreased 0.6 percent year-on-year to ¥199,365 million (US$1,858 million). While revenues from industrial property rights increased substantially, sales of prescription drugs decreased due to the effect of a reduction of National Health Insurance (NHI) drug prices and contraction in the market for antibiotics, a core Shionogi product.

Costs, Expenses and Income as Percentages of Net Sales

(Years ended March 31)	2005	2004	2003
Cost of sales	**37.2%**	39.8%	53.8%
Gross profit	**62.8**	60.2	46.2
SG&A expenses	**48.4**	50.0	39.5
R&D expenses	**14.8**	14.9	11.0
Operating income	**14.4**	10.1	6.8
Income before income taxes and minority interests	**15.9**	2.6	3.2
Net income	**9.5**	1.1	2.1

Despite a reduction of NHI drug prices that averaged 4.2 percent, cost of sales decreased 7.2 percent to ¥74,069 million (US$690 million) as a result of improved efficiency from the consolidation of manufacturing operations and business structure reengineering. Cost of sales represented 37.2 percent of net sales, compared to 39.8 percent in the previous fiscal year. This improvement reflects ongoing efforts to control manufacturing costs, reduced retirement benefit expenses and the advantage of focusing resources on the core prescription drug business, in which profitability is highest. Gross profit increased 3.9 percent to ¥125,296 million (US$1,167 million), and increased as a percentage of net sales to 62.8 percent from 60.2 percent for the previous fiscal year. Shionogi's reengineering program has nearly doubled the gross margin over the past five years from 36.7 percent for the year ended March 2000.

Net Sales

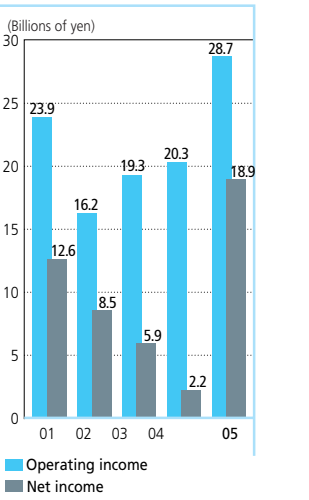


Selling, general and administrative (SG&A) expenses decreased 3.8 percent to ¥96,567 million (US$900 million), and represented 48.4 percent of net sales, compared to 50.0 percent for the previous fiscal year. The decrease was due to structural reforms to reduce the number of employees through implementation of measures including an outplacement support program, and a decrease in retirement benefit expenses.

Research and development expenses, which are included in SG&A expenses, decreased 1.3 percent to ¥29,409 million (US$274 million), and accounted for 14.8 percent of net sales, compared to 14.9 percent for the previous fiscal year.

Reduced expenses resulted in a 41.6 percent increase in operating income to ¥28,729 million (US$268 million). The ratio of operating income to net sales was 14.4 percent, compared to 10.1 percent for the previous fiscal year.

Operating Income and Net Income



Other Income (Expenses)

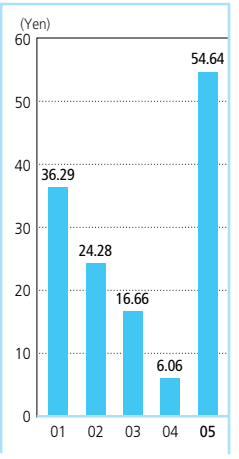
Net other income totaled ¥2,926 million (US$27 million), compared to net other expenses of ¥15,114 million for the previous fiscal year. The absence of one-time charges in connection with outplacement support and additional retirement benefits recorded in the previous fiscal year were the primary factor in the positive year-on-year change. An additional factor was a one-time gain on conversion to defined contribution pension plans totaling ¥3,667 million (US$34 million) in connection with the revision of the retirement benefit system.

Income before Income Taxes and Minority Interests and Net Income

Due to higher operating income and the year-on-year change to net other income discussed above, income before income taxes and minority interests increased by over six times year-on-year to ¥31,655 million (US$295 million). Income taxes net of deferrals increased by over four times to ¥12,695 million (US$118 million), and the effective tax rate decreased to 40.1 percent from 56.9 percent for the previous fiscal year. As a result, net income increased by over eight times to ¥18,942 mil-

lion (US$177 million), and represented 9.5 percent of net sales, compared to 1.1 percent for the previous fiscal year. Net income per share was ¥54.64 (US$0.51), compared to ¥6.06 for the previous fiscal year. Cash dividends per share of common stock totaled ¥12.00 (US$0.11) for the fiscal year, an increase of ¥3.50 per share from the previous fiscal year, while the payout ratio was 22.0 percent, compared to 140.3 percent for the previous fiscal year.

Net Income per Share



Liquidity and Cash Flows

Statements of Cash Flows Highlights

(Millions of yen)

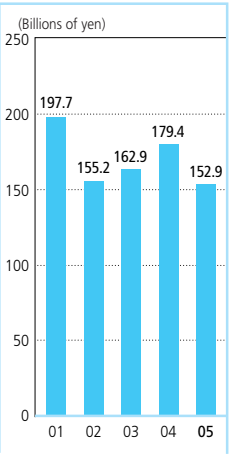
(Years ended March 31)	2005	2004	2003
Net cash provided by operating activities	**¥ 28,549**	¥ 15,060	¥ 7,771
Net cash provided by (used in) investing activities	**9,786**	(8,045)	6,036
Net cash used in financing activities	**(11,209)**	(10,340)	(14,870)
Cash and cash equivalents at end of year	**95,719**	68,624	71,497

Net cash provided by operating activities increased 89.6 percent to ¥28,549 million (US$266 million), primarily because of the increase in income before income taxes and minority interests. Gain on conversion to defined contribution pension plans totaling ¥3,667 million (US$34 million) was a non-cash gain on an accrual basis that did not contribute to net cash provided by operations. Pension assets to be transferred to defined contribution pension plans totaled ¥17,414 million (US$162 million). This item recognizes the cash effect of the pension system revisions, and transfers will take place over four years.

Net contribution to cash flow from changes in operating assets and liabilities offset the reduction in cash flow due to revision of the retirement benefit system. Shionogi continued to reduce inventories, primarily through adjustment of raw material purchasing lead times and supply chain management strategies such as cooperation with contract manufacturers. Depreciation and amortization decreased 3.0 percent to ¥9,412 million (US$88 million), and net cash flow, defined as the sum of net income and depreciation and amortization, was ¥28,354 million (US$264 million), compared to ¥11,909 million for the previous fiscal year. Working capital decreased 14.8 percent to ¥152,914 million (US$1,425 million). The current ratio remained conservative at 3.2 to 1, compared to 6.2 to 1 a year earlier, primarily reflecting the pending redemption of ¥20,000 million in 2.0 percent unsecured bonds in 2005.

Net cash provided by investing activities totaled ¥9,786 million (US$91 million). In the previous fiscal year, investing activities used net cash of ¥8,045 million. The year-on-year change was primarily due to redemption of securities at maturity, which resulted in a substantial increase in net proceeds from sales of short-term investments. Purchases of property, plant and equipment increased 23.2 percent to ¥5,424 million (US$51 million). These capital expenditures were well within the scope of net cash flow as defined above, and Shionogi funded them using internal capital resources. Free cash flow, calculated as the sum of net cash provided by operating activities and net cash provided by investing activities, totaled ¥38,335 million (US$357 million), compared to ¥7,015 million for the previous fiscal year.

Working Capital



Net cash used in financing activities totaled ¥11,209 million (US$104 million), compared to ¥10,340 million for the previous fiscal year. Shionogi reduced the use of cash to repay short-term bank loans because as of March 31, 2004, Shionogi had virtually eliminated the balance of short-term bank loans. Moving to enhance total shareholder returns, Shionogi deployed free cash flow to repurchase shares totaling ¥7,231 million (US$67 million). Cash dividends paid totaled ¥2,935 million (US$27 million).

Cash and cash equivalents at the end of the year increased 39.5 percent to ¥95,719 million (US$892 million), reflecting the increase in free cash flow.

Assets and Capital Structure

Total assets increased 5.5 percent, or ¥20,838 million, to ¥396,999 million (US$3,699 million). Current assets increased as greater free cash flow resulted in an increase in cash and cash equivalents. Investments and other assets increased with the addition of prepaid pension costs due to the revision of the retirement benefit system. Total liabilities increased 15.7 percent, or ¥13,160 million, to ¥96,934 million (US$903 million), reflecting an increase in accrued income taxes and the addition of long-term accounts payable-other, which represents a portion of future transfers of assets to the defined contribution pension plans.

Balance Sheet Highlights

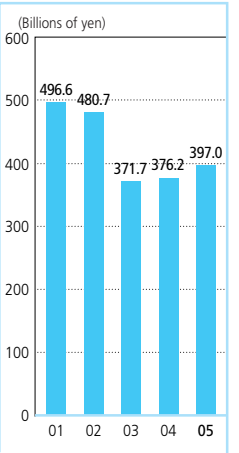
(Millions of yen)

(Years ended March 31)	2005	2004	% change 2005/2004
Current assets	**¥222,065**	¥214,151	3.7
Property, plant and equipment	**68,191**	71,993	(5.3)
Investments and other assets	**106,743**	90,017	18.6
Current liabilities	**69,151**	34,769	98.9
Long-term liabilities	**27,783**	49,005	(43.3)
Minority interests	**218**	200	9.0
Shareholders' equity	**299,847**	292,187	2.6

Shareholders' equity increased 2.6 percent, or ¥7,660 million, to ¥299,847 million (US$2,794 million), primarily due to additions to net assets as represented by retained earnings resulting from the increase in net income.

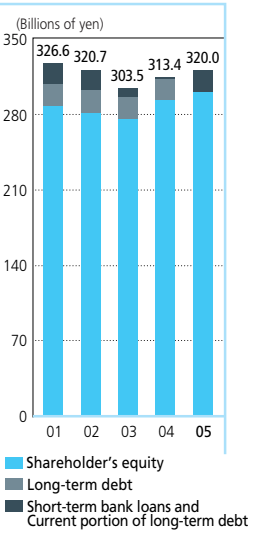
Total capital, the sum of short-term bank loans, the current portion of long-term debt, long-term debt and shareholders' equity, increased 2.1 percent to ¥320,006 million (US$2,982 million). Higher shareholders' equity accounted for this increase. Shareholders' equity accounted for 93.7 percent of total capital, compared to 93.2 percent a year earlier, underscoring the soundness of Shionogi's capital structure and its comparatively low proportion of fixed interest expenses.

Total Assets



The ratio of debt to equity, calculated as the total of current liabilities and long-term debt divided by shareholders' equity, was 0.23 to 1, compared to 0.19 to 1 a year earlier. Shareholders' equity represented 75.5 percent of total assets, compared to 77.7 percent a year earlier. The return on average total shareholders' equity was 6.4 percent, compared to 0.8 percent for the previous fiscal year.

Total Capital



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

The advancing demographic proportion of seniors in Japan and related trends in the prescription drug industry, including 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

Possible 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 prescription drugs requires a substantial investment of management resources and time. In addition, the pre-launch period of a new drug is subject to various uncertainties.

(4) Intensifying Global Competition

Competition in the prescription 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 Statements of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Net sales (Note 14)	**¥199,365**	¥200,485	**$1,857,669**
Cost of sales	**74,069**	79,856	**690,170**
Gross profit	**125,296**	120,629	**1,167,499**
Selling, general and administrative expenses (Note 11)	**96,567**	100,337	**899,804**
Operating income (Note 14)	**28,729**	20,292	**267,695**
Other income (expenses):			
Interest and dividend income	**1,073**	1,223	**9,998**
Interest expense	**(443)**	(494)	**(4,128)**
Gain on conversion to defined contribution pension plans	**3,667**	—	**34,169**
Loss on disposal of property, plant and equipment	**(326)**	(853)	**(3,038)**
Loss on disposal of inventories	**(564)**	(806)	**(5,255)**
Costs related to outplacement support	**—**	(7,082)	**—**
Additional retirement benefits	**—**	(3,846)	**—**
Other, net	**(481)**	(3,256)	**(4,482)**
	2,926	(15,114)	**27,264**
Income before income taxes and minority interests	**31,655**	5,178	**294,959**
Income taxes (Note 8)**:**			
Current	**10,066**	2,101	**93,794**
Deferred	**2,629**	844	**24,497**
	12,695	2,945	**118,291**
Income before minority interests	**18,960**	2,233	**176,668**
Minority interests	**(18)**	(29)	**(168)**
Net income (Note 13)	**¥ 18,942**	¥ 2,204	**$ 176,500**

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2005**	2004	**2005**
Current assets:			
Cash and cash equivalents (Note 6)	**¥ 95,719**	¥ 68,624	**$ 891,903**
Short-term investments (Note 4)	**11,708**	29,480	**109,094**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**5,555**	5,833	**51,761**
Trade	**69,097**	68,270	**643,841**
Allowance for doubtful accounts	**(63)**	(64)	**(587)**
	74,589	74,039	**695,015**
Inventories (Note 5)	**29,696**	33,550	**276,705**
Deferred income taxes (Note 8)	**5,239**	3,990	**48,817**
Other current assets	**5,114**	4,468	**47,652**
Total current assets	**222,065**	214,151	**2,069,186**
Property, plant and equipment:			
Land	**17,052**	17,282	**158,889**
Buildings and structures	**98,304**	97,496	**915,990**
Machinery and equipment	**90,594**	90,684	**844,148**
Furniture and fixtures	**30,621**	30,019	**285,324**
Construction in progress	**1,408**	1,269	**13,120**
Accumulated depreciation	**(169,788)**	(164,757)	**(1,582,072)**
Property, plant and equipment, net	**68,191**	71,993	**635,399**
Investments and other assets:			
Investments in securities (Notes 4 and 6)	**79,199**	78,469	**737,971**
Investments in and advances to unconsolidated subsidiaries and affiliates	**2,868**	3,283	**26,724**
Prepaid pension costs (Note 10)	**13,088**	—	**121,953**
Intangible assets	**7,147**	5,187	**66,595**
Long-term prepaid expenses	**3,385**	1,069	**31,541**
Deferred income taxes (Note 8)	**247**	385	**2,302**
Other assets	**809**	1,624	**7,538**
Total investments and other assets	**106,743**	90,017	**994,624**
Total assets	**¥ 396,999**	¥ 376,161	**$ 3,699,209**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 3) 2005
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 157**	¥ 289	**$ 1,463**
Current portion of long-term debt (Note 6)	**20,000**	744	**186,359**
Notes and accounts payable:			
Trade	**8,660**	10,346	**80,693**
Construction	**1,226**	2,082	**11,424**
Accrued expenses	**13,677**	11,923	**127,441**
Accrued income taxes (Note 8)	**9,267**	1,487	**86,349**
Other current liabilities (Note 10)	**16,164**	7,898	**150,615**
Total current liabilities	**69,151**	34,769	**644,344**
Long-term liabilities:			
Long-term debt (Note 6)	**2**	20,177	**19**
Accrued retirement benefits for employees (Note 10)	**8,321**	18,829	**77,534**
Accrued retirement benefits for directors and statutory auditors	**255**	462	**2,376**
Deferred income taxes (Note 8)	**11,603**	8,339	**108,116**
Long-term accounts payable–other (Note 10)	**6,601**	—	**61,508**
Other long-term liabilities	**1,001**	1,198	**9,327**
Total long-term liabilities	**27,783**	49,005	**258,880**
Minority interests	**218**	200	**2,031**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 7)**:**			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2005 and 2004	**21,280**	21,280	**198,286**
Additional paid-in capital	**20,227**	20,227	**188,474**
Retained earnings (Note 15)	**248,486**	232,589	**2,315,375**
Net unrealized holding gain on securities	**19,964**	21,023	**186,023**
Translation adjustments	**(1,536)**	(1,588)	**(14,312)**
Less treasury stock, at cost	**(8,574)**	(1,344)	**(79,892)**
Total shareholders' equity	**299,847**	292,187	**2,793,954**
Total liabilities and shareholders' equity	**¥396,999**	¥376,161	**$3,699,209**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Common stock:			
Balance at beginning and end of year	**¥ 21,280**	¥ 21,280	**$ 198,286**
Additional paid-in capital:			
Balance at beginning and end of year	**¥ 20,227**	¥ 20,227	**$ 188,474**
Retained earnings:			
Balance at beginning of year	**¥232,589**	¥230,882	**$2,167,247**
Add:			
Net income	**18,942**	2,204	**176,500**
Net increase arising from merger of unconsolidated subsidiaries	**—**	2,581	**—**
Deduct:			
Cash dividends	**(2,940)**	(2,960)	**(27,395)**
Bonuses to directors and statutory auditors	**(105)**	(104)	**(977)**
Net decrease arising from exclusion of consolidated subsidiaries	**—**	(14)	**—**
Balance at end of year	**¥248,486**	¥232,589	**$2,315,375**
Net unrealized holding gain on securities:			
Balance at beginning of year	**¥ 21,023**	¥ 5,015	**$ 195,891**
Net change during the year	**(1,059)**	16,008	**(9,868)**
Balance at end of year	**¥ 19,964**	¥ 21,023	**$ 186,023**
Translation adjustments:			
Balance at beginning of year	**¥ (1,588)**	¥ (1,565)	**$ (14,797)**
Net change during the year	**52**	(23)	**485**
Balance at end of year	**¥ (1,536)**	¥ (1,588)	**$ (14,312)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Operating activities:			
Income before income taxes and minority interests	**¥ 31,655**	¥ 5,178	**$ 294,959**
Adjustments for:			
Depreciation and amortization	**9,412**	9,705	**87,700**
Gain on conversion to defined contribution pension plans	**(3,667)**	—	**(34,169)**
Pension assets transferred to defined contribution pension plans	**(17,414)**	—	**(162,262)**
Reversal of retirement benefits, net of payments	**(66)**	(7,463)	**(615)**
Bonuses to directors and statutory auditors	**(106)**	(105)	**(988)**
Interest and dividend income	**(1,073)**	(1,223)	**(9,998)**
Interest expense	**443**	494	**4,128**
Other	**534**	(204)	**4,976**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**(133)**	5,167	**(1,239)**
Inventories	**4,315**	7,286	**40,207**
Other current assets	**(5,459)**	1,313	**(50,867)**
Notes and accounts payable	**(1,686)**	(1,631)	**(15,710)**
Accrued expenses	**(111)**	(890)	**(1,034)**
Other current liabilities	**13,320**	928	**124,115**
Subtotal	**29,964**	18,555	**279,203**
Interest and dividends received	**1,279**	1,490	**11,918**
Interest paid	**(417)**	(464)	**(3,886)**
Income taxes paid	**(2,277)**	(4,521)	**(21,217)**
Net cash provided by operating activities	**28,549**	15,060	**266,018**
Investing activities:			
Increase in short-term investments	**(14,777)**	(5,430)	**(137,691)**
Proceeds from sales of short-term investments	**34,518**	7,143	**321,636**
Increase in investments in securities	**(3,753)**	(4,360)	**(34,970)**
Purchases of property, plant and equipment	**(5,424)**	(4,404)	**(50,540)**
Increase in investments in affiliates	**(384)**	(206)	**(3,578)**
Proceeds from sales of investments in a subsidiary and an affiliate	**177**	23	**1,649**
Proceeds from sale of industrial chemical business	**—**	263	**—**
Payments for acquisition of business	**(774)**	—	**(7,212)**
Other	**203**	(1,074)	**1,892**
Net cash provided by (used in) investing activities	**9,786**	(8,045)	**91,186**
Financing activities:			
Decrease in short-term bank loans, net	**(125)**	(7,087)	**(1,165)**
Repayment of long-term debt	**(918)**	(120)	**(8,554)**
Cash dividends paid	**(2,935)**	(2,936)	**(27,348)**
Purchases of treasury stock	**(7,231)**	(197)	**(67,378)**
Net cash used in financing activities	**(11,209)**	(10,340)	**(104,445)**
Effect of exchange rate changes on cash and cash equivalents	**(41)**	457	**(382)**
Net increase (decrease) in cash and cash equivalents	**27,085**	(2,868)	**252,377**
Cash and cash equivalents at beginning of year	**68,624**	71,497	**639,433**
Increase in cash and cash equivalents resulting from merger of subsidiaries	**—**	46	**—**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**—**	(51)	**—**
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	**10**	—	**93**
Cash and cash equivalents at end of year	**¥ 95,719**	¥ 68,624	**$ 891,903**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2005

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, 2004 to the 2005 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying consolidated financial statements include the accounts of the Company and 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, 2005 and 2004.

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 has adopted 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, and also has a lump-sum payment plan and a defined contribution pension plan. Certain domestic consolidated subsidiaries have adopted lump-sum payment plans and defined contribution pension plans. In addition, certain consolidated subsidiaries have adopted defined contribution pension plans.

The Company and a certain domestic consolidated subsidiary transferred a certain portion of their retirement benefit plans to defined contribution pension plans in April 2004 and March 2005. 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 who were in their positions as of June 29, 2004 are customarily entitled to lump-sum payments under an unfunded retirement benefit plan, because the retirement benefits system for directors and statutory auditors was abolished in June 2004. 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 derivatives 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 15.

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 ¥107.32= U.S.$1.00, the approximate rate of exchange in effect on March 31, 2005. 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, 2005 and 2004 were as follows:

(1) Held-to-maturity debt securities

	Millions of yen			
	2005			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures	**¥20,192**	**¥349**	**¥(37)**	**¥20,504**

	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

	Thousands of U.S. dollars			
	2005			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures	**$188,148**	**$3,252**	**$(345)**	**$191,055**

(2) Other securities

	Millions of yen			
	2005			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**¥14,685**	**¥32,734**	**¥—**	**¥47,419**
Bonds and debentures	**1,879**	**751**	**—**	**2,630**
Other securities	**5,005**	**101**	**(0)**	**5,106**
	¥21,569	**¥33,586**	**¥ (0)**	**¥55,155**

	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

	Thousands of U.S. dollars			
	2005			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**$136,834**	**$305,013**	**$ —**	**$441,847**
Bonds and debentures	**17,508**	**6,998**	**—**	**24,506**
Other securities	**46,636**	**941**	**(0)**	**47,577**
	$200,978	**$312,952**	**$ (0)**	**$513,930**

(3) The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Proceeds from sales	**¥175**	¥4	**$1,631**
Gross realized gain	**154**	2	**1,435**

(4) The carrying value of investments in non-marketable securities at March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Other securities:			
Unlisted equity securities	**¥5,884**	¥4,225	**$54,827**

(5) The carrying value of held-to-maturity debt securities and debt securities classified as other securities at March 31, 2005 and 2004 is summarized as follows:

	Millions of yen	
	2005	
	Bonds and debentures	Other
Due within one year	**¥2,006**	**¥ 20**
Due after one year through five years	**8,198**	**716**
Due after five years through ten years	**9,968**	**621**
Due after ten years	**—**	**1,292**

	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

	Thousands of U.S. dollars	
	2005	
	Bonds and debentures	Other
Due within one year	**$18,692**	**$ 186**
Due after one year through five years	**76,388**	**6,672**
Due after five years through ten years	**92,881**	**5,786**
Due after ten years	**—**	**12,039**

5. INVENTORIES

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Merchandise	**¥ 3,370**	¥ 3,627	**$ 31,401**
Finished goods	**8,603**	8,736	**80,162**
Semifinished goods and work in process	**12,735**	13,982	**118,664**
Raw materials and supplies	**4,988**	7,205	**46,478**
	¥29,696	¥33,550	**$276,705**

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

The annual average interest rates applicable to short-term bank loans at March 31, 2005 and 2004 were 3.1% and 0.5%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Loans from banks, insurance companies and financial institutions at the rate of 4.7%, due through 2012:			
Secured	**¥ —**	¥ 725	**$ —**
Unsecured	**2**	196	**19**
2.0% unsecured bonds, payable in yen, due 2005	**20,000**	20,000	**186,359**
	20,002	20,921	**186,378**
Less current portion	**(20,000)**	(744)	**(186,359)**
	¥ 2	¥20,177	**$ 19**

The assets pledged as collateral for short-term bank loans and long-term debt at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Cash and cash equivalents	**¥ 5**	¥ 6	**$47**
Investments in securities	**—**	438	**—**
	¥ 5	¥444	**$47**

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	**¥20,000**	**$186,359**
2007	**0**	**0**
2008	**0**	**0**
2009	**0**	**0**
2010	**0**	**0**
2011 and thereafter	**2**	**19**
	¥20,002	**$186,378**

At March 31, 2005, the Company had unused line-of-credit commitments for short-term financing arrangements totaling ¥24,000 million ($223,630 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, 2005 and 2004 amounted to ¥6,362 million ($59,281 thousand) and ¥6,298 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 statutory tax rates of approximately 40.6% and 42.0% for the years ended March 31, 2005 and 2004.

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, 2005 and 2004 differ from the statutory tax rates above for the following reasons:

	2005	2004
Statutory tax rates	**40.6%**	42.0%
Expenses not deductible for income tax purposes	**3.6**	26.7
Dividends not taxable for income tax purposes	**(0.1)**	(0.5)
Amortization of excess of cost over net assets acquired	**0.1**	0.7
Inhabitants' per capita taxes	**0.5**	2.5
Difference between statutory tax rate in Japan and income tax rates applied at overseas consolidated subsidiaries	**—**	(1.3)
Tax loss carryforward of consolidated subsidiaries	**—**	1.4
Tax loss carryforward arising from merger of an unconsolidated subsidiary	**—**	(3.0)
Tax credits	**(4.5)**	(14.9)
Change in deferred tax assets at end of year due to change in statutory tax rate	**—**	4.8
Other	**(0.1)**	(1.5)
Effective tax rates	**40.1%**	56.9%

The tax effects of temporary differences at March 31, 2005 and 2004 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Accrued expenses	**¥ 3,169**	¥ 2,592	**$ 29,529**
Retirement benefits	**1,208**	5,197	**11,256**
Accrued enterprise tax	**849**	154	**7,911**
Research and development expenses	**1,390**	1,059	**12,952**
Reserve for sales rebates	**274**	252	**2,553**
Loss on revaluation of investments in securities	**549**	510	**5,116**
Depreciation of computer software	**—**	49	**—**
Tax loss carryforward of consolidated subsidiaries	**—**	89	**—**
Other	**1,562**	1,583	**14,555**
Valuation allowance	**0**	(137)	**0**
Total deferred tax assets	**9,001**	11,348	**83,872**
Deferred tax liabilities:			
Unrealized gain on other securities	**(13,559)**	(13,951)	**(126,342)**
Unrealized gain on consolidated subsidiaries	**(533)**	(533)	**(4,966)**
Depreciation	**(420)**	(311)	**(3,914)**
Other	**(606)**	(517)	**(5,647)**
Total deferred tax liabilities	**(15,118)**	(15,312)	**(140,869)**
Net deferred tax liabilities	**¥ (6,117)**	¥ (3,964)	**$ (56,997)**

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, 2005 and 2004, 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		
	2005		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	**¥1,056**	**¥366**	**¥690**

	Millions of yen		
	2004		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	¥287	¥195	¥92

	Thousands of U.S. dollars		
	2005		
	Acquisition costs	Accumulated depreciation	Net book value
Tools, furniture and other	**$9,839**	**$3,410**	**$6,429**

Finance lease payments of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Lease payments	**¥171**	¥55	**$1,593**

Future minimum payments (including the interest portion thereon) subsequent to March 31, 2005 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	¥180	$1,677
Due after one year	509	4,743
Total	¥689	$6,420

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, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Retirement benefit obligation at end of year	**¥(94,856)**	¥(121,402)	**$(883,861)**
Fair value of plan assets at end of year	**96,949**	101,070	**903,364**
Unfunded retirement benefit obligation	**2,093**	(20,332)	**19,503**
Unrecognized prior service cost	**(21,652)**	(26,825)	**(201,752)**
Unrecognized actuarial loss	**24,326**	28,328	**226,668**
Net retirement benefit obligation	**4,767**	(18,829)	**44,419**
Prepaid pension costs	**(13,088)**	—	**(121,953)**
Accrued retirement benefits for employees	**¥ (8,321)**	¥ (18,829)	**$ (77,534)**

The Company and a certain domestic consolidated subsidiary transferred a certain portion of their retirement benefit plans to defined contribution pension plans in April 2004 and March 2005, respectively. The effect of this transfer is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in retirement benefit obligation	¥28,213	$262,887
Unrecognized actuarial loss	(7,185)	(66,949)
Unrecognized prior service cost	2,499	23,285
Decrease in accrued retirement benefits for employees	¥23,527	$219,223

The pension assets, both those transferred and those to be transferred to defined contribution pension plans, totaled ¥19,861 million ($185,063 thousand), all of which are scheduled to be transferred over 4 years. The plan assets to be transferred to defined contribution pension plans totaled ¥10,360 million ($96,534 thousand) at March 31, 2005, of which ¥3,869 million ($36,051 thousand) have been

presented as "other current liabilities" and ¥6,491 million ($60,483 thousand) have been presented as "long-term accounts payable – other" in the consolidated balance sheet.

The components of retirement benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 2,047**	¥ 4,238	**$ 19,074**
Interest cost	**1,842**	3,682	**17,164**
Expected return on plan assets	**(2,183)**	(1,564)	**(20,341)**
Amortization of actuarial loss	**3,089**	5,897	**28,783**
Amortization of prior service cost	**(2,674)**	(1,725)	**(24,916)**
Other	**769**	55	**7,165**
Retirement benefit expenses	**¥ 2,890**	¥10,583	**$ 26,929**

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

Effective April 1, 2004, the Company adopted 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 and a certain domestic consolidated subsidiary also converted a certain portion of their non-contributory defined benefit pension plans and retirement benefit plans into defined contribution pension plans. With respect to this transfer, the Company adopted "Accounting for Transfers Among Retirement Benefit Plans" ("Financial Accounting Standard Implementation Guidance No. 1"). As a result of the adoption of this accounting standard, gain on conversion to defined contribution pension plans of ¥3,667 million ($34,169 thousand) was recorded in the consolidated statement of income for the year ended March 31, 2005.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Discount rates	**2.0%**	2.0%
Expected rates of return on plan assets	**2.2%**	2.0%

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2005 and 2004 amounted to ¥29,409 million ($274,031 thousand) and ¥29,808 million, respectively.

12. CONTINGENT LIABILITIES

The Company had the following contingent liabilities at March 31, 2005:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to employees	**¥151**	**$1,407**

13. AMOUNTS PER SHARE

Amounts per share for the years ended March 31, 2005 and 2004 were as follows:

	Yen		U.S. dollars
	2005	2004	**2005**
Net income	**¥ 54.64**	¥ 6.06	**$0.51**
Net assets	**879.79**	844.53	**8.20**
Cash dividends applicable to the year	**12.00**	8.50	**0.11**

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 years ended March 31, 2005 and 2004 based on the above standards are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Information on basic net income per share:			
Net income	**¥18,942**	¥2,204	**$176,500**
Deduction from net income:			
Bonuses to directors and statutory auditors	**(82)**	(106)	**(764)**
Adjusted net income allocated to common stock	**¥18,860**	¥2,098	**$175,736**

	Thousands of shares	
	2005	2004
Weighted-average number of shares of common stock outstanding	**345,175**	345,902

14. 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, principally 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 a consolidated subsidiary, Shionogi Qualicaps Co., Ltd.

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is outlined as follows:

	Millions of yen					
	Year ended March 31, 2005					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	**¥184,075**	**¥11,896**	**¥ 3,394**	**¥199,365**	**¥ —**	**¥199,365**
Intergroup sales and transfers	**—**	**237**	**4,727**	**4,964**	**(4,964)**	**—**
Total sales	**184,075**	**12,133**	**8,121**	**204,329**	**(4,964)**	**199,365**
Operating expenses	**158,188**	**10,672**	**6,760**	**175,620**	**(4,984)**	**170,636**
Operating income	**¥ 25,887**	**¥ 1,461**	**¥ 1,361**	**¥ 28,709**	**¥ 20**	**¥ 28,729**
II. Assets, depreciation and capital expenditures						
Total assets	**¥221,289**	**¥21,237**	**¥13,879**	**¥256,405**	**¥140,594**	**¥396,999**
Depreciation	**8,330**	**998**	**560**	**9,888**	**—**	**9,888**
Capital expenditures	**10,602**	**406**	**90**	**11,098**	**—**	**11,097**

	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

	Thousands of U.S. dollars					
	Year ended March 31, 2005					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	**$1,715,198**	**$110,846**	**$ 31,625**	**$1,857,669**	**$ —**	**$1,857,669**
Intergroup sales and transfers	**—**	**2,208**	**44,046**	**46,254**	**(46,254)**	**—**
Total sales	**1,715,198**	**113,054**	**75,671**	**1,903,923**	**(46,254)**	**1,857,669**
Operating expenses	**1,473,985**	**99,441**	**62,989**	**1,636,415**	**(46,441)**	**1,589,974**
Operating income	**$ 241,213**	**$ 13,613**	**$ 12,682**	**$ 267,508**	**$ 187**	**$ 267,695**
II. Assets, depreciation and capital expenditures						
Total assets	**$2,061,954**	**$197,885**	**$129,324**	**$2,389,163**	**$1,310,045**	**$3,699,208**
Depreciation	**77,618**	**9,299**	**5,218**	**92,135**	**—**	**92,135**
Capital expenditures	**98,789**	**3,783**	**839**	**103,411**	**—**	**103,401**

As more than 90% of the consolidated net sales for the years ended March 31, 2005 and 2004 were made in Japan, the disclosure of geographical segment information has been omitted.

15. 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, 2005, were approved at a shareholders' meeting held on June 29, 2005:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.50 = $0.07 per share)	**¥2,641**	**$24,609**
Bonuses to directors and statutory auditors	**53**	**494**

Report of Independent Auditors

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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 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.

Ernst & Young Shin Nihon

June 29, 2005

Subsidiaries and Affiliates

(As of March 31, 2005)

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, 2005)

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

Tokyo Branch Office
Shionogi Shibuya Bldg., 17-5, Shibuya 2-chome,
Shibuya-ku, Tokyo 150-0002, Japan
Tel: 81-3-3406-8111

Nagoya Branch Office
7-13, Haruoka 1-chome,
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
Tel: 81-92-737-7750

Sapporo Branch Office
Daisan Kouan Building
13, Minami Nanajo Nishi 1-chome,
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
5-1, Mishima 2-chome, Settsu,
Osaka 566-0022, Japan
Tel: 81-6-6381-7341

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

Akoh Plant*
1124, Kariya, Akoh,
Hyogo 678-0239, Japan
Tel: 81-791-42-2036

Shionogi & Co., Ltd. Taipei Office
Taiwan Shionogi & Co., Ltd.
Transworld Commercial Center 4F,
No. 2, Sec. 2, Nanking E. Road 10408,
Taipei, Taiwan, R.O.C.
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.
6505 Franz Warner Parkway,
Whitsett, NC 27377-9215, U.S.A.
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, 2005)

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
4,293

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)

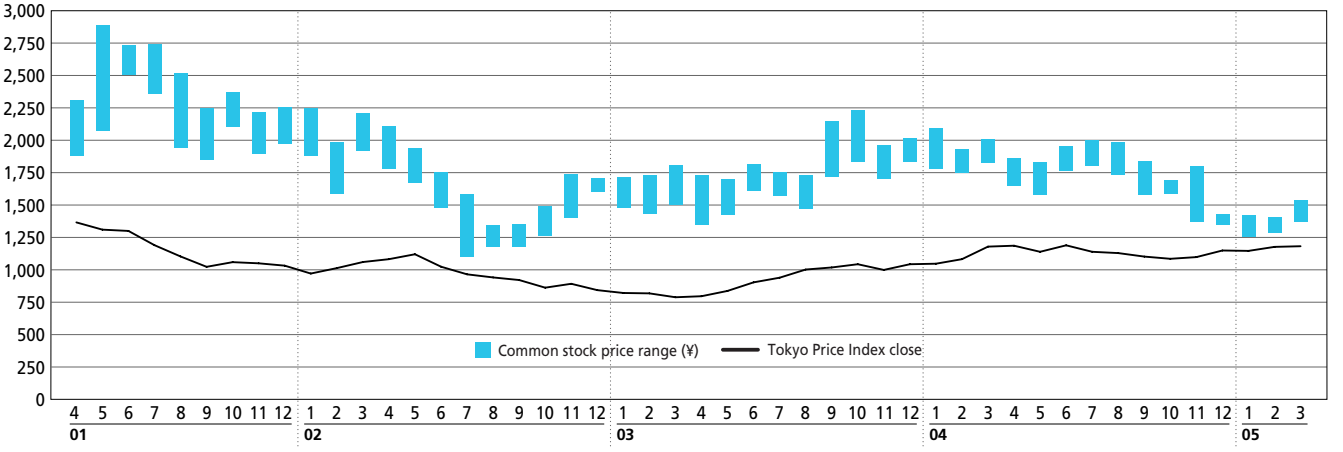
Common Stock
Authorized: 1,000,000,000 shares
Issued: 351,136,165 shares
Number of Shareholders: 31,579

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

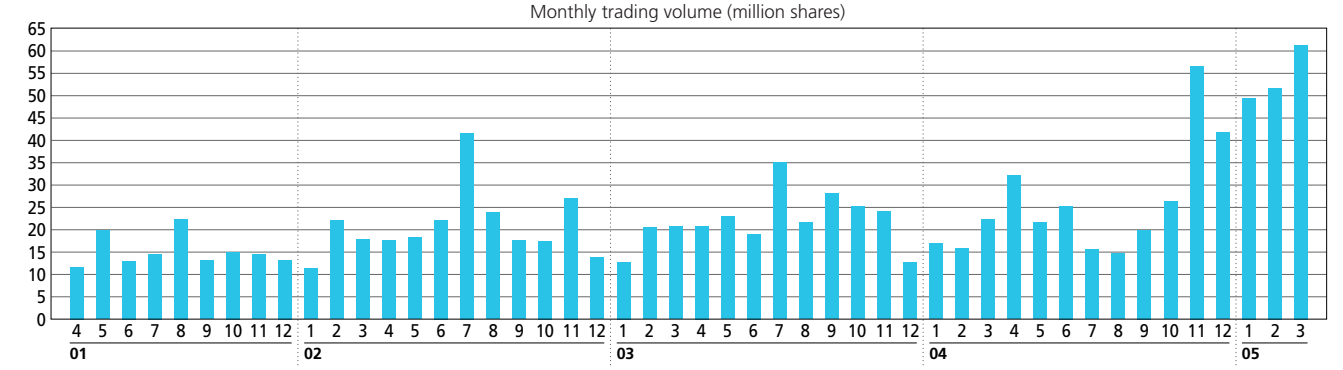
Major Shareholders

	Number of Shares (thousands)	Percentage of Total Shares
The Chase Manhattan Bank, NA London	19,673	5.60%
Sumitomo Life Insurance Company	18,604	5.30
The Master Trust Bank of Japan, Ltd. (trust account)	18,148	5.17
Nippon Life Insurance Company	16,922	4.82
Japan Trustee Services Bank, Ltd. (trust account)	15,844	4.51
The Chase Manhattan Bank NA, London SL Omnibus Account	12,450	3.55
Shionogi & Co., Ltd.	10,411	2.97
Japan Trustee Services Bank, Ltd. (Trust Account Re-entrusted by The Sumitomo Trust & Banking Co., Ltd., The Sumitomo Mitsui Banking Corporation Retirement Trust Account)	9,485	2.70
Nippon KOA Insurance Company, Limited	9,422	2.68
The Sumitomo Mitsui Banking Corporation	6,564	1.87
Total	137,527	39.17%

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Monthly trading volume (million shares)



SHIONOGI & CO., LTD.

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

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

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