

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

May 20, 2002

Name of Listed Company: **SHIONOGI & CO., LTD.**

Listed Exchanges: Section I of Tokyo, Osaka and Nagoya, and Fukuoka and Sapporo

Code: 4507
(URL <http://www.shionogi.co.jp>)

Location of Head Office: Osaka Prefecture

Contact: Title of Person in Charge: General Manager, Public Relations Unit
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Date of Meeting of Board of Directors for Approving Financial Statements: May 20, 2002

Application of U.S. accounting standards: No

1. Financial results for the period from April 1, 2001 to March 31, 2002

(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	%
Year ended March 31, 2002	420,188	1.8	16,183	(32.3)	15,658	(37.3)
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)	Return on Equity	Ordinary income to total assets	Ordinary income to net sales
	Million yen	%	Yen	Yen	%	%	%
Year ended March 31, 2002	8,456	(33.0)	24.28	---	3.0	3.2	3.7
Year ended March 31, 2001	12,614	(2.0)	36.29	---	4.7	5.3	6.1

- (Notes) [1] Profit (loss) on investments accounted for by the equity method Year ended March 31, 2002: 251 million yen Year ended March 31, 2001: - million yen
- [2] Average number of shares outstanding during the period (consolidated) Year ended March 31, 2002: 348,260,424 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 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 March 31, 2002	480,668	280,674	58.4	806.02
As of March 31, 2001	496,590	286,727	57.7	823.27

(Note) Shares outstanding as of the period-end (consolidated) As of March 31, 2001: 348,223,993 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
Year ended March 31, 2002	26,224	(51,016)	(3,225)	79,715
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: 29 subsidiaries Unconsolidated subsidiaries accounted for by the equity method: None
Affiliates accounted for by the equity method: 1 affiliate

(5) Changes in scope of consolidation and application of equity method
Consolidation (New): 7 subsidiaries (Excluded): 2 subsidiaries Equity Method (New): 1 affiliate (Excluded): None

2. Forecasted results for the year ending March 31, 2003 (April 1, 2002 to March 31, 2003)

	Net sales	Ordinary income	Net income
	million yen	Million yen	million yen
For the six months ending September 30, 2002	180,000	6,000	0
For the year ending March 31, 2003	290,000	18,500	6,500

(Reference) Estimated earnings per share for FY 2002: ¥18.67

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

Note: These estimates on May 20, 2002 include a number of assumptions, forward-looking projections and plans. The actual results may differ substantially depending on the situation of competitors, uncertainties in the market. Refer to page 8.

Companies in the Shionogi Group

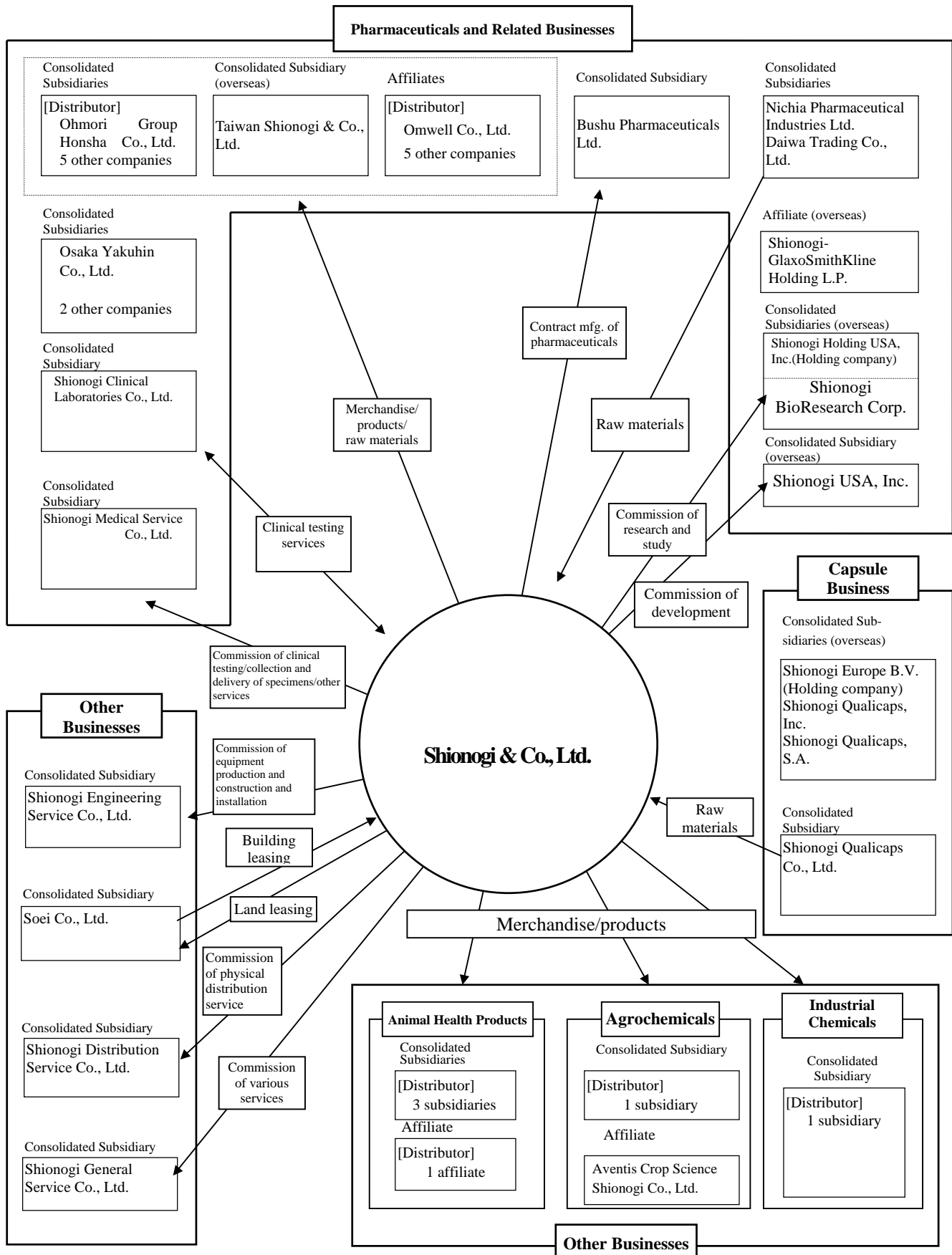
As of March 31, 2002, the Shionogi Group consisted of Shionogi & Co., Ltd. (the "Company"), 29 consolidated subsidiaries, 2 unconsolidated subsidiaries and 10 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs, quasi-drugs, OTC drugs, diagnostic drugs, capsules, 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 Group Honsha Co., Ltd., Ohmori Co., Ltd., Omwell Co., Ltd. Shionogi Holding USA, Inc., Shionogi BioResearch Corp., Shionogi USA, Inc. Shionogi-GlaxoSmithKline holding L.P. Shionogi Medical Service Co., Ltd., Shionogi Clinical Laboratories Co., Ltd., 17 other companies (31 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., Ohmori Group Honsha Co., Ltd., Aventis Crop Science Shionogi Co., Ltd. Daiwa Trading Co., Ltd., Soei Co., Ltd. Shionogi Distribution Service Co., Ltd. Shionogi General Service Co., Ltd. Shionogi Engineering Service Co., Ltd. 5 other companies (13 companies in total)

(Notes) 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 are also engaged in "Pharmaceuticals and related businesses."
2. In addition, 2 consolidated subsidiaries, 2 unconsolidated subsidiaries and 1 affiliate are not shown in this chart as the scale of their business is very small.
3. Agrochemical business was transferred to Aventis Crop Science Shionogi Co.,Ltd.,the joint venture between the Company and Aventis CropScience S.A. in October 2001.
4. Clinical Testing business was transferred to Shionogi Medical Service Co., Ltd. and has started its operations as Shionogi Biomedical Laboratories Co.,Ltd., the joint venture between the Company and SRL Co., Ltd. in April 2002.
5. Animal Health Products business was transferred to Boehringer-Ingelheim Shionogi Vetmedica Co., Ltd, the joint venture between the Company and Boehringer-Ingelheim in April 2002.

MANAGEMENT POLICY

1. Fundamental Management Policy

Shionogi's corporate philosophy is to continually provide 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

Under Japanese government policy, various measures have been continuously taken toward fundamental reforms of the national health insurance system to cope with the rising demographic proportion of seniors, and it is expected that the pressure for containment of the medical costs will increase. Moreover, the competitions among companies beyond national borders have been intensifying rapidly in the Japanese market as well. Under the circumstances, the operating environment of pharmaceutical industries have been getting severer and severer, especially in terms of competitions with foreign nationals having large capital in Europe and the United States on research and development of new drugs and marketing activities.

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.

During the first two years of the Plan, the business structure of the Company was reappraised and specific plans for establishing a foundation for global business expansion were developed. Priority fields for research and development have been reviewed, the domestic sales force has been reinforced, and enhancement of the production functions is also progressing for improving the production efficiency. On the other hand, every pharmaceutical company in the industry is under pressure to implement management strategies to survive the increasingly changing business environment in the industry. Shionogi will continue its effort to achieve the goals of the Mid-Term Management Plan by accelerating the aforementioned activities and by attaining steady results from these efforts and will also continue effort to demonstrate prominent presence in any business environment.

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 their operations.

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 repletion of manufacturing machinery and equipment as well as investment for improving the efficiency of various operation activities in order to improve its profitability and to maximize corporate value.

5. Approach and Policy for Reducing the Minimum Trading Unit of Stocks

The Company acknowledges it is important for the stock market to encourage participation of new investors, enhance the liquidity of stocks and revitalize the stock market by reducing the minimum unit of stocks traded. However, because the procedures to reduce the minimum trading unit of stocks will require huge costs, the Company will continue examination of the possibility, closely observing the movement of the market and the price of the Company's stock.

RESULTS OF OPERATION AND FINANCIAL POSITION

1. Results of Operation

[1] GENERAL SITUATION

Under the prolonged economic depression, serious discussions were made by the government to find a fundamental way to reduce growing national medical expenses, and the domestic pharmaceutical industry was greatly affected by the pressure to curtail pharmaceutical expenses. In an addition, competitions among pharmaceutical companies including foreign nationals with large capitals have been intensified, in terms of research and development of new drugs and marketing activities in the market.

Under these circumstances, the Company proceeded with concrete activities with full force in order to achieve the goals of the Mid-Term Management Plan established in April 2000. Especially during the year ended March 31, 2002, Shionogi USA, Inc. was established to have an organization overseas that can quickly develop and market new drugs satisfying global needs, and Shionogi-GlaxoSmithKline Pharmaceuticals LLC, a joint venture with GlaxoSmithKline plc (GSK), was also established which will engage in global development of new chemical compounds discovered by Shionogi and will also engage in sales of drugs in the future. The profitability and the potential of existing businesses of the Shionogi Group were also reviewed. As a result, Shionogi's agrochemical business was merged with that of Aventis CropScience S.A. and Aventis CropScience Shionogi Co., Ltd. was established as a joint venture in October 2001. In addition, a joint venture for animal health product business is established with Boehringer Ingelheim, and a joint venture for clinical testing business is established with SRL Co., Ltd. in April 2002. It was also decided to reorganize Ohmori Co., Ltd. a subsidiary of the Company, taking the severe business conditions in the drug wholesale industry into consideration. On the other hand, the operation of the ethical drug business in Japan, the core business of Shionogi, was reinforced, including strengthening of the sales force, and improvement of facilities of plants and manufacturing subsidiaries, centralization of manufacturing functions to improve the productivity efficiency.

(Note) As a result of the restructuring, Ohmori Co., Ltd. was divided into the following six companies on October 1, 2001: Ohmori Group Honsha Co., Ltd., Ohmori Co., Ltd., Omori Tohoku Co., Ltd., Ohmori Kyushu Co., Ltd., Ohmori Chugoku Co., Ltd. and Ohmori Shikoku Co., Ltd. For the purpose of reporting consolidated operational results, they are collectively referred to as "Ohmori Group" in this report.

While the Company continued efforts for improving its business constitution to promote future growth, the operational results for the year ended March 31, 2002 were very severe due to increase of costs, including R&D costs, incurred during the course of implementing the aforementioned efforts, combined with the weak sales.

<Consolidated Results>

Net Sales	420,188	million yen	7,525	million yen	Increase	(1.8%)	from prior year
Operating Income	16,183	million yen	7,726	million yen	Decrease	(32.3%)	from prior year
Ordinary Income	15,658	million yen	9,309	million yen	Decrease	(37.3%)	from prior year
Net Income	8,456	million yen	4,158	million yen	Decrease	(33.0%)	from prior year

<Non-Consolidated Results>

Net Sales	206,403	million yen	9,491	million yen	Decrease	(4.4%)	from prior year
Operating Income	16,398	million yen	5,012	million yen	Decrease	(23.4%)	from prior year
Ordinary Income	17,663	million yen	6,454	million yen	Decrease	(26.8%)	from prior year
Net Income	10,639	million yen	1,319	million yen	Decrease	(11.0%)	from prior year

Non-consolidated net sales declined 4.4% due to leveling off of the sales in the core ethical drug business, combined with the significant sales decline in the agrochemical business because the sales results of the business were excluded from the sales results of the Company from October 2001 due to the assignment of the business to the new joint venture. On the consolidated basis, the sales increased 1.8% due to the sales expansion in Ohmori Group, the drug wholesale business of the Company, which were partially offset by the decline in the non-consolidated sales of the Company.

Non-Consolidated operating income and ordinary income declined significantly due to the increased R&D costs used for reinforcement of the overseas R&D organizations, and increase in selling, general and administrative expenses including increased personnel costs resulting from the worsened investment environment for retirement pension assets, although the ratio of sales cost to sales improved by efforts for improving the productivity and increased sales of products originated from the Company. On the consolidated basis, due to the decline in non-consolidated profitability of the Company, combined with the significant decline of operating income in Ohmori Group affected by the severe business condition in the drug wholesale industry, operating income declined 32.3%, and ordinary profit declined 37.3% from the prior year. Although premium retirement payments were made to employees transferred to the agrochemical joint venture and recorded as extraordinary loss, the Company recorded net extraordinary income of ¥3,096 million arising from gaining of profit on sales of business and profit on sales of interest resulting from establishment of a joint venture with GlaxoSmithKline plc. Accordingly, net income for the year ended March 31, 2002 declined 33.0% from the prior year to ¥8,456 million.

The Company plans to declare year-end dividends at ¥4.25 per share. The amount of the annual dividends will be the same as that of the prior year at ¥8.50 per share, combined with the already-paid-out interim dividends.

As for R&D activities during the year ended March 31, 2002, applications for manufacture approval were filed for an analgesic for cancer pain, an antidepressant, among others. Currently, applications for five items, including an antiallergic drug which will be jointly marketed with Schering-Plough K.K., are under review, and their sales are expected to start from the following fiscal year and thereafter. The preparation for applications for manufacture approval is also under way for a therapeutic drug for idiopathic interstitial pneumonia. We are continuing our effort so that application for manufacturing approval can be filed promptly when the antihypertensive, the injectable antibiotic and other drugs in the final clinical stage of the development become ready for application. Several drugs targeting at the international market are developed in overseas subsidiary. Among these, development of an anti-HIV, an antidementia, a drug for cerebrovascular diseases, AMPA receptor antagonist will be transferred to Shionogi-GlaxoSmithKline Pharmaceuticals LLC, which is expected to accelerate the speed of the development of these drugs.

As for the hypolipidemic drug licensed to AstraZeneca, U.K., new drug application was filed in the United States and Europe in June 2001.

As a result of these activities, the R&D expenses increased 4.6% from the prior year to ¥30,601 million.

[2] SEGMENT INFORMATION

Pharmaceuticals and Related Businesses

On non-consolidated basis, sales expanded mainly due to continued growth of FLOMOX, an oral cephem antibiotic, and introduction of a handy kit of FLUMARIN (an injectable antibiotic) convenient for health care providers during the year. However, sales of other products remained weak generally. In addition, supply of Sedes-G, an antipyretic analgesic, for health care providers, was discontinued in April 2001. As a result, non-consolidated sales of the pharmaceuticals

business remained flat from the prior year. Sales of over-the-counter drugs increased. Severe price competition in the industry 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 Group, a drug wholesale subsidiary which were determined to be restructured, achieved sales growth under severe market conditions through their efforts for sales expansion.

As a result, consolidated sales of the Pharmaceuticals and Related Businesses grew 4.3% from the prior year to 397,498 million yen.

Operating income declined on non-consolidated basis due to weak sales, combined with incremental R&D expenses. Operating loss of Ohmori Group increased due to the reduced gross profit rate resulting from severe price competition. As a result, consolidated operation income decreased 27.9% to 14,874 million yen.

Capsule Business

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

However, sales recovered significantly from the prior 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 5.7% from the prior year to 12,087 million yen. Operating income also increased 4.2% to 1,551 million yen.

Other Businesses

Sales of agrochemicals dropped significantly because the business was assigned to the joint venture established in October 2001 as part of the restructuring initiatives of the Company. Sales of animal health products and industrial chemicals also decreased due to the stagnated market condition and intensified competition. As a result, integrated sales declined 47.1% from the prior year to 10,601 million yen.

Although profit in the real estate lease business increased by the slight improvement of the market condition, Other Businesses recorded operating loss of 270 million yen due to the significant sales decrease in agrochemicals and other businesses.

2. Financial Condition

Although income before income taxes and minority interest decreased in comparison to the prior year, net cash provided by operating activities grew by 2,815 million yen to 26,224 million yen, mainly due to decrease in trade receivables.

Net cash used in investing activities was by 51,016 million yen on consolidated basis, as the Group made large investment in manufacturing machinery and equipment, and computerization of the management system in production, R&D and sales departments in order to pursue operational reform of these departments. Capital investment was also made in the new joint ventures established during the year. And some cash and cash equivalent were converted to buy government bonds.

Net cash used in financing activities was 3,225 million yen on consolidated basis mainly used for payment of dividends.

As a result, cash and cash equivalents at the end of the year decreased by 27,549 million yen from the beginning of the year to 79,715 million yen.

3. Forecast for FY 2002

A number of reforms of the national health insurance (NHI) system will be conducted, including lowering of the “NHI drug prices” by 6.3% on average (4.5% in Shionogi) which was implemented in April 2002, which would inevitably accelerate the continued shrinkage of the pharmaceutical market. Competition in the industry will further intensify, including competition with foreign companies. In these severe business conditions, the Company will accelerate and continue to work steadily on actions to achieve the targets set in the Medium-Term Management Plan.

Our financial forecast for the fiscal year ending March 31, 2003 is as follows:

<Consolidated>				
Net Sales	290,000	million yen	(31.0%)	Decrease from prior year)
Ordinary Income	18,500	million yen	(18.1%)	Increase from prior year)
Net Income	6,500	million yen	(23.1%)	Decrease from prior year)
<Non-Consolidated>				
Net Sales	194,000	million yen	(6.0%)	Decrease from prior year)
Ordinary Income	16,500	million yen	(6.6%)	Decrease from prior year)
Net Income	8,500	million yen	(20.1%)	Decrease from prior year)

Non-consolidated sales in the agrochemical, animal health products and clinical testing businesses will decrease due to the restructuring of their businesses. Sales of ethical drugs will increase from FY 2001 by the market share expansion of the existing drugs, including FLOMOX, and scheduled introduction of new products during this year, which will be partially offset by sales decrease affected by the lowering of NHI drug prices and other NHI reforms. Accordingly, it is expected non-consolidated sales for FY 2002 will decreased 6.0% from FY 2001. On a consolidated basis, companies in Ohmori Group will be excluded from the consolidation of the Company during FY 2002 as Ohmori Kyushu Co. Ltd., Ohmori Chugoku Co., Ltd. and Ohmori Shikoku Co. Ltd. will merge with other companies in April, and Ohmori Tohoku Co. Ltd. and Ohmori Co., Ltd. will merge with other companies in July 2002, and October 2002, respectively. As a result, consolidated sales are expected to decrease 31.0% from FY 2001.

Non-consolidated ordinary income is expected to decrease 6.6% from FY 2001 due to weak sales and continued increase of R&D expenses, although the organizational constitution will be restructured to improve profitability. However, consolidated ordinary income is expected to increase 18.1% from FY 2001 because operating income will improve by the exclusion of underperforming companies in Ohmori Group from the consolidation. Extraordinary loss of 4,000 million yen is expected to be accrued during FY 2002 in connection with the scheduled merger of companies in Ohmori Group, including adjustment of retirement benefits, provision of placement service for employees who wish to find a new job and provision of other support programs. Accordingly, net income on the consolidate basis is expected to decrease 23.1% from FY 2001.

Consolidated Statements of Income

(Units: millions of yen)

Account	Period	Year ended March 31, 2002		Year ended March 31, 2001		Increase (decrease)	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
Net sales		420,188	%	412,663	%	7,525	%
Cost of sales		273,692	100.0	263,628	100.0	10,064	1.8
Gross profit		146,496	65.1	149,035	63.9	(2,539)	3.8
Selling, general and administrative expenses		130,312	34.9	125,126	36.1	5,186	(1.7)
Operating income		16,183	31.0	23,909	30.3	(7,726)	4.1
Non-operating income		4,344	3.9	4,523	5.8	(179)	(32.3)
Interest income		705	1.0	785	1.1	(80)	(4.0)
Dividend income		384		782		(398)	
Royalty income		643		329		314	
Exchange gain		722		901		(179)	
Other income		1,888		1,724		164	
Non-operating expenses		4,869	1.2	3,465	0.8	1,404	40.5
Interest expense		737		786		(49)	
Contributions		813		914		(101)	
Loss on disposal of inventories		1,089		571		518	
Loss on disposal of property, plant and equipment		423		475		(52)	
Other expenses		1,806		717		1,089	
Ordinary income		15,658	3.7	24,967	6.1	(9,309)	(37.3)
Extraordinary gains		4,882	1.2	32,549	7.9	(27,667)	(85.0)
Gain on sales of investments in an affiliate		2,705		-		2,705	
Gain on sales of Business		1,601		-		1,601	
Gain on sales of subsidiaries' securities		575		-		575	
Gain on marketable securities in trust for the purpose of retirement benefits		-		29,696		(29,696)	
Gain on sales of shares of the Company's common stock held by subsidiaries		-		2,271		(2,271)	
Gain on sales of property, plant and equipment		-		387		(387)	
Reversal of allowance for doubtful accounts		-		193		(193)	
Extraordinary losses		1,786	0.4	32,959	8.0	(31,173)	(94.6)
Loss related to sales of business		1,481		-		1,481	
Loss on revaluation of investments in securities		224		615		(391)	
Loss on liquidation of business		63		-		63	
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)	
Income before income taxes and minority interests		18,755	4.5	24,556	6.0	(5,801)	(23.6)
Income taxes, current		16,717	4.0	15,431	3.7	1,286	
Income taxes, deferred		(6,055)	(1.4)	(3,292)	(0.8)	(2,763)	
Minority interests		362	0.1	196	0.0	166	
Net income		8,456	2.0	12,614	3.1	(4,158)	(33.0)

Consolidated Statements of Retained Earnings

(Units: millions of yen)

Account \ Period	Year ended March 31, 2002		Year ended March 31, 2001		Increase (decrease)
I. Balance at beginning of the period		223,528		213,975	9,553
II. Deductions					
Cash dividends paid	2,960		2,957		
Bonuses to directors and statutory auditors	125		104		
(Directors)	(122)		(100)		
(Statutory auditors)	(3)	3,086	(3)	3,061	25
III. Net income		8,456		12,614	(4,158)
IV. Balance at end of the period		228,898		223,528	5,370

Consolidated Balance Sheets

(Assets)

(Units: millions of yen)

Account	Period	As of March 31, 2002		As of March 31, 2001		Increase (decrease)
		Amount	Percentage	Amount	Percentage	
(Assets)			%		%	
Current assets:						
Cash and bank deposits		87,380		117,741		(30,361)
Notes and accounts receivable		126,675		144,153		(17,478)
Marketable securities		2,579		196		2,383
Inventories		56,915		59,125		(2,210)
Deferred income taxes		4,895		3,660		1,235
Other current assets		18,201		13,489		4,712
Allowance for doubtful accounts		(835)		(602)		(233)
Total current assets		295,813	61.5	337,765	68.0	(41,952)
Fixed assets:						
Property, plant and equipment:						
Buildings and structures		38,497		38,794		(297)
Machinery and equipment		17,441		14,021		3,420
Land		21,700		21,762		(62)
Construction in progress		3,836		8,329		(4,493)
Other		4,910		5,063		(153)
Property, plant and equipment, net		86,387	18.0	87,971	17.7	(1,584)
Excess of cost over net assets acquired		1,193		860		333
Other		4,020		2,560		1,460
Total intangible fixed assets		5,213	1.1	3,421	0.7	1,792
Investments and other assets:						
Investments in securities		82,053		60,432		21,621
Long-term loans receivable		2,164		2,627		(463)
Deferred income taxes		2,950		933		2,017
Other		6,427		3,669		2,758
Allowance for doubtful accounts		(341)		(229)		(112)
Total investments and other assets		93,253	19.4	67,433	13.6	25,820
Total fixed assets		184,854	38.5	158,825	32.0	26,029
Total assets		480,668	100.0	496,590	100.0	(15,922)

Consolidated Balance Sheets

(Liabilities, minority interests and shareholders' equity)

(Units: millions of yen)

Account	Period	As of March 31, 2002		As of March 31, 2001		Increase (decrease)
		Amount	Percentage	Amount	Percentage	
(Liabilities)			%		%	
Current liabilities:						
Note and accounts payable		82,102		83,984		(1,882)
Short-term bank loans and current portion of long-term debt		18,939		18,716		223
Accrued income taxes		9,391		8,410		981
Deferred income taxes		35		9		26
Reserves:						
Reserve for bonuses		9,936		10,188		(252)
Other reserves		561		604		(43)
Other current liabilities		19,606		18,164		1,442
Total current liabilities		140,573	29.2	140,078	28.2	495
Long-term liabilities:						
Bonds		20,000		20,000		0
Deferred income taxes		2,390		14,195		(11,805)
Accrued retirement benefits for employees		33,722		30,143		3,579
Accrued retirement for directors and statutory auditors		450		432		18
Other long-term liabilities		2,407		2,820		(413)
Total long-term liabilities		58,971	12.3	67,592	13.6	(8,621)
Total liabilities		199,545	41.5	207,671	41.8	(8,126)
(Minority interests)						
Minority interests		448	0.1	2,192	0.5	(1,744)
(Shareholders' equity)						
Common stock		21,279	4.4	21,279	4.3	0
Additional paid-in capital		20,227	4.2	20,227	4.1	0
Retained earnings		228,898	47.6	223,528	45.0	5,370
Unrealized gain on securities		12,060	2.5	24,527	4.9	(12,467)
Translation adjustments		(1,476)	(0.3)	(2,632)	(0.5)	1,156
Less:						
Treasury stock, at cost		(114)	(0.0)	(3)	(0.0)	(111)
Shares of the Company's common stock held by subsidiaries		(200)	(0.0)	(200)	(0.1)	0
Total shareholders' equity		280,674	58.4	286,727	57.7	(6,053)
Total liabilities, minority interests and shareholders' equity		480,668	100.0	496,590	100.0	(15,922)

Consolidated Statements of Cash Flows

(Units: millions of yen)

	Year ended March 31, 2002	Year ended March 31, 2001
	Amount	Amount
I Operating activities		
Income before income taxes and minority interests	18,755	24,556
Depreciation and amortization	9,491	8,984
Amortization of excess of cost over net assets acquired	321	280
Loss on disposal of property, plant and equipment	426	475
Provision for (reversal of) allowance for doubtful accounts	280	(223)
Provision for retirement benefits, net of payments	3,675	4,248
Provision for (reversal of) retirement benefits for directors and statutory auditors	18	(157)
Interest and dividend income	(1,090)	(1,567)
Interest expense	737	786
Exchange gain, net	(570)	(646)
Gain on sales of business	(1,601)	-
Gain on sales of investments in an affiliate	(2,705)	-
Decrease in notes and accounts receivable, trade	16,356	161
Increase (decrease) in inventories	(32)	13
Decrease (increase) in notes and accounts payable, trade	(1,962)	4,691
Decrease (increase) in accrued expenses	(315)	809
Increase (decrease) in accounts payable, other	480	(1,468)
Bonuses to directors and statutory auditors	(126)	(105)
Other	(162)	(1,492)
Subtotal	41,977	39,347
Interest and dividend income received	1,009	1,500
Interest paid	(647)	(664)
Income taxes paid	(16,115)	(16,774)
Net cash provided by operating activities	26,224	23,409
II Investing activities		
Increase in time deposits	(15,792)	(19,889)
Decrease in time deposits	18,480	42,271
Purchases of marketable securities	(2,159)	(160)
Proceeds from sales of marketable securities	159	253
Purchases of investments in securities	(43,752)	(299)
Proceeds from sales of investments in securities	5	2
Purchases of property, plant and equipment	(8,809)	(8,331)
Proceeds from sales of property, plant and equipment	140	874
Proceeds from collection of loans receivable	58	157
Payments for purchases of investments in subsidiaries and affiliates from minority interest	(1,728)	(1,363)
Proceeds from sales of subsidiaries' securities	620	-
Payments for purchases of investments in an affiliate	(2,705)	-
Proceeds from sales of investments in an affiliate	2,705	-
Proceeds from sales of a subsidiary's stock, resulting in change in scope of consolidation	152	-
Proceeds from sales of business	3,210	-
Other	(1,601)	(317)
Net cash used in (provided by) investing activities	(51,016)	13,198
III Financing activities		
Increase in short-term loans, net	743	761
Repayment of long-term debt	(851)	(176)
Cash dividends paid to shareholders of the Company	(2,954)	(2,945)
Cash dividends paid to minority interests	(21)	(23)
Proceeds from sales of shares of the Company's common stock held by subsidiaries	-	2,356
Other	(141)	19
Net cash used in financing activities	(3,225)	(8)
IV Effect of exchange rate changes on cash and cash equivalents	336	351
V Increase in cash and cash equivalents	(27,681)	36,951
VI Cash and cash equivalents at beginning of period	107,264	70,313
VII Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	131	-
VIII Cash and cash equivalents at end of period	79,715	107,264

Notes to Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 29 subsidiaries

Shionogi Qualicaps Co., Ltd., Ohmori Group Honsha Co., Ltd., Ohmori Co., Ltd., Ohmori Tohoku Co., Ltd., Ohmori Shikoku Co., Ltd., Ohmori Chugoku Co., Ltd., Ohmori Kyushu 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., SG Holding Inc.,

Note: The former Ohmori Co., Ltd. has changed its name to Ohmori Group Honsha Co., Ltd.

Newly consolidated:

Shionogi USA, Inc. has been included in consolidation effective the year ended March 31, 2002 due to increase in its materiality. SG Holding Inc., has been newly established in effective the year ended March 31, 2002.

Ohmori Co., Ltd., Ohmori Tohoku Co., Ltd., Ohmori Shikoku Co., Ltd., Ohmori Chugoku Co., Ltd., Ohmori Kyushu Co., Ltd., have been newly established as inherited companies in effective the year ended March 31, 2002. In addition, the former Ohmori Co., Ltd. has been divided into above-mentioned 5 Ohmori companies on October 1, 2001.

Excluded from consolidation:

All the Company's shares in Nippon Pharmacy Co., Ltd., which was included in consolidation in the prior fiscal year, have been sold.

Setagaya Calculation Center Co., Ltd. was merged into another subsidiary.

That portion of the total assets, net sales and net profit (loss) of these 2 un-consolidated subsidiaries for the year ended March 31, 2002 attributable to the Company in proportion to its shareholding ratio had no significant effect on the accompanying consolidated financial statements.

2. Application of equity method

No unconsolidated subsidiaries were accounted for by the equity method for the year ended March 31, 2002.

Shionogi-GlaxoSmithKline Holding L.P. was accounted for by the equity method and its closing date differs from the consolidated closing date, therefore the financial statements in its fiscal year have been used. That portion of the net profit (loss) of 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. Closing date of consolidated subsidiaries

Five domestic consolidated subsidiaries close their accounts on March 15, and 1 domestic and 8 overseas consolidated subsidiaries close their accounts on December 31, for financial reporting purpose. The accompanying consolidated financial statements of the Company have been prepared on the basis of the consolidated subsidiaries' financial statements prepared as of their respective closing dates. The necessary adjustments have been made to reflect any significant transactions occurring between the respective closing dates and the date of the consolidated financial statements.

4. Significant accounting policies

(1) Basis and method of valuation of significant assets

[1] Securities

Held-to-maturity securities ----- Amortized cost method(Straight-line 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 straight-line method.
The useful lives are principally as follows:
Buildings and structures: 2 to 60 years
Machinery and equipment and vehicles: 2 to 17years |
| [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 for employees
To prepare for the payment of retirement benefits to employees, a reserve for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end.
Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.
Actuarial gain or loss is proportionally amortized in the each year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.
- [4] Accrued retirement benefits for directors and statutory auditors
To prepare for the payment of retirement benefits to directors and statutory auditors, a reserve for their retirement benefits is provided for the estimated amounts as of the year end based on the Company's internal rules.

(4) Foreign currency translation

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the balance sheet date. Gain or loss on translation is credited or charged to income; however, assets, liabilities, income and expenses of certain overseas consolidated subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Adjustments resulting from the translation of foreign currency financial statements have been reported as Translation adjustments in Shareholders' equity and/or Minority interests.

(5) Accounting for significant lease transactions

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

(6) Significant hedge accounting

- | | | |
|--|-------|---|
| [1] Method of hedge accounting | ----- | Gain (loss) resulting from forward foreign exchange contracts relating to transactions denominated in a foreign currency is allocated over the applicable periods. |
| [2] Hedging instruments and hedged items | | |
| a. Hedging instruments | ----- | Forward foreign exchange contracts |
| b. Hedged items | ----- | Receivables and payables denominated in foreign currencies |
| [3] Hedging policy | ----- | The Company enters into forward foreign exchange contracts to hedge against the risk of exchange rate fluctuation for receivables and payables denominated in foreign currencies. |

- (7) Consumption tax
Amounts reflected in the consolidated financial statements are stated exclusive of consumption tax.
5. Valuation of assets and liabilities in the consolidated subsidiaries
Assets and liabilities of the consolidated subsidiaries are revalued at their current value.
6. Amortization of excess of cost over net assets acquired
Excess of cost over net assets acquired is amortized by the straight-line method over 5 years. If the amount is immaterial, it is fully charged to income as incurred.
7. Appropriation of retained earnings
Consolidated statements of retained earnings are prepared on the appropriations approved at a shareholders' meeting held at the close of each fiscal year.
8. Definition of cash and cash equivalents in the consolidated cash flow statements
Cash and cash equivalents reported in the consolidated cash flow statements include cash on hand, bank deposits and deposits in other financial institutions immediately withdrawable upon request, or liquid short-term investments with only a minor risk of any fluctuation in their value which mature within three months of their acquisition dates.

[Notes to consolidated statements of income]

[Year ended March 31, 2002]

[Year ended March 31, 2001]

The major items and amounts included in sales, general and administrative expenses are summarized as follows:

Salaries	30,108	Million yen	31,635	million yen
Provision for reserve for bonuses	10,834		10,189	
Provision for retirement benefits	5,849		4,143	
Provision for retirement benefits for directors and statutory auditors	18		121	
R & D expenses	30,601	Million yen	29,255	million yen
(R&D expenses above include the following amounts provided as reserves:)				
Provision for reserve for bonuses	4,107	Million yen	4,233	million yen
Provision for retirement benefits	2,033		1,331	

[Notes to consolidated balance sheets]

[As of March 31, 2002]

[As of March 31, 2001]

1. Accumulated depreciation of property, plant and equipment	163,327	Million yen	165,711	million yen
2. Guaranteed liabilities	25	Million yen	190	million yen
3. Stocks etc. of unconsolidated subsidiaries and affiliates				
Investments in securities	4,856	Million yen	289	million yen
Investments and other assets(others "Investments in affiliates")	2,957		-	
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
Buildings and structures	-		243	
Machinery, equipment and carriers	-		67	
Land	-		32	
Other tangible fixed assets	-		12	
Investments in securities	300		644	
Total	305	million yen	1,005	million yen
Liabilities secured by the above assets:				
Short-term loans	-	million yen	230	million yen
Other current liabilities	5		5	
Other long-term liabilities (Long-term loans)	725		725	
Total	730	million yen	960	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
Buildings and structures	999		1,118	
Land	1,993		1,979	
Investments in securities	39		39	
Total	3,147	million yen	3,252	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 March 31, 2002 and March 31, 2001 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 March 31, 2002]		[As of March 31, 2001]	
Notes receivable	2,208	Million yen	888	million yen
Notes payable (including notes payable related to construction and installation contracts)	338	Million yen	22	million yen

[Notes to consolidated statements of cash flow]

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

	(As of March 31, 2002)	(As of March 31, 2001)
Cash and deposits	87,380 million yen	117,741 million yen
Time deposits with a maturity exceeding three months	(7,878)	(10,513)
Short-term investments maturing within three months of the date of acquisition (marketable securities)	213	36
<u>Cash and cash equivalents</u>	<u>79,715 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 March 31, 2002]	[As of March 31, 2001]
1. Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of lease properties		
Acquisition cost equivalent	2,242 million yen	3,049 million yen
Accumulated depreciation equivalent	1,366	1,550
<u>Term-end balance</u>	<u>876 million yen</u>	<u>1,499 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	425 million yen	585 million yen
Exceeding one year	451	913
<u>Total</u>	<u>876 million yen</u>	<u>1,499 million yen</u>
3. Lease payments and accumulated depreciation equivalent		
Lease payments	573 million yen	734 million yen
Accumulated depreciation equivalent	573 million yen	734 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

(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

(Market value is in excess of the carrying value reported in the consolidated balance sheets)

(Units: millions of yen)

	As of March 31, 2002			As of March 31, 2001		
	Value reported in consolidated balance sheet	Market price	Difference	Value reported in consolidated balance sheet	Market price	Difference
(1) National, local government and other public bonds	16,401	16,428	26	129	129	0
(2) Corporate bonds	-	-	-	-	-	-
(3) Other bonds	-	-	-	-	-	-
Subtotal	16,401	16,428	26	129	129	0

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

(Units: millions of yen)

	As of March 31, 2002			As of March 31, 2001		
	Value reported in consolidated balance sheet	Market price	Difference	Value reported in consolidated balance sheet	Market price	Difference
(1) National, local government and other public bonds	24,651	24,649	(1)	29	29	(0)
(2) Corporate bonds	-	-	-	-	-	-
(3) Other bonds	-	-	-	-	-	-
Subtotal	24,651	24,649	(1)	29	29	(0)
Total	41,052	41,078	25	159	159	0

2. Other securities; market value available

(Fair value reported in consolidated balance sheets is in excess of the acquisition cost)

(Units: millions of yen)

	As of March 31, 2002			As of March 31, 2001		
	Acquisition cost	Value reported in consolidated balance sheet	Difference	Acquisition cost	Value reported in consolidated balance sheet	Difference
(1) Stocks	8,319	28,013	19,693	8,360	49,404	41,043
(2) Bonds						
[1] National, local government and other public bonds	-	-	-	-	-	-
[2] Corporate bonds	12	12	0	13	13	0
[3] Other bonds	2,852	4,516	1,664	2,914	4,394	1,480
(3) Other securities	259	315	56	259	345	85
Subtotal	11,444	32,858	21,413	11,547	54,157	42,609

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

(Units: millions of yen)

	As of March 31, 2002			As of March 31, 2001		
	Acquisition cost	Value reported in consolidated balance sheet	Difference	Acquisition cost	Value reported in consolidated balance sheet	Difference
(1) Stocks	379	341	(38)	500	432	(67)
(2) Bonds						
[1] National, local government and other public bonds	-	-	-	-	-	-
[2] Corporate bonds	-	-	-	-	-	-
[3] Other bonds	0	0	(0)	-	-	-
(3) Other securities	5,005	4,478	(526)	5,005	4,791	(214)
Subtotal	5,385	4,821	(564)	5,505	5,223	(281)
Total	16,829	37,679	20,849	17,053	59,381	42,328

3. Other securities sold in their fiscal year

(Units: millions of yen)

Year ended March 31, 2002			Year ended March 31, 2002		
Sales value	Sales gain	Sales loss	Sales value	Sales gain	Sales loss
4	0	-	30,461 (30,459)	29,697 (29,696)	- (-)

Note: The amounts in () represent on other securities in trust for the purpose of retirement benefits.

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

(Units: millions of yen)

	As of March 31, 2002	As of March 31, 2001
	Value reported in consolidated balance sheet	Value reported in consolidated balance sheet
Other securities		
[1] Unlisted stocks (excluding OTC stocks)	890	797
[2] Certificates of deposits (domestic)	61,840	103,100

(Note) Certificates of deposits (domestic) are reported as cash and bank deposit on the consolidated balance sheets.

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

(Units: millions of yen)

	As of March 31, 2002			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
(1) Bonds				
[1] National, local government and other public bonds	2,160	28,581	10,311	-
[2] Corporate bonds	12	-	-	-
[3] Other bonds	-	460	1,770	2,285
(2) Other securities	62,049	-	-	-
Total	64,219	29,041	12,082	2,285

(Note) Certificates of deposits (domestic) reported as Cash and bank deposit on the consolidated balance sheets are included in Other securities.

(Units: millions of yen)

	As of March 31, 2001			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
(1) Bonds				
[1] National, local government and other public bonds	160	-	-	-
[2] Corporate bonds	1	12	-	-
[3] Other bonds	-	446	1,718	2,229
(2) Other securities	103,100	234	-	-
Total	103,261	693	1,718	2,229

(Note) Certificates of deposits (domestic) reported as Cash and bank deposit on the consolidated balance sheets are included in Other securities.

[Notes to derivative transactions]

Derivative transactions for the year from April 1, 2001 to March 31, 2002 and the year from April 1, 2000 to March 31, 2001.

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 March 31, 2002.

2. Market prices of derivative transactions

The Company did not have any open derivatives positions other than certain hedges against receivables and payables denominated in foreign currency as of March 31, 2002, and March 31, 2001.

(Information on retirement benefits)

1. Outline of retirement benefit programs

The Company and certain domestic consolidated subsidiaries have adopted lump-sum payment plans and tax-qualified plans which qualify as defined benefit plans. In certain cases, premium retirement benefits may be paid to retiring employees which are not included in the retirement benefit obligations determined actuarially in accordance with the accounting standard for retirement benefits. Certain overseas consolidated subsidiaries have also adopted a defined contribution plan.

2. Information on retirement benefit obligations

	(Units: millions of yen)	
	As of March 31,2002	As of March 31,2001
a. Retirement benefit obligations	(155,182)	(153,444)
b. Pension assets	88,837	98,524
c. Unfunded retirement benefit obligations (a + b)	(66,345)	(54,919)
d. Unrecognized difference arising from application of new accounting standards	-	-
e. Unrecognized actuarial difference	43,129	24,776
f. Unrecognized prior service cost(Notes 3)	(10,506)	-
g. Net accrued retirement benefits reflected in consolidated balance sheet (c + d + e + f)	(33,722)	(30,143)
h. Prepaid pension costs	-	-
i. Accrued retirement benefits (g - h)	(33,722)	(30,143)

- Notes: 1. The above amounts do not include temporary premium retirement benefits.
2. Certain consolidated subsidiaries have adopted a simplified method to calculate retirement benefit obligations.
3. Prior service cost was recognized due to an amendment to the defined benefit pension plan of the Company (which resulted in a decrease in the project benefit obligation).

3. Information on retirement benefit expenses (April 1, 2001 to March 31, 2002)

	(Units: millions of yen)	
	As of March 31,2002	As of March 31,2001
a. Service cost	5,761	5,341
b. Interest cost	5,252	4,829
c. Expected return on plan assets	(2,618)	(2,795)
d. Amortization arising from application of new accounting standards	-	32,344
e. Amortization of actuarial difference	2,477	-
f. Amortization of prior service cost	(362)	-
g. Retirement benefit expenses (a + b + c + d + e + f)	10,511	39,720

- Notes: 1. In addition to the retirement benefit expenses listed above, premium retirement benefits were paid
2. Retirement benefit expenses of consolidated subsidiaries which have the simplified computation methods are included in "a. Service cost".

4. Basis of determining retirement benefit obligations and other expenses

a. Allocation of estimated amount of retirement benefits to be paid to employees	: Periodic straight-line method	Periodic straight-line method
b. Discount rate	: 3.0%	3.5%
c. Expected rate of return on plan assets	: 2.7 to 3.5%	2.5 to 3.5%
d. Years to amortize prior service cost	: 10 years (to be amortized by straight-line method)	-
e. Years to amortize actuarial difference	: 10 years (to be amortized by straight-line method in the each following year)	10 years (to be amortized by straight-line method in the each following year)
f. Years to amortize differences arising from application of new accounting standard	: -	1 year (lump-sum amortization)

[Notes to tax effects]

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

	As of March 31, 2002	(Units: millions of yen) As of March 31, 2001
(1) Current :		
Deferred tax assets:		
Accrued bonuses	2,747	2,040
Accrued enterprise tax	840	735
Unrealized gain on inventories	892	644
Reserve for sales rebates	242	325
Other	692	253
Subtotal	<u>5,415</u>	<u>3,999</u>
Valuation allowance	(10)	-
Total deferred tax assets	<u>5,404</u>	<u>3,999</u>
Deferred tax liabilities:		
Allowance for doubtful accounts	(389)	(254)
Other	(154)	(93)
Total deferred tax liabilities	<u>(544)</u>	<u>(348)</u>
Net deferred tax assets	<u>4,859</u>	<u>3,651</u>
(2) Non-current:		
Deferred tax assets:		
Research and development expenses	1,317	1,060
Excess of cost over retirement benefits	5,875	3,336
Unrealized gain arising from corporate division	1,820	-
Depreciation of computer software	195	260
Loss on revaluation of investments in securities	295	244
Provision for retirement benefits for directors and statutory auditors	189	181
Tax loss carry forward of consolidated subsidiaries	756	-
Other	456	317
Subtotal	<u>10,908</u>	<u>5,400</u>
Valuation allowance	(783)	-
Total deferred tax assets	<u>10,125</u>	<u>5,400</u>
Deferred tax liabilities:		
Unrealized gain on other securities	(8,665)	(17,705)
The differences between book value and current value of consolidated subsidiaries	(532)	(532)
Special depreciation	(280)	(374)
Other	(86)	(50)
Total deferred tax liabilities	<u>(9,565)</u>	<u>(18,662)</u>
Net deferred tax assets (liabilities)	<u>559</u>	<u>(13,261)</u>

(Note) Net deferred tax assets (liabilities) in the years ended March 31, 2002 and 2001 are included in consolidated balance sheets as follows:

	As of March 31, 2002	As of March 31, 2001
Current assets -deferred tax assets	4,895	3,660
Fixed assets -deferred tax assets	2,950	933
Current liabilities -deferred tax liabilities	(35)	(9)
Fixed liabilities -deferred tax liabilities	(2,390)	(14,195)

2. The effective tax rates for the years ended March 31, 2002 and 2001 differ from the statutory tax rate above for the following reasons:

	As of March 31, 2002	As of March 31, 2001
Statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	8.8	7.1
Amortization of excess of cost over net assets acquired	0.6	0.4
Inhabitants' per capita taxes	1.1	0.9
Loss carry forward of consolidated subsidiaries	4.0	-
Other	0.3	(1.0)
Effective tax rates	<u>56.8%</u>	<u>49.4%</u>

(Segment Information)

1. Business Segment Information

Year ended March 31, 2002

(Units: millions of yen)

Account \ Segment	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations and general corporate assets	Consolidated
I Net sales and operating income:						
Net sales						
(1) Sales to third parties	397,498	12,087	10,601	420,188	-	420,188
(2) Intergroup sales and transfers	-	379	5,332	5,711	(5,711)	-
Total	397,498	12,466	15,934	425,900	(5,711)	420,188
Operating expenses	382,623	10,915	16,205	409,745	(5,740)	404,004
Operating income (loss)	14,874	1,551	(270)	16,155	28	16,183
II Assets, depreciation and capital expenditures:						
Total assets	313,284	20,821	20,688	354,793	125,874	480,668
Depreciation	8,542	1,382	540	10,466	-	10,466
Capital expenditures	8,748	601	362	9,712	-	9,712

Year ended March 31, 2001

(Units: millions of yen)

Account \ Segment	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations and general corporate assets	Consolidated
I 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
II Assets, depreciation and capital expenditures:						
Total assets	304,022	21,696	29,592	355,311	141,278	496,590
Depreciation	7,978	1,355	682	10,016	-	10,016
Capital expenditures	10,194	530	393	11,117	-	11,117

(Notes)

- 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.
- 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
- Depreciation and capital expenditures include long-term prepaid expenses and their amortized amounts.
- The amounts of general corporate assets in Eliminations and general corporate assets are 142,273 million-yen in the year ended March 31, 2001, and 126,963 million yen in the year ended March 31, 2002, respectively. The significant items are enough operating funds (cash and bank deposits and marketable securities) and long-term investment funds (investments in securities) in the Company.

2. Segment Information by Geographic Area

Segment information by geographic area for the year from April 1, 2001 to March 31, 2002 and the year from April 1, 2000 to March 31, 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 year from April 1, 2001 to March 31, 2002 and the year from April 1, 2000 to March 31, 2001.

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

(Transactions with related party)

Transactions with related party for the year from April 1, 2001 to March 31, 2002, and for the year from April 1, 2000 to March 31, 2001

There were no significant transactions.

Status of Production, Orders and Sales

1. Production

The consolidated production results for each business segment for the year ended March 31, 2002 was as follows:

(Units: millions of yen)

Business Segment	[Year ended March 31, 2002]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses	165,622	6.5
Ethical drugs	154,990	6.6
Quasi drugs and OTC drugs	7,603	2.1
Diagnostics	3,069	15.7
Capsule business	13,544	15.5
Other businesses	5,580	(56.1)
Animal health products	1,266	(50.3)
Agrochemicals	2,807	(65.7)
Industrial chemicals	1,507	(24.0)
Total	184,786	2.7

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

2. Amounts are stated exclusive of consumption tax.

2. Purchases

The consolidated purchases for each business segment for the year ended March 31, 2002 was as follows:

(Units: millions of yen)

Business Segment	[Year ended March 31, 2002]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses	198,637	1.9
Ethical drugs	191,716	2.6
Quasi drugs and OTC drugs	6,341	(14.6)
Diagnostics	580	(2.5)
Capsule business	-	-
Other businesses	3,097	(16.5)
Animal health products	2,053	58.3
Agrochemicals	413	(74.4)
Industrial chemicals	631	(20.6)
Total	201,734	1.6

(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 year ended March 31, 2002 was as follows:

(Units: millions of yen)

Business Segment	[Year ended March 31, 2002]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses	397,498	4.3
Ethical drugs	368,008	4.4
Quasi drugs and OTC drugs	18,124	4.7
Diagnostics	3,150	6.1
Clinical testing	8,216	(2.0)
Capsule business	12,087	5.7
Other businesses	10,601	(47.1)
Animal health products	3,210	(26.6)
Agrochemicals	2,395	(76.8)
Industrial chemicals	2,420	(22.2)
Real estate lease/Physical distributing and other services	2,574	15.8
Total	420,188	1.8

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

2. Amounts are stated exclusive of consumption tax.