

Interim Financial Statements (Consolidated) for The Year Ending March 31, 2002

November 12, 2001

Name of Listed Company: **SHIONOGI & CO., LTD.**
Code: 4507
Contact: Title of Person in Charge: General Manager, Public Relations Unit
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Date of Meeting of Board of Directors for Approving Interim Financial Statements: November 12, 2001

Application of U.S. accounting standards: No

1. Financial results for the period from April 1, 2001 to September 30, 2001

(1) Sales and income (Note: All amounts are rounded down to the nearest million yen.)

	Net sales		Operating income		Ordinary income	
	million yen	%	million yen	%	million yen	%
Six months ended September 30, 2001	203,864	1.3	7,729	(29.3)	8,102	(27.8)
Six months ended September 30, 2000	201,321	6.3	10,940	6.7	11,226	(3.0)
Year ended March 31, 2001	412,663	3.1	23,909	(5.9)	24,967	(6.1)

	Net income		Earnings per share		Earnings per share (diluted)	
	million yen	%	Yen		Yen	
Six months ended September 30, 2001	3,818	(5.4)	10.96		--	
Six months ended September 30, 2000	4,037	(16.9)	11.63		--	
Year ended March 31, 2001	12,614	(2.0)	36.29		--	

- (Notes) [1] Profit (loss) on investments accounted for by the equity method: Six months ended September 30, 2001: - million yen; Six months ended September 30, 2000: - million yen; Year ended March 31, 2001: - million yen
- [2] Average number of shares outstanding during period (consolidated): Six months ended September 30, 2001: 348,275,916 shares; Six months ended September 30, 2000: 347,114,795 shares; Year ended March 31, 2001: 347,599,247 shares
- [3] Changes in accounting method: None
- [4] The percentages shown under net sales, operating income, ordinary income and net income in the table above represent the change from the corresponding figures for the same interim period of the prior year.

(2) Financial position

	Total assets	Shareholders' equity	Ratio of Shareholders' equity to total assets	Shareholders' equity per share
	million yen	million yen	%	Yen
As of September 30, 2001	487,107	283,196	58.1	813.14
As of September 30, 2000	495,683	284,831	57.5	820.57
Year ended March 31, 2001	496,590	286,727	57.7	823.27

- (Note) Shares outstanding as of the term-end (consolidated): As of September 30, 2001: 348,275,710 shares; As of September 30, 2000: 347,113,532 shares; As of March 31, 2001: 348,277,556 shares

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
	million yen	million yen	million yen	million yen
Six months ended September 30, 2001	11,513	(5,666)	703	114,107
Six months ended September 30, 2000	11,384	18,749	3,040	103,580
Year ended March 31, 2001	23,409	13,198	(8)	107,264

- (4) Scope of consolidation and companies accounted for by the equity method
Consolidated subsidiaries: 23 subsidiaries Unconsolidated subsidiaries accounted for by the equity method: None
Affiliates accounted for by the equity method: None
- (5) Change in scope of consolidation and application of equity method
Consolidation (New): 1 subsidiary (Excluded): 2 subsidiaries Equity Method (New): None (Excluded): None

2. Forecasted results for the year ending March 31, 2002 (April 1, 2001 to March 31, 2002)

	Net sales	Ordinary income	Net income
	million yen	million yen	million yen
For the year ending March 31, 2002	415,000	15,000	7,500

(Reference) Estimated earnings per share for FY 2002: ¥21.53

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan.

Companies in the Shionogi Group

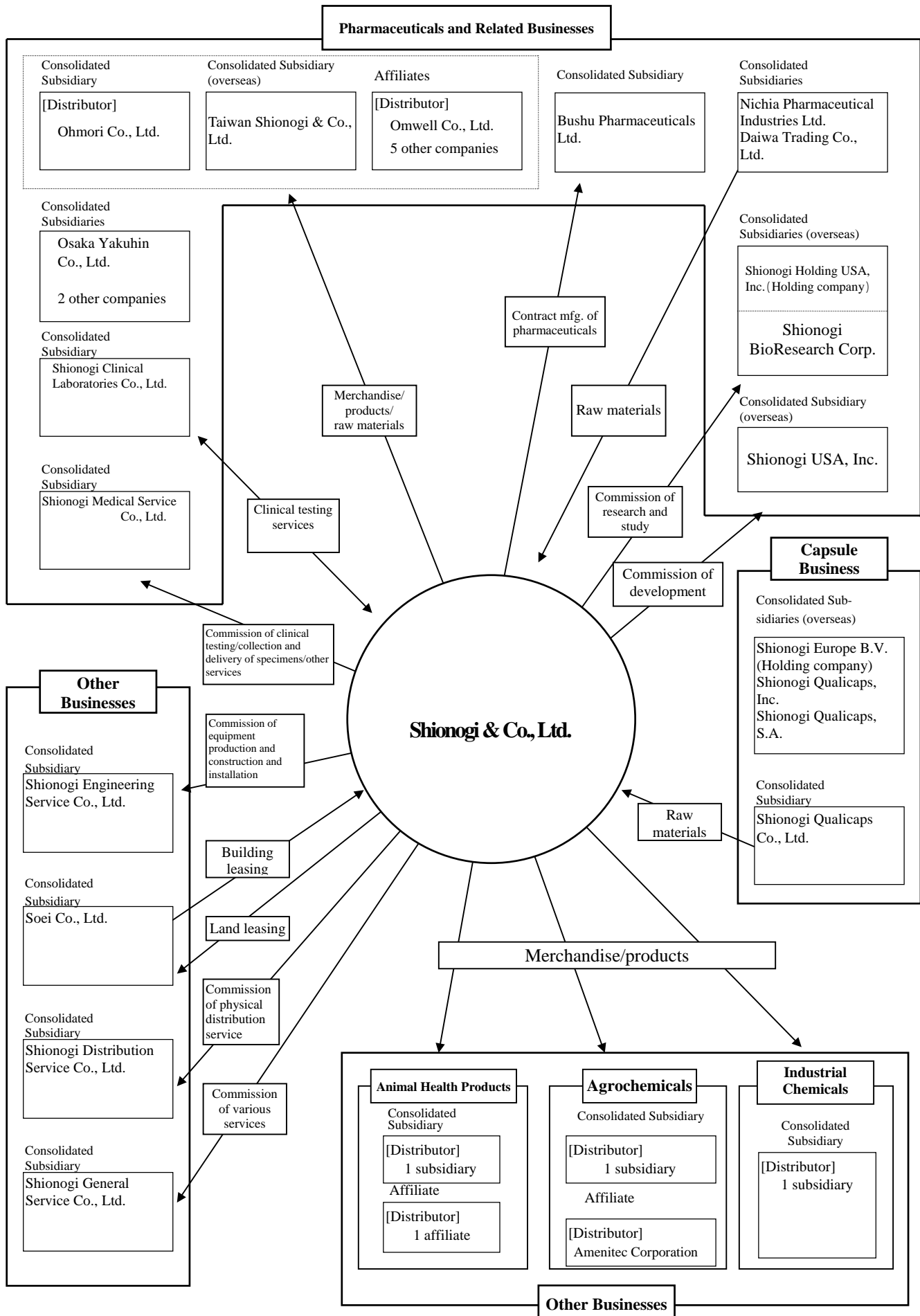
As of September 30, 2001, the Shionogi Group consisted of Shionogi & Co., Ltd. (the "Company"), 23 consolidated subsidiaries, 2 unconsolidated subsidiaries and 9 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs, quasi-drugs, OTC drugs, diagnostic drugs, capsules, agrochemicals, and animal health products as well as industrial chemicals. In addition, they perform clinical testing and render related services.

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

Business segments	Main products/ merchandise and services	Major companies
Pharmaceuticals and related businesses	Ethical drugs, Quasi-drugs and OTC drugs Diagnostics, Clinical testing	Shionogi & Co., Ltd., Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries Ltd., Daiwa Trading Co., Ltd. Taiwan Shionogi & Co., Ltd., Ohmori Co., Ltd., Omwell Co., Ltd. Shionogi Holding USA, Inc., Shionogi BioResearch Corp., Shionogi USA, Inc. Shionogi Medical Service Co., Ltd., Shionogi Clinical Laboratories Co., Ltd., 13 other companies (25 companies in total)
Capsule business	Capsules	Shionogi Qualicaps Co., Ltd. Shionogi Europe B.V., Shionogi Qualicaps, Inc. Shionogi Qualicaps, S.A. (4 companies in total)
Other businesses	Agrochemicals, Animal health products, Industrial chemicals, Real estate leasing, Physical distribution and other services	Shionogi & Co., Ltd., Amenitec Corporation, Ohmori Co., Ltd. Daiwa Trading Co., Ltd. Soei Co., Ltd. Shionogi Distribution Service Co., Ltd., Shionogi General Service Co., Ltd. Shionogi Engineering Service Co., Ltd. 2 other companies (10 companies in total)

(Notes) [1] Companies engaging in more than one business segment are listed separately by segment in the above table.

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



- (Notes) 1. All distributors in the “Other businesses” segment, except for Amenitec Corporation, are also engaged in “Pharmaceuticals and related businesses.”
2. In addition, 2 consolidated subsidiaries, 2 unconsolidated subsidiaries and 2 affiliates are not shown in this chart as the scale of their business is very small.

MANAGEMENT POLICY

1. Fundamental Management Policy

Shionogi's corporate philosophy is to continually provide the superior medicines essential to protect people's health. Our objective continues to be creating and marketing pharmaceuticals that effectively improve healthcare and raise the quality of life worldwide. Shionogi approaches drug creation, production and marketing as a unified whole to promote effectiveness in improving healthcare and to earn the trust of healthcare professionals and patients. Our commitment to this approach is essential to strengthening the Company and expanding its operations globally, and thus earning the respect of our stakeholders, including customers, society, shareholders and employees.

2. Management Strategy and Challenge Ahead

Regarding the operating environment for the Company, discussions of fundamental reforms of the national health insurance system in response to the rising demographic proportion of seniors are continuing, and it is projected that the implementation of such reforms will inevitably cause stagnation in the domestic pharmaceuticals market. Moreover, in light of the decreasing significance of national borders, we expect to face increasingly intense competition from huge pharmaceutical companies based in Europe and the United States.

Amid these circumstances, the Company established a Medium-Term Management Plan in April 2000, aiming at achieving the following managerial targets in five years:

- To increase corporate value of the Shionogi Group through improving the profitability of the ethical drug business, the Group's core business.
- To pursue continuous invention, and timely development and marketing of innovative new drugs in the global market.
- To develop marketing ability that will be reputed as the best in the domestic market.

The Shionogi Group sets the following consolidated operational targets to be achieved by Fiscal Year 2004.

- Consolidated net income: Over 20 billion yen
- Consolidated ROE (Return on Equity): 6% level

In order to achieve the above-mentioned Medium-Term Plan, the Company will work on the following challenges:

- [1] Clearly position ethical drug operations as the core business field of the Company; reevaluate other non-core operations based on their profitability and long-term viability; consider the optimal operating modes for fully leveraging the assets of each operation; and improve the efficiency thereof.
- [2] In order to strengthen its R&D capabilities for the discovery and accelerated development of innovative new drugs, increase R&D investments and focus on specific research fields in the R&D portfolio so that the investments can be concentrated in the field where the Company has core competence.
- [3] Establish infrastructure for the overseas development of new drugs with the future aim of establishing a worldwide sales infrastructure which would provide drugs meeting global needs.
- [4] In the domestic ethical drug market, increase market share in the antibiotics field, where the Company has strong competence, as well as in the cardiovascular and, cancer-related drug fields by strengthening its sales force through the development of strong medical representatives.
- [5] In manufacturing, restructure its facilities to comply with global manufacturing standards and to increase the efficiency of production.

3. Improvement of Management Control Structure

Under severe business circumstances, the Company believes it is necessary to speedily make appropriate decisions in order to efficiently overcome the challenges facing management, and that it is also important to clearly define how the decision-making is to be checked and to operate its business with high transparency.

For this purpose, the Company has empowered managers in the front line greater authority and responsibility than ever, while ensuring that important issues on business operation are promptly dealt with at the senior management meetings, generally held once a week, the members of which consist of managing directors and other senior directors.

Board members convene generally once a month in order to make decisions on fundamental business issues and to supervise business operations on behalf of shareholders for their benefit, and continue efforts to be more active in their roles.

Furthermore, the Company has strengthened its audit system. For example, two outside auditors have been added to the board of auditors who participate in the important meetings such as board meetings and senior management meetings, and also aggressively audit the Company and observe its group companies to check legal compliance and appropriateness of the operations thereof.

4. Fundamental Policy on Appropriation of Retained Earnings

As for the appropriation of retained earnings of the Company, the Company believes it is important to make stable dividends from a long-term point of view and to increase the dividends through growth in earnings to be achieved by the above-mentioned efforts. Therefore, the Company will allocate appropriate portion of retained earnings to investment in domestic/overseas R&D activities and expansion of manufacturing facilities as well as investment for improving the efficiency of various operation activities in order to improve its profitability and to maximize corporate value.

RESULTS OF OPERATIONS

1. Overview of Six Months Ended September 30, 2001

[1] GENERAL SITUATION

During the six months ended September 30, 2001, Japanese businesses continued to suffer severe economic conditions. The government announced the policy to carry out reform of the economic structure in Japan. As part of the reform, serious discussion is continuing on the fundamental reform of the national health insurance system. Moreover, in light of the decreasing significance of national borders, we expect to face increasingly intense competition from huge foreign pharmaceutical companies. Business conditions for the pharmaceutical industry has become severer and increased uncertainty.

Under these circumstances, the Company devoted all its energies to carry out specific actions to achieve the Medium-Term Management Plan established in April 2000. During the six months ended September 30, 2001, Shionogi USA, Inc. was established to have an organization overseas that can quickly develop and market new drugs satisfying global needs. The Company continued negotiation with GlaxoSmithKline to establish a joint venture, which would engage in advanced and global development of chemical compounds developed by Shionogi and would also engage in sales of drugs in the future; and concluded a final agreement in October 2001. The business structure of the Shionogi Group was also reviewed, and restructuring of the agrochemical business which has been under severe operational pressure, and Ohmori Co., Ltd., a drug-wholesale subsidiary, was determined.

Furthermore, the marketing force of the ethical drug business in Japan, the core business of the Group, was reinforced, and renovation of plants and functions of manufacturing subsidiaries was started to improve the productivity in the manufacturing area.

Operational results for the six months ended September 30, 2001 were as follows:

<Consolidated>

Net sales	203,864 million yen	Increased 2,543 million yen from the same period of the previous year	(1.3% increase)
Operating income	7,729 million yen	Decreased 3,211 million yen from the same period of the previous year	(29.3% decrease)
Ordinary income	8,102 million yen	Decreased 3,124 million yen from the same period of the previous year	(27.8% decrease)
Net income	3,818 million yen	Decreased 219 million yen from the same period of the previous year	(5.4% decrease)

<Unconsolidated>

Net sales	104,052 million yen	Decreased 938 million yen from the same period of the previous year	(0.9% decrease)
Operating income	7,307 million yen	Decreased 2,089 million yen from the same period of the previous year	(22.2% decrease)
Ordinary income	8,348 million yen	Decreased 2,336 million yen from the same period of the previous year	(21.9% decrease)
Net income	4,449 million yen	Decreased 431 million yen from the same period of the previous year	(8.8% decrease)

Unconsolidated sales decreased 0.9% from the same period of the previous year due to sales drop in agrochemicals and animal health products, although sales of pharmaceuticals, which is the core business of the Company, increased slightly. Consolidated sales increased by 1.3% due to sales increase in Ohmori Co., Ltd., a consolidated wholesaler subsidiary, and sales growth in the capsule business.

In unconsolidated basis, the ratio of cost of sales improved due to our effort to improve productivity and increase in sales of products developed by the Company. However, reinforcement of the R&D organization and increase of product development projects conducted overseas resulted in the increase of R&D expenses. Selling, general and administrative expenses also rose due to the increase in personnel cost caused by the worsened investment environment for retirement pension assets. As a result, operating income and ordinary income dropped significantly on unconsolidated basis. Consolidated operating income and ordinary income declined 29.3% and 27.8% respectively, affected by the decrease in profit by the Company, combined with the significant drop in profit by Ohmori Co., Ltd. that suffered severe business conditions in the wholesale drug industry. Consolidated net income for the six months ended September 30, 2001 dropped 5.4% from the same period of the previous year, mainly due to the charge for extraordinary loss in the previous year including write-off of shortage of the reserve for retirement benefits resulting from the adoption of the new accounting standards for retirement benefits.

Cash dividends per share of 4.25 yen will be paid to shareholder for this interim period, same as in the same period of the previous year.

As for R&D activities during the six months ended September 30, 2001, applications for approval of manufacture were filed for a drug to prevent premature ovulation (NS75A) and an analgesic for cancer pain (S-8117), and an antiallergic (Brand name: Claritin) jointly with Schering-Plough K.K. Furthermore, an antidepressant, an antihypertensive, an oral cephem antibiotic and an injectable antibiotic, among others, are now in the late stage of development. Certain drugs targeting at the international market are developed in overseas subsidiaries. Among these, development of an anti-HIV (S-1360), an antimentia (S-8510), a drug for cerebrovascular diseases (S-0139), AMPA receptor antagonist (S-1746) will be transferred to the joint venture established with Glaxo SmithKline, which is expected to accelerate the speed of the development of these drugs.

As for the hypolipidemic drug licensed to AstraZeneca, U.K. (Brand name: Crestor), application for approval was filed in the United States and Europe in June 2001.

During the six months ended September 30, 2001, to accelerate the speed of R&D, Shionogi Research Laboratories and Pharmaceutical Development Division were combined into Pharmaceutical Research & Development Division. As a result of these activities, consolidated R&D expenses for the period increased 5.9% from the same period of the previous year to 15,423 million yen.

[2] **SEGMENT INFORMATION**

Pharmaceuticals and Related Businesses

On unconsolidated basis, sales of antibiotics, the main product line of the pharmaceuticals business, expanded mainly due to continued growth of FLOMOX, an oral cephem antibiotic, and introduction of a handy kit of FLUMARIN (an injectable antibiotic) for health care providers to the market in January 2001. However, sales of other products remained weak generally. In addition, supply of Sedes-G, an antipyretic analgesic for health care providers, was suspended in April to prevent a side effect. As a result, unconsolidated sales of the pharmaceuticals business increased slightly from the same period of the previous year.

In the diagnostic and clinical testing services area, the clinical testing services had difficult time as demand remained weak due to implementation of various measures by the government to reduce medical costs. Reduction of selling price also had an effect on sales decrease in the clinical testing services, while sales of diagnostics grew by the increased sales of the BNP reagent.

Ohmori Co, Ltd., a drug wholesale subsidiary, achieved sales growth under severe market conditions through their marketing efforts for sales expansion.

As a result, consolidated sales of the Pharmaceuticals and Related Businesses grew 1.7% from the same period of the previous year to 191,198 million yen.

Operating income declined on unconsolidated basis due to weak sales combined with incremental R&D expenses. Operating loss of Ohmori Co., Ltd. increased due to the reduced gross profit rate resulting from severe price competition. As a result, consolidated operation income decreased 29.6% to 6,974 million yen.

It was determined to divide Ohmori Co., Ltd. into five separate companies by geographic area on October 1, 2001, each of which will pursue collaboration with major wholesalers and local wholesalers to improve their profitability.

Capsule business

The Capsule Business had difficult time as sales to pharmaceutical operators, main customers of the business, remained weak due to slow demand for drugs.

However, sales recovered significantly from the same period last year during which sales plunged sharply due to the rebound from the Y2K issue. Sales by the capsule business overseas also grew due to weak yen. As a result, consolidated sales of the Capsule Business increased 18.8% from the same period of the previous year to 5,556 million yen.

Operating income was 691 million yen, a significant increase from the same period of the previous year.

Other businesses

Sales of agrochemicals dropped significantly, mainly due to the expected merger. Sales of animal health products and industrial chemicals also decreased due to the stagnated market condition and intensified competition. As a result, consolidated sales declined 17.8% from the same period of the previous year to 7,109 million yen.

Although profit in the real estate lease business increased by the slight improvement of the market condition, consolidated operating income of Other Businesses dropped significantly to 71 million yen due to sales decrease in agrochemicals and animal health products businesses.

It was agreed with Aventis CropScience S.A. to merge the agrochemical business of Aventis and Shionogi in Japan. The joint venture, Aventis CropScience Shionogi K.K. was established on October 1, 2001.

[3] CASH FLOW

Although partially offset by the decrease in income before income taxes and minority interest, net cash provided by operating activities grew by 129 million yen to 11,513 million yen from the same period of the previous year, mainly due to decrease in trade receivables as well as decrease of income taxes payment.

Net cash used in investing activities was ¥5,666 million yen on consolidated basis as the Group made significant investment in production facilities and computerization of the management system of production, R&D and sales department in order to pursue operational reform of these departments.

Net cash provided by financing activities was 703 million yen on consolidated basis mainly due to receipt of proceeds of borrowings by subsidiaries, which was partially offset by the dividend payment.

As a result, cash and cash equivalents at the end of the period (September 30, 2001) increased 6,843 million yen from the beginning of the period (April 1, 2001) to 114,107 million yen.

2. Forecast for the Year

The fundamental review by the government of the Japanese national health insurance (NHI) system is continuing. Although we cannot predict exactly what will come out from this review, it is foreseeable that reform of the NHI system will be conducted, including lowering of the "NHI drug prices" (fixed prices of ethical drugs reimbursable by insurers to medical institutions under the national health insurance program) next year, which would inevitably accelerate the continued shrinkage of the pharmaceutical market. Competition with foreign companies will further intensify both in the R&D and the marketing fields. Business conditions for the pharmaceutical operators are expected to become much severer.

Under these circumstances, the Company will continue to work steadily on actions to achieve the targets set in the Medium-Term Management Plan in the remaining six months of FY 2001.

Our financial forecast for the fiscal year ending March 31, 2002 is as follows:

<Consolidated>

Net sales	415,000 million yen	(0.6% increase from previous year)
Ordinary income	15,000 million yen	(39.9% decrease from previous year)
Net income	7,500 million yen	(40.5% decrease from previous year)

<Unconsolidated>

Net sales	207,000 million yen	(4.1% decrease from previous year)
Ordinary income	17,000 million yen	(29.5% decrease from previous year)
Net income	10,000 million yen	(16.4% decrease from previous year)

(Note) The above-mentioned forecasts are based on the information available to the Company at this time, and involve certain risk and uncertainty. Actual results may differ from the forecasts, depending on change in conditions and other factors.

Interim Consolidated Statements of Income

(Units: millions of yen)

Account	Six months ended September 30, 2001		Six months ended September 30, 2000		Increase (decrease)	Year ended March 31, 2001	
	Amount	Percentage	Amount	Percentage		Amount	Percentage
		%		%			%
Net sales	203,864	100.0	201,321	100.0	2,543	412,663	100.0
Cost of sales	131,312	64.4	128,964	64.1	2,348	263,628	63.9
Gross profit	72,552	35.6	72,356	35.9	196	149,035	36.1
Selling, general and administrative expenses	64,822	31.8	61,416	30.5	3,406	125,126	30.3
Operating income	7,729	3.8	10,940	5.4	(3,211)	23,909	5.8
Non-operating income	1,983	1.0	1,837	0.9	146	4,523	1.1
Interest income	372		304		68	785	
Dividend income	314		430		(116)	782	
Royalty income	571		254		317	329	
Other income	725		847		(122)	2,626	
Non-operating expenses	1,611	0.8	1,551	0.7	60	3,465	0.8
Interest expense	361		367		(6)	786	
Contributions	383		459		(76)	914	
Loss on disposal of inventories	397		253		144	571	
Other expenses	467		471		(4)	1,193	
Ordinary income	8,102	4.0	11,226	5.6	(3,124)	24,967	6.1
Extraordinary gains	-	-	30,416	15.1	(30,416)	32,549	7.9
Gain on marketable securities in trust for the purpose of retirement benefits	-		29,696		(29,696)	29,696	
Gain on sales of property, plant and equipment	-		387		(387)	387	
Reversal of allowance for doubtful accounts	-		332		(332)	193	
Gain on sales of shares of the Company's common stock held by subsidiaries	-		-		-	2,271	
Extraordinary losses	71	0.0	32,850	16.3	(32,779)	32,959	8.0
Loss on revaluation of investments in securities	54		505		(451)	615	
Loss on sales of investments in securities	16		-		16	-	
Amortization of unrecognized differences arising from application of new accounting standard for retirement benefits	-		32,344		(32,344)	32,344	
Income before income taxes and minority interests	8,031	4.0	8,792	4.4	(761)	24,556	6.0
Income taxes, current	7,518	3.7	6,745	3.4	773	15,431	3.7
Income taxes, deferred	(3,160)	(1.5)	(1,866)	(0.9)	(1,294)	(3,292)	(0.8)
Minority interests	144	0.1	124	0.1	20	196	0.0
Net income	3,818	1.9	4,037	2.0	(219)	12,614	3.1

Interim Consolidated Statements of Retained Earnings

(Units: millions of yen)

Account \ Period	Six months ended September 30, 2001		Six months ended September 30, 2000		Year ended March 31, 2001	
I. Balance at beginning of the period		223,528		213,975		213,975
II. Increase	-	-	-	-	-	-
III. Deductions						
Cash dividends paid	1,476		1,474		2,957	
Bonuses to directors and statutory auditors	125	1,602	104	1,578	104	3,061
IV. Net income		3,818		4,037		12,614
V. Balance at end of the period		225,743		216,434		223,528
		<u>225,743</u>		<u>216,434</u>		<u>223,528</u>

Interim Consolidated Balance Sheets

(Assets)

(Units: millions of yen)

Account	Period	As of September 30, 2001		As of March 31, 2001		Increase (decrease)	As of September 30, 2000	
		Amount	Percentage	Amount	Percentage		Amount	Percentage
(Assets)			%		%			%
Current assets:								
Cash and bank deposits		124,381		117,741		6,640	111,599	
Notes and accounts receivable		135,978		144,153		(8,175)	137,399	
Inventories		58,560		59,125		(565)	61,340	
Deferred income taxes		4,837		3,660		1,177	3,627	
Other current assets		17,300		13,685		3,615	13,881	
Allowance for doubtful accounts		(647)		(602)		(45)	(528)	
Total current assets		340,411	69.9	337,765	68.0	2,646	327,320	66.0
Fixed assets:								
Property, plant and equipment:								
Buildings and structures		38,091		38,794		(703)	39,652	
Machinery and equipment		13,357		14,021		(664)	15,252	
Land		21,661		21,762		(101)	21,821	
Construction in progress		9,760		8,329		1,431	6,196	
Other		4,939		5,063		(124)	5,285	
Property, plant and equipment, net		87,811	18.0	87,971	17.7	(160)	88,209	17.8
Intangible fixed assets		3,607	0.7	3,421	0.7	186	3,494	0.7
Investments and other assets:								
Investments in securities		48,837		60,432		(11,595)	69,499	
Long-term loans receivable		2,379		2,627		(248)	1,625	
Deferred income taxes		985		933		52	582	
Other		3,297		3,669		(372)	5,166	
Allowance for doubtful accounts		(222)		(229)		7	(215)	
Total investments and other assets		55,277	11.4	67,433	13.6	(12,156)	76,658	15.5
Total fixed assets		146,696	30.1	158,825	32.0	(12,129)	168,363	34.0
Total assets		487,107	100.0	496,590	100.0	(9,483)	495,683	100.0

Interim Consolidated Balance Sheets

(Liabilities, minority interests and shareholders' equity)

(Units: millions of yen)

Account	Period	As of September 30, 2001		As of March 31, 2001		Increase (decrease)	As of September 30, 2000	
		Amount	Percentage	Amount	Percentage		Amount	Percentage
(Liabilities)			%		%			%
Current liabilities:								
Note and accounts payable		82,371		83,984		(1,613)	79,427	
Short-term bank loans and current portion of long- term debt		20,739		18,716		2,023	21,973	
Accrued income taxes		7,992		8,410		(418)	7,170	
Reserves:								
Reserve for bonuses		10,123		10,188		(65)	10,196	
Other reserves		551		604		(53)	568	
Other current liabilities		17,134		18,174		(1,040)	16,978	
Total current liabilities		138,913	28.5	140,078	28.2	(1,165)	136,315	27.5
Long-term liabilities:								
Bonds		20,000		20,000		0	20,000	
Deferred income taxes		7,551		14,195		(6,644)	19,149	
Accrued retirement benefits for employees		32,422		30,143		2,279	29,175	
Reserves		441		432		9	371	
Other long-term liabilities		2,741		2,820		(79)	3,581	
Total long-term liabilities		63,157	13.0	67,592	13.6	(4,435)	72,278	14.6
Total liabilities		202,070	41.5	207,671	41.8	(5,601)	208,594	42.1
Minority interests		1,840	0.4	2,192	0.5	(352)	2,258	0.4
(Shareholders' equity)								
Common stock		21,279	4.4	21,279	4.3	0	21,279	4.3
Additional paid-in capital		20,227	4.1	20,227	4.1	0	20,227	4.1
Retained earnings		225,743	46.3	223,528	45.0	2,215	216,434	43.7
Unrealized gain on securities		17,988	3.7	24,527	4.9	(6,539)	29,991	6.0
Translation adjustments		(1,834)	(0.4)	(2,632)	(0.5)	798	(2,799)	(0.5)
Less:								
Treasury stock, at cost		(7)	(0.0)	(3)	(0.0)	(4)	(16)	(0.0)
Shares of the Company's common stock held by subsidiaries		(200)	(0.0)	(200)	(0.1)	0	(285)	(0.1)
Total shareholders' equity		283,196	58.1	286,727	57.7	(3,531)	284,831	57.5
Total liabilities, minority interests and shareholders' equity		487,107	100.0	496,590	100.0	(9,483)	495,683	100.0

Interim Consolidated Statements of Cash Flows

(Units: millions of yen)

	Six months ended September 30, 2001	Six months ended September 30, 2000	Year ended March 31, 2001
	Amount	Amount	Amount
I Operating activities			
Income before income taxes and minority interests	8,031	8,792	24,556
Depreciation and amortization	4,060	4,293	8,984
Amortization of excess of cost over net assets acquired	155	136	280
Loss on disposal of property, plant and equipment	204	210	475
Provision for (reversal of) allowance for doubtful accounts	35	(309)	(223)
Provision for retirement benefits, net of payments	2,391	29,938	30,916
Reversal of retirement benefits	-	(26,885)	(26,885)
Interest and dividend income	(686)	(735)	(1,567)
Interest expense	361	367	786
Exchange gain, net	(105)	(100)	(646)
Decrease in notes and accounts receivable, trade	8,216	6,889	161
Decrease (increase) in inventories	128	(2,146)	13
Increase (decrease) in notes and accounts payable, trade	(1,631)	197	4,691
Increase (decrease) in accrued expenses	(146)	186	809
Increase (decrease) in accounts payable, other	125	(1,070)	(1,468)
Bonuses to directors and statutory auditors	(126)	(105)	(105)
Other	(2,123)	475	(1,431)
Subtotal	18,888	20,133	39,347
Interest and dividend income received	819	848	1,500
Interest paid	(301)	(308)	(664)
Income taxes paid	(7,892)	(9,288)	(16,774)
Net cash provided by operating activities	11,513	11,384	23,409
II Investing activities			
Increase in time deposits	(9,986)	(7,665)	(19,889)
Decrease in time deposits	10,135	32,536	42,271
Purchases of marketable securities	(107)	(836)	(160)
Proceeds from sales of marketable securities	107	592	253
Purchases of investments in securities	(95)	(1,179)	(1,662)
Proceeds from sales of investments in securities	0	6	2
Purchases of property, plant and equipment	(4,826)	(4,978)	(8,331)
Proceeds from sales of property, plant and equipment	90	501	874
Proceeds from collection of loans receivable	84	74	157
Proceeds from sales of a subsidiary's stock, resulting in change in scope of consolidation	152	-	-
Other	(1,219)	(302)	(317)
Net cash (used in) provided by investing activities	(5,666)	18,749	13,198
III Financing activities			
Increase in short-term loans, net	2,906	4,730	761
Repayment of long-term debt	(763)	(105)	(176)
Cash dividends paid to shareholders of the Company	(1,477)	(1,460)	(2,945)
Cash dividends paid to minority interests	(18)	(132)	(23)
Proceeds from sales of shares of the Company's common stock held by subsidiaries	-	-	2,356
Other	55	8	19
Net cash provided by (used in) financing activities	703	3,040	(8)
IV Effect of exchange rate changes on cash and cash equivalents	167	92	351
V Increase in cash and cash equivalents	6,718	33,267	36,951
VI Cash and cash equivalents at beginning of period	107,264	70,313	70,313
VII Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	124	-	-
VIII Cash and cash equivalents at end of period	114,107	103,580	107,264

Notes to Interim Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 23 subsidiaries

Shionogi Qualicaps Co., Ltd., Ohmori Co., Ltd., Osaka Yakuhin Co., Ltd., Taiwan Shionogi & Co., Ltd., Shionogi Europe B.V., Shionogi Qualicaps, Inc., Shionogi Qualicaps, S.A., Daiwa Trading Co., Ltd., Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries, Ltd., Shionogi Clinical Laboratories Co., Ltd., Shionogi Engineering Service Co., Ltd., Shionogi Medical Information Co., Ltd., Saishin Igaku Co., Ltd., Soei Co., Ltd., Shionogi Distribution Service Co., Ltd., Shionogi Medical Service Co., Ltd., Shionogi General Service Co., Ltd., Kyosaido Co., Ltd., Wakayama Yakuhin Co., Ltd., Shionogi Holding USA, Inc., Shionogi BioResearch Corp., Shionogi USA, Inc.

Shionogi USA, Inc., the subsidiary which was not consolidated in the previous year, has been included in consolidation effective the six months ended September 30, 2001, due to material of Shionogi USA, Inc. All the Company's shares in Nippon Pharmacy Co., Ltd., which was included in consolidation in the prior fiscal year, have been sold. Accordingly Nippon Pharmacy Co., Ltd. and Setagaya Calculation Center Co., Ltd., both included in the 2001 consolidation, have been excluded from consolidation for the six months ended September 30, 2001, as the latter was merged into Ohmori Co., Ltd. That portion of the total assets, net sales and net profit (loss) of these two unconsolidated subsidiaries for the six months ended September 30, 2001 attributable to the Company in proportion to its shareholding ratio had no significant effect on the accompanying interim consolidated financial statements.

2. Application of equity method

No unconsolidated subsidiaries or affiliates were accounted for by the equity method for the six months ended September 30, 2001. That portion of the net profit (loss) of 2 unconsolidated subsidiaries and 9 affiliates which was not accounted for by the equity method and was attributable to the Company in proportion to its shareholding ratio had no significant effect on the consolidated net income or retained earnings of the Company for the current period.

3. Interim closing date of consolidated subsidiaries

Five domestic consolidated subsidiaries close their accounts on September 15, and one domestic and 7 overseas consolidated subsidiaries close their accounts on June 30, for interim financial reporting purpose. The accompanying interim consolidated financial statements of the Company have been prepared on the basis of the consolidated subsidiaries' financial statements prepared as of their respective closing dates, and for the period ended on the respective closing dates. The necessary adjustments have been made to reflect any significant transactions occurring between the respective closing dates and the date of the interim consolidated financial statements.

4. Accounting principles

(1) Basis and method of valuation of significant assets

[1] Securities

Held-to-maturity debt securities	-----	Amortized cost method
Other securities		
Market value available	-----	At fair value, based on market price or other appropriate quotation as of period end (Unrealized gain is charged directly to capital; cost of sales is accounted for by the moving average method.)
Market value not available	-----	At cost determined by the moving average method

[2] Inventories ----- Most items are evaluated at cost determined by the average method.

(2) Method of depreciation of significant depreciable assets

[1] Property, plant and equipment ----- Most items are depreciated by the declining balance method.

[Buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998 are depreciated by the straight-line method.]

[2] Intangible fixed assets ----- Straight-line method

[The cost of development of software intended for internal use is amortized over the useful life of the respective assets (in general, five years).]

(3) Basis for providing significant allowances and reserves

[1] Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.

[2] Reserve for bonuses

To prepare for payment of bonuses to employees, a reserve for bonuses is provided based on the estimated amount of bonuses to be paid.

[3] Accrued retirement benefits

To prepare for payment of retirement benefits to employees, a reserve for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end.

A change in the accounting method resulted in a shortage in the reserve of ¥32,344 million. ¥30,424 million was expensed for the establishment of a retirement benefit trust; the remaining ¥1,920 million was also expensed during the previous year.

Actuarial gain or loss is proportionally amortized in the year following the year in which the gain or loss is recognized, principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

(4) Accounting for significant lease transactions

Finance leases other than those under which the leased property is deemed transferred to the lessee are accounted for as operating leases; however, certain overseas consolidated subsidiaries account for such finance leases as ordinary sales transactions.

(5) Significant hedge accounting

[1] Hedge accounting ----- Gain (loss) resulting from forward foreign exchange contracts relating to transactions denominated in a foreign currency is allocated over the applicable periods.

[2] Method of hedging and hedge transactions

a. Method ----- Forward foreign exchange contracts

b. Transactions ----- Receivables and payables denominated in foreign currencies

[3] Hedging policy ----- The Company enters into forward foreign exchange contracts to hedge against the risk of exchange rate fluctuation for receivables and payables denominated in foreign currencies.

(6) Consumption tax

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

5. Definition of cash and cash equivalents in interim consolidated cash flow statements

Cash and cash equivalents reported in the interim consolidated cash flow statements (and the annual consolidated cash flow statements) include cash on hand, bank deposits and deposits in other financial institutions immediately withdrawable upon request, or liquid short-term investments with only a minor risk of any fluctuation in their value which mature within three months of their acquisition dates.

[Notes to interim consolidated statements of income]	[Six months ended September 30, 2001]	[Six months ended September 30, 2000]	[Year ended March 31, 2001]
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The major items and amounts included in sales, general and administrative expenses are summarized as follows:

Salaries	15,071 million yen	15,246 million yen	31,635 million yen
Provision for reserve for bonuses	5,634	5,852	10,189
Provision for retirement benefits	2,867	2,001	4,143
R & D expenses	15,423 million yen	14,559 million yen	29,255 million yen
(R&D expenses above include the following amounts provided as reserves:)			
Provision for reserve for bonuses	2,093 Million yen	1,708 million yen	4,233 million yen
Provision for retirement benefits	1,060	565	1,331

[Notes to interim consolidated balance sheets]	[As of September 30, 2001]	[As of March 31, 2001]	[As of September 30, 2000]
1. Accumulated depreciation of property, plant and equipment	166,489 million yen	165,711 million yen	163,260 million yen
2. Guaranteed liabilities	28 million yen	190 million yen	132 million yen
3. Investments in securities (stocks), including stocks of unconsolidated subsidiaries and affiliates	143 million yen	289 million yen	185 million yen
4. Pledged assets and secured liabilities			

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

Book value of pledged assets:			
Cash and deposits	5 million yen	4 million yen	- million yen
Buildings and structures	-	243	247
Machinery, equipment and carriers	-	67	74
Land	-	32	32
Other tangible fixed assets	-	12	12
Investments in securities	479	644	990
Total	485 million yen	1,005 million yen	1,357 million yen
Liabilities secured by the above assets:			
Short-term loans	- million yen	230 million yen	709 million yen
Other current liabilities	5	5	-
Other long-term liabilities (Long-term loans)	725	725	1,425
Total	730 million yen	960 million yen	2,134 million yen

(2) The assets listed below have been pledged as collateral for trading transactions:

Book value of pledged assets:			
Cash and deposits	115 million yen	115 million yen	115 million yen
Buildings and structures	1,095	1,118	559
Land	1,972	1,979	2,017
Investments in securities	39	39	54
Total	3,222 million yen	3,252 million yen	2,745 million yen

5. Accounting for notes which matured at the period end

In general, the settlement of notes is recorded on the clearing date. Because September 30, 2001, March 31, 2001 and September 30, 2000 were bank holidays, the balances of notes receivable and payable as of the end of each respective period include the following notes which matured but were not settled on that day:

	[As of September 30, 2001]	[As of March 31, 2001]	[As of September 30, 2000]
Notes receivable	1,001 Million yen	888 million yen	1,177 million yen
Notes payable (including notes payable related to construction and installation contracts)	11 Million yen	22 million yen	35 million yen

[Notes to interim consolidated statements of cash flow]

Reconciliation of balance of cash and cash equivalents as of the period end with the amounts reported in the consolidated balance sheets:

	(As of September 30, 2001)	(As of September 30, 2000)	(As of March 31, 2001)
Cash and deposits	124,381 million yen	111,599 million yen	117,741 million yen
Time deposits with a maturity exceeding three months	(10,389)	(8,021)	(10,513)
Short-term investments (other current assets) maturing within three months of the date of acquisition	115	2	36
<u>Cash and cash equivalents</u>	<u>114,107 million yen</u>	<u>103,580 million yen</u>	<u>107,264 million yen</u>

[Notes to lease transactions]

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

	[As of September 30, 2001]	[As of March 31, 2001]	[As of September 30, 2000]
1. Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of lease properties			
Acquisition cost equivalent	2,800 million yen	3,049 million yen	3,805 million yen
Accumulated depreciation equivalent	1,483	1,550	2,040
<u>Term-end balance</u>	<u>1,317 million yen</u>	<u>1,499 million yen</u>	<u>1,764 million yen</u>
* Tools and furniture account for most of the above balances.			
2. Breakdown of period end balance equivalent of unexpired leases			
Within one year	550 Million yen	585 million yen	645 million yen
Exceeding one year	767	913	1,119
<u>Total</u>	<u>1,317 million yen</u>	<u>1,499 million yen</u>	<u>1,764 million yen</u>
3. Lease payments and accumulated depreciation equivalent			
Lease payments	479 million yen	734 million yen	503 million yen
Accumulated depreciation equivalent	479 million yen	734 million yen	503 million yen
4. Calculation of depreciation equivalent	The lease period is deemed as the useful life of the leased property. The acquisition cost equivalent is depreciated by the straight-line method over the useful life, assuming a nil residual value.	The same as at left	The same as at left

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

[Notes to securities]

1. Bonds to be held until maturity with quoted market prices

(Units: millions of yen)

	As of September 30, 2001			As of March 31, 2001			As of September 30, 2000		
	Value reported in interim consolidated balance sheet	Market price	Difference	Value reported in annual consolidated balance sheet	Market price	Difference	Value reported in interim consolidated balance sheet	Market price	Difference
(1) National, local government and other public bonds	159	159	(0)	159	159	0	165	165	(0)
(2) Corporate bonds	-	-	-	-	-	-	-	-	-
(3) Other bonds	-	-	-	-	-	-	-	-	-
Total	159	159	(0)	159	159	0	165	165	(0)

2. Other securities; market value available

(Units: millions of yen)

	As of September 30, 2001			As of March 31, 2001			As of September 30, 2000		
	Acquisition cost	Value reported in interim consolidated balance sheet	Difference	Acquisition cost	Value reported in annual consolidated balance sheet	Difference	Acquisition cost	Value reported in interim consolidated balance sheet	Difference
(1) Stocks	8,833	38,602	29,768	8,861	49,837	40,976	8,836	59,670	50,834
(2) Bonds									
[1] National, local government and other public bonds	0	0	0	-	-	-	-	-	-
[2] Corporate bonds	13	13	0	13	13	0	13	13	0
[3] Other bonds	2,884	4,274	1,390	2,914	4,394	1,480	2,941	3,617	675
(3) Other securities	5,264	5,136	(128)	5,264	5,136	(128)	5,264	5,458	193
Total	16,997	48,027	31,030	17,053	59,381	42,328	17,056	68,760	51,704

3. Major securities (market value not available) and their value reported in consolidated balance sheets

(Units: millions of yen)

	As of September 30, 2001		As of March 31, 2001		As of September 30, 2000	
	Value reported in interim consolidated balance sheet	Value reported in annual consolidated balance sheet	Value reported in interim consolidated balance sheet	Value reported in annual consolidated balance sheet	Value reported in interim consolidated balance sheet	Value reported in annual consolidated balance sheet
(1) Bonds and commercial paper to be held until maturity	-	-	-	-	303	-
(2) Other securities						
[1] Unlisted stocks (excluding OTC stocks)	862	797	862	797	551	-
[2] Certificates of deposits (domestic)	110,900	103,100	110,900	103,100	-	-

(Note) Certificates of deposits (domestic) have been included in cash and bank deposits in the interim consolidated balance sheets.

[Notes to derivative transactions]

1. Status of derivatives

The Company enters into forward foreign exchange contracts to hedge against the risk of foreign exchange rate fluctuation for receivables and payables denominated in foreign currencies, but does not use derivative transactions for speculative purposes or for gaining quick profits from sales of financial instruments. As the Company enters into transactions only with reputable banks with high credit ratings, it believes there is little credit risk in dealing with them. The Company utilizes forward foreign exchange contracts within the normal transaction range established for these banks. These forward foreign exchange contracts are entered into and managed by the Financial Department which reports the results of settlement of the contracts regularly to the Board of Directors. No consolidated subsidiaries had derivatives positions as of September 30, 2001.

2. Market prices of derivative transactions

The Company did not have any open derivatives positions other than certain hedges against receivables and payables denominated in foreign currency as of September 30, 2001, March 31, 2001 or September 30, 2000.

(Segment Information)

1. Business Segment Information

Six months ended September 30, 2001

(Units: millions of yen)

Segment Account	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations	Consolidated
Net sales and operating income:						
Net sales						
(1) Sales to third parties	191,198	5,556	7,109	203,864	-	203,864
(2) Intergroup sales and transfers	-	185	2,568	2,754	(2,754)	-
Total	191,198	5,742	9,678	206,619	(2,754)	203,864
Operating expenses	184,223	5,051	9,606	198,881	(2,746)	196,134
Operating income	6,974	691	71	7,738	(8)	7,729

Six months ended September 30, 2000

(Units: millions of yen)

Segment Account	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations	Consolidated
Net sales and operating income:						
Net sales						
(1) Sales to third parties	187,989	4,678	8,653	201,321	-	201,321
(2) Intergroup sales and transfers	-	119	2,748	2,867	(2,867)	-
Total	187,989	4,798	11,401	204,188	(2,867)	201,321
Operating expenses	178,087	4,437	10,742	193,266	(2,886)	190,380
Operating income	9,901	361	659	10,921	18	10,940

Year ended March 31, 2001

(Units: millions of yen)

Segment Account	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations	Consolidated
Net sales and operating income:						
Net sales						
(1) Sales to third parties	381,191	11,438	20,034	412,663	-	412,663
(2) Intergroup sales and transfers	-	402	5,417	5,820	(5,820)	-
Total	381,191	11,841	25,451	418,484	(5,820)	412,663
Operating expenses	360,557	10,353	23,670	394,581	(5,827)	388,754
Operating income	20,633	1,488	1,781	23,902	6	23,909

(Notes)

1. Businesses of the Group are segmented into Pharmaceuticals and Related Businesses, Capsule Business and Other Businesses, considering the types of products/merchandise handled and the similarities in their markets.
2. Major products/merchandise and services provided by each segment

Business Segment	Major products/merchandise and services
Pharmaceuticals and related businesses	Ethical drugs, quasi-drugs and OTC drugs, Diagnostics, Clinical testing
Capsule business	Capsules
Other businesses	Agrochemicals, Animal health products, Industrial chemicals, Real estate leases, Physical distribution and other services

2. Segment Information by Geographic Area

Segment information by geographic area for the six months from April 1, 2000 to September 30, 2000, the year from April 1, 2000 to March 31, 2001 and the six months from April 1, 2001 to September 30, 2001

Because more than 90% of the total sales in all business segments were conducted in Japan, the disclosure of segment information by geographic area has been omitted.

3. Overseas Sales

Overseas sales for the six months from April 1, 2000 to September 30, 2000, the year from April 1, 2000 to March 31, 2001 and the six months from April 1, 2001 to September 30, 2001

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

Status of Production, Orders and Sales

1. Production

The consolidated production results for each business segment for the six months ended September 30, 2001 and September 30, 2000 and the year ended March 31, 2001 were as follows:

(Units: millions of yen)

Business Segment	[Six months ended September 30, 2001]	[Six months ended September 30, 2000]	[Year ended March 31, 2001]
Pharmaceuticals and related businesses	79,599	78,319	155,549
Ethical drugs	74,659	73,920	145,446
Quasi drugs and OTC drugs	3,524	3,052	7,450
Diagnostics	1,416	1,347	2,653
Capsule business	6,031	4,936	11,724
Other businesses	4,132	5,481	12,711
Animal health products	487	1,249	2,549
Agrochemicals	2,807	3,388	8,179
Industrial chemicals	838	844	1,983
Total	89,762	88,736	179,984

(Notes) 1. Amounts are calculated based on net sales prices.

2. Amounts are stated exclusive of consumption tax.

2. Purchases

The consolidated purchases for each business segment for the six months ended September 30, 2001 and September 30, 2000 and the year ended March 31, 2000 were as follows:

(Units: millions of yen)

Business Segment	[Six months ended September 30, 2001]	[Six months ended September 30, 2000]	[Year ended March 31, 2001]
Pharmaceuticals and related businesses	99,174	87,985	194,888
Ethical drugs	93,967	82,849	186,866
Quasi drugs and OTC drugs	4,909	4,822	7,427
Diagnostics	298	314	595
Capsule business	-	-	-
Other businesses	1,890	1,408	3,707
Animal health products	1,160	694	1,297
Agrochemicals	413	352	1,615
Industrial chemicals	317	362	795
Total	101,064	89,393	198,595

(Notes) 1. Amounts are based on actual purchases.

2. Amounts are stated exclusive of consumption tax.

3. Orders

The Shionogi Group companies manufacture products in accordance with their production plan which, in turn, is based on the sales plan. Certain subsidiaries manufacture products upon receipt of orders from customers, but these order amounts and balances do not significantly affect the Group's overall results.

4. Sales

The consolidated sales results for each business segment for the six months ended September 30, 2001 and September 30, 2000 and the year ended March 31, 2000 were as follows:

(Units: millions of yen)

Business Segment	[Six months ended September 30, 2001]	[Six months ended September 30, 2000]	[Year ended March 31, 2001]
Pharmaceuticals and related businesses	191,198	187,989	381,191
Ethical drugs	176,257	173,379	352,531
Quasi drugs and OTC drugs	9,147	8,812	17,310
Diagnostics	1,547	1,482	2,971
Clinical testing	4,247	4,316	8,378
Capsule business	5,556	4,678	11,438
Other businesses	7,109	8,653	20,034
Animal health products	1,708	2,195	4,373
Agrochemicals	2,910	3,881	10,326
Industrial chemicals	1,309	1,509	3,109
Real estate lease/Physical distributing and other services	1,182	1,068	2,223
Total	203,864	201,321	412,663

(Notes) 1. Amounts are sales to customers outside the Shionogi Group.

2. Amounts are stated exclusive of consumption tax.