

Financial Statements (Consolidated) for The Year Ended March 31, 2003

May 19, 2003

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

Code: 4507

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

Representative: Title of Person in Charge: President
Contact responsibility: Title of Person in Charge: General Manager, Public Relations Unit

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

Location of Head Office: Osaka Prefecture

Name Motozo Shiono
Name Hiromichi Yoshino
TEL: (06)6202-2161

Date of Meeting of Board of Directors for Approving Financial Statements: May 19, 2003

Application of U.S. accounting standards: No

1. Financial results for the period from April 1, 2002 to March 31, 2003

(1) Results of operations (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, 2003 | 285,231 | (32.1) | 19,265 | 19.0 | 18,098 | 15.6 |
| Year ended March 31, 2002 | 420,188 | 1.8 | 16,183 | (32.3) | 15,658 | (37.3) |

| | 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, 2003 | 5,904 | (30.2) | 16.66 | | 2.1 | 4.2 | 6.3 |
| Year ended March 31, 2002 | 8,456 | (33.0) | 24.28 | | 3.0 | 3.2 | 3.7 |

(Notes) Profit (loss) on investments accounted for by the equity method Year ended March 31, 2003: (2,256) million yen Year ended March 31, 2002: 251 million yen
Average number of shares outstanding during the period (consolidated) Year ended March 31, 2003: 348,034,077 shares Year ended March 31, 2002: 348,260,424 shares

Changes in accounting method: None

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, 2003 | 371,704 | 274,824 | 73.9 | 789.91 |
| As of March 31, 2002 | 480,668 | 280,674 | 58.4 | 806.02 |

(Note) Shares outstanding as of the period-end (consolidated) As of March 31, 2003: 347,783,308 shares As of March 31, 2002: 348,223,993 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, 2003 | 7,771 | 6,035 | (14,870) | 71,496 |
| Year ended March 31, 2002 | 26,224 | (51,016) | (3,225) | 79,715 |

(4) Scope of consolidation and companies accounted for by the equity method

Consolidated subsidiaries: 20 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): None (Excluded): 9 subsidiaries Equity Method (New): None (Excluded): None

2. Forecasted results for the year ending March 31, 2004 (April 1, 2003 to March 31, 2004)

| | Net sales | Ordinary income | Net income |
|--|-------------|-----------------|-------------|
| | Million yen | Million yen | Million yen |
| For the six months ending September 30, 2003 | 99,000 | 6,000 | 3,200 |
| For the year ending March 31, 2004 | 213,000 | 23,000 | 8,500 |

(Reference) Estimated earnings per share for FY 2003: ¥24.44

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 19, 2003 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

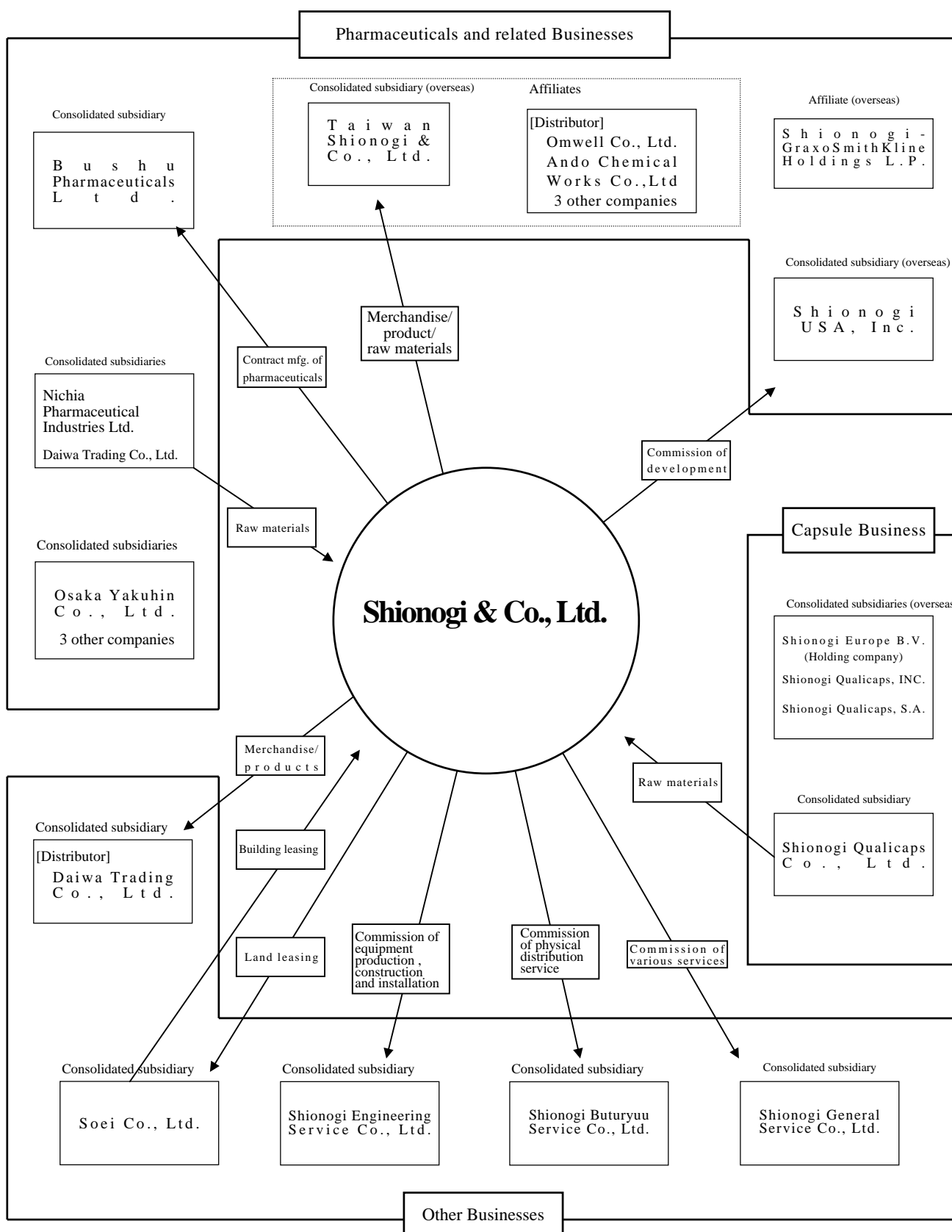
As of March 31, 2003, the Shionogi Group consisted of Shionogi & Co., Ltd. (the "Company"), 20 consolidated subsidiaries, 1 unconsolidated subsidiaries and 10 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs, quasi-drugs, OTC drugs, as well as industrial chemicals. In addition, they 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 and Diagnostics | Shionogi & Co., Ltd., Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries Ltd., Daiwa Trading Co., Ltd. Taiwan Shionogi & Co., Ltd., Osaka Yakuhin Co., Ltd., Omwell Co., Ltd. Ando Chemical Works Co., LTD., Shionogi USA, Inc. Shionogi-GlaxoSmithKline Holdings L.P. 12 other companies (22 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 | Industrial chemicals, Real estate leasing, Physical distribution and other services | Shionogi & Co., Ltd., Daiwa Trading Co., Ltd., Soei Co., Ltd. Shionogi Buturyuu Service Co., Ltd. Shionogi General Service Co., Ltd. Shionogi Engineering Service Co., Ltd. 4 other companies (10 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. Three consolidated subsidiaries, 1 unconsolidated subsidiary and 4 affiliates are not shown in this chart as the scale of their business is very small.
 2. Ando Chemical Works Co., LTD publishes its shares in JASDAQ.

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

Due to policies designed to contain the rising healthcare costs associated with the advancing demographic proportion of seniors, market contraction will continue in the pharmaceutical industry. At the same time, further increases in research and development costs, and further acceleration of global competition between companies in both R&D and sales are expected.

In recognition of this challenging operating environment, the Company established a medium-term management plan in April 2000, aiming to achieve the following targets in five years:

- To increase the 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 recognized as the best in the domestic market.

The Shionogi Group sets the following consolidated operational targets to be achieved by the fiscal year ending March 2005:

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

In order to achieve these goals, the Company is implementing the following basic strategies:

1. Clearly position ethical drugs 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 prescription pharmaceutical 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 facilities to comply with global manufacturing standards and increase the efficiency of production.

3. Corporate Governance

In a severe business environment, the Company believes that prompt and appropriate decision-making is indispensable in dealing precisely with the above noted management challenges, and that clearly defining the procedures to check decision making and maintaining operational transparency are also important.

For this purpose, the Company has been advancing assignment of authority and clarifying related responsibilities. At the same time, since June 2002 it has established, in place of the former executive managing director meetings, corporate executive committee where prompt judgments and streamlined management are facilitated through the frank exchange of opinions among members responsible for the business execution of each division. The corporate executive committee is generally held once a week with the aim of further improving speed and agility in dealing with important issues of business operation.

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, and continue efforts to be more active in their roles.

Corporate auditors, including two outside auditors, participate in important meetings such as board of directors' meetings and corporate executive committee, and also aggressively audit the Company and observe its group companies to check legal compliance and appropriateness of their operations.

From the viewpoint of internal controls, the Company conducts audits as necessary through Internal Auditing Units and has established a Compliance Committee, which carries out various measures to further heighten maintenance of ethical practices and strict compliance with laws and regulations in its business activities.

4. Fundamental Policy on Appropriation of Retained Earnings

As for the appropriation of retained earnings of the Company, the Company believes it is most 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 an appropriate portion of the 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 profitability and to maximize corporate value.

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

The Company acknowledges that 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 shares traded. Factors such as price standards, the market conditions of supply and demand for the Company's shares and the costs involved in implementation of the plan are presently under comprehensive consideration as the Company studies the reduction of the minimum trading unit of shares.

RESULTS OF OPERATIONS AND FINANCIAL POSITION

1. Results of Operations

(1) Results for the Fiscal Year Ended March 31, 2003

1) General Overview

In the domestic pharmaceutical industry during the fiscal year ended March 31, 2003, a number of reforms took place in the Japanese healthcare system, beginning with an industry-average 6.3 percent reduction in National Health Insurance (NHI) drug prices implemented in April 2002 as pressure to control medical costs further increased. In addition, competition among firms, including foreign pharmaceutical companies, in the areas of new drug development and marketing intensified, which made the operating environment increasingly challenging.

Under these circumstances, Shionogi made progress toward achieving the objectives of the medium-term management plan implemented in April 2000. As for specific results of these activities during the fiscal year, as part of business re-engineering, in April 2002 the Company transferred its animal health products business and clinical testing services business to respective companies operated jointly with partners, following the transfer of the agrochemical business in 2001. In the core ethical drug business, Shionogi moved ahead in bolstering functions and focusing management resources in the areas of R&D and marketing. Shionogi also made progress in consolidating and reorganizing manufacturing and administrative operations with the goal of raising efficiency. In the area of R&D, Shionogi evaluated the achievements to date of Shionogi BioResearch Corp., an overseas research subsidiary, and considered the advisability of future allocation of its resources. As a result, the decision was made to terminate further investment and Shionogi sold all of its equity in this subsidiary. However, the Company strengthened the functions of Shionogi USA, Inc., which Shionogi established two years ago as a base for international development. In the area of marketing, during 2002, companies in the Ohmori Group of drug wholesaling subsidiaries, which Shionogi had decided to restructure, completed mergers with their respective alliance partners. In the area of manufacturing, as part of the Company's drive to concentrate and streamline its plants, Shionogi implemented an outplacement support program for employees of the Kuise and Akoh plants who wished to pursue new directions. The retirement date was December 31, 2002, and 208 employees applied. This program contributed measurably to Shionogi's ongoing effort to create an efficient manufacturing structure

Consolidated Results of Operations

| | (Millions of yen) | | | |
|--------------------------------|-------------------|------------------|-----------------|------------|
| | Net Sales | Operating Income | Ordinary Income | Net Income |
| Year ended 3/03 | 285,231 | 19,265 | 18,098 | 5,904 |
| Year ended 3/02 | 420,188 | 16,183 | 15,658 | 8,456 |
| Percentage Increase (Decrease) | (32.1) | 19.0 | 15.6 | (30.2) |

Sales

Net sales decreased sharply as a result of re-engineering of Shionogi's business structure. The agrochemical, animal health products and clinical testing services businesses were transferred to joint venture companies. In addition, each company of the Ohmori Group of drug wholesalers merged with its respective alliance partner, and all of the companies of the Ohmori Group were excluded from the scope of consolidation. In addition, factors such as reductions in NHI prices for drugs caused non-consolidated sales of Shionogi's core ethical drug business to decrease slightly. As a result, consolidated net sales decreased 32.1 percent compared with the previous fiscal year to ¥285,231 million.

Income

On a non-consolidated basis, reduction in the number of employees and concentration on the pharmaceuticals business improved the ratio of cost of sales to net sales, although operating income decreased compared with the previous fiscal year due to the decrease in net sales and an increase in R&D expenses. However, each of Shionogi's subsidiaries worked to reduce expenses and raise operating efficiency, and Ohmori Co., Ltd., which incurred substantial losses in the previous fiscal year, was excluded from the scope of consolidation due to the mergers. As a result, consolidated operating income increased 19.0 percent compared with the previous fiscal year to ¥19,265 million, and ordinary income increased 15.6 percent compared with the previous fiscal year to ¥18,098 million. In extraordinary gains and losses, on a non-consolidated basis, Shionogi posted losses including additional payment of retirement benefits to employees who retired in connection with the transfer of the animal health products business, additional retirement expenses and outplacement support costs in connection with the outplacement support program for plant personnel and loss on revaluation of investments in securities. In addition, Ohmori Co., Ltd. also posted losses including additional retirement payments in connection with the mergers. Consequently, consolidated net income decreased 30.2 percent from the previous fiscal year to ¥5,904 million.

For the year ended March 31, 2003, the Company plans to pay cash dividends per share totaling ¥8.50, the same as in the previous fiscal year. The year-end cash dividend will total ¥4.25 per share, the same as the interim cash dividend.

Research and Development

In R&D during the fiscal year, Shionogi continued to strengthen efforts aimed at discovery and swift development of original new drugs, narrowing its domain while further clarifying priorities to promote focused allocation of resources. In domestic development, in April 2003 Shionogi received manufacturing approval for oxycodone hydrochloride, an analgesic for cancer pain. Moreover, Shionogi has filed new drug applications (NDA) for five products, including a hypertension treatment, that are expected to contribute to future sales. Overseas, development of an anti-HIV drug, an antimentia drug and other drugs moved forward at Shionogi-GlaxoSmithKline Pharmaceuticals, LLC, and Shionogi is also conducting development in the United States for drugs including a drug targeting malignant tumors.

As a result of these activities, consolidated research and development expenditures increased 2.2 percent compared with the previous fiscal year to ¥31,283 million.

Shionogi has also licensed a hyperlipidemia drug to AstraZeneca, which has filed NDAs in the United States, Europe and Japan. As of March 2003, AstraZeneca had received approval to begin marketing this drug in countries including the Netherlands and Canada, and expects successive launches of this drug in countries around the world. Shionogi will co-market this drug in Japan.

Capital Investment

Capital investment totaled ¥8.8 billion in the past fiscal year. Main projects included capacity expansion for packaging of antibiotics at the Kanegasaki plant and improvement of packaging lines for solid products at the Settsu plant. These projects were related to the consolidation of production facilities. In addition, aggressive investment in introducing an Enterprise Resource Planning (ERP) system and other activities for efficient business operations in each division continued from the previous fiscal year.

2) Segment Information

Pharmaceuticals and Related Businesses

On a non-consolidated basis, despite the contribution from the launch of Claritin, an antiallergic, in September 2002 and the increase in sales of Flomox, an oral cephem antibiotic, during the second half of the fiscal year, market contraction due to the reduction of NHI prices for drugs and various healthcare system reforms led to heightened competition. Overall sales of ethical drugs decreased as a result. In other categories, sales of over-the-counter products and diagnostics increased, but the business transfer of clinical testing services to a joint venture led to an overall decrease in sales.

At subsidiaries, each company of the Ohmori Group of drug wholesalers merged with its respective alliance partner between April and October 2002 and was excluded from the scope of consolidation.

As a result, total net sales of Pharmaceuticals and Related Businesses amounted to ¥268,382 million, a decrease of 32.5 percent compared with the previous fiscal year.

While operating income decreased on a non-consolidated basis due to lower sales and increased R&D expenditures, consolidated operating income of Pharmaceuticals and Related Businesses increased 9.9 percent to ¥16,347 million compared to the previous fiscal year absent the effect of the substantial loss due to increasing unprofitability recorded in the previous fiscal year by the drug wholesaling business, which was excluded from the scope of consolidation in the second half of the fiscal year.

Capsule Business

Conditions in the capsule business remain difficult amid sluggish supply to the pharmaceutical industry, its primary customer segment, reflecting slow growth in the volume of pharmaceutical products.

Reduced sales volume due in part to the effect of increased competition resulted in a 1.9 percent decrease in sales compared with the previous fiscal year to ¥11,859 million.

As a result, operating income decreased 8.5 percent compared with the previous fiscal year to ¥1,419 million.

Other Businesses

As part of business re-engineering, the agrochemical and animal health products businesses were transferred to joint ventures in October 2001 and April 2002, respectively. As a result, "Other Businesses" now comprises industrial chemicals, real estate, and other businesses. Net sales of Other Businesses decreased 52.9 percent year-on-year to ¥4,990 million.

Operating income, however, improved significantly to ¥1,447 million. Operating income decreased marginally in the industrial chemical and real estate businesses, but the exclusion from consolidation of the agrochemical and animal health products businesses, which had posted operating losses in the previous fiscal year, supported the gain in operating income.

(2) Forecast for the Year Ending March 31, 2004

The domestic pharmaceuticals market is likely to continue to contract as a result of measures to control medical expenses. R&D expenses are forecast to further expand and international competition is expected to further accelerate.

Under these circumstances, Shionogi will continue to focus efforts on strengthening R&D and domestic marketing capabilities and building a foundation for global development as its key tasks. In addition, Shionogi will move forward with internal structural changes, including reform of its personnel system.

Projected results for the year ending March 31, 2004 are as follows:

Consolidated Projection

| | (Millions of yen) | | | |
|-----------------------------------|-------------------|------------------|-----------------|------------|
| | Net Sales | Operating Income | Ordinary Income | Net Income |
| Year ending 3/04 | 213,000 | 24,000 | 23,000 | 8,500 |
| Year ended 3/03 | 285,231 | 19,265 | 18,098 | 5,904 |
| Percentage Increase (Decrease) | (25.3) | 24.6 | 27.1 | 44.0 |

Claritin, launched in 2002, and other new products waiting for approval have filled out Shionogi's product lineup and should support results. Successful initiatives to raise productivity and re-engineer Shionogi's manufacturing organization will support the Company's ability to achieve the goals of its medium-term management plan and restore profitability. Personnel included in the transfer of the clinical testing services business to a joint venture are scheduled to be transferred to the new organization on October 1, 2003. In addition, Shionogi plans to offer outplacement support services companywide during 2003. As a result, Shionogi expects to incur additional payment of retirement benefits in extraordinary losses, and therefore projects a low level of net income for the year to March 2004.

2. Financial Position

In operating activities for the year ended March 31, 2003, income before income taxes and minority interests decreased substantially and Shionogi paid extraordinary retirement benefits in connection with re-engineering its business structure. Net cash provided by operating activities decreased ¥18,453 million compared with the previous fiscal year to ¥7,771 million.

In investing activities, Shionogi made capital investments, primarily for manufacturing facilities, and investments in an ERP system for efficient business operations. However, proceeds from collection of loans receivable totaled ¥10,519 million. Net cash provided by investing activities totaled ¥6,035 million.

In financing activities, in addition to cash dividends paid, repayment of short-term loans totaled ¥11,151 million. Net cash used in financing activities totaled ¥14,870 million.

As a result, including the decrease in exclusion of companies from consolidation because of mergers, cash and cash equivalents at March 31, 2003 stood at ¥71,496 million, a decrease of ¥8,219 million from March 31, 2002.

Trends in Cash Flow Indicators

| | Year ended March 2000 | Year ended March 2001 | Year ended March 2002 | Year ended March 2003 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| The ratio of Shareholders' equity (%) | 57.6 | 57.7 | 58.4 | 73.9 |
| The ratio of shareholder's equity calculated based on market value (%) | 142.9 | 135.4 | 144.2 | 151.5 |
| The term for the redemption of liabilities (years) | 2.3 | 1.7 | 1.5 | 3.7 |
| Interest coverage ratio (times) | 26.7 | 35.2 | 40.5 | 14.9 |

Notes: Shareholders' equity ratio: Shareholders' equity/Total assets

The ratio of shareholder's equity calculated based on market value: Market value of the Company's shareholders' equity /Total assets

The term for the redemption of liabilities: Interest-bearing liabilities/Net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities/Interest payment

1. These figures have been computed on a consolidated basis.
2. Market value of the Company's shareholder's equity is calculated by multiplying the total number of shares outstanding at the end of the period (excluding treasury stocks) by the closing share price at the end of the fiscal year.
3. Net cash provided by operating activities is as stated in the consolidated statements of cash flows. Interest-bearing liabilities refer to all liabilities recorded in the consolidated balance sheets on which interest is paid. Interest payment is as stated on the consolidated statements of cash flows.

Consolidated Statements of Income

(Units: millions of yen)

| Account | Period | Year ended March 31, 2003 | | Year ended March 31, 2002 | | Increase (decrease) | |
|---|--------|------------------------------|------------|------------------------------|------------|------------------------|------------|
| | | Amount | Percentage | Amount | Percentage | Amount | Percentage |
| Net sales | | 285,231 | 100.0 | 420,188 | 100.0 | (134,957) | (32.1) |
| Cost of sales | | 153,402 | 53.8 | 273,692 | 65.1 | (120,290) | (44.0) |
| Gross profit | | 131,829 | 46.2 | 146,496 | 34.9 | (14,667) | (10.0) |
| Selling, general and administrative expenses | | 112,564 | 39.5 | 130,312 | 31.0 | (17,748) | (13.6) |
| Operating income | | 19,265 | 6.7 | 16,183 | 3.9 | 3,082 | 19.0 |
| Non-operating income | | 3,461 | 1.2 | 4,344 | 1.0 | (883) | (20.3) |
| Interest income | | 759 | | 705 | | 54 | |
| Dividend income | | 434 | | 384 | | 50 | |
| Royalty income | | 1,087 | | 643 | | 444 | |
| Exchange gain | | - | | 722 | | (722) | |
| Other income | | 1,178 | | 1,888 | | (710) | |
| Non-operating expenses | | 4,628 | 1.6 | 4,869 | 1.2 | (241) | (4.9) |
| Interest expense | | 569 | | 737 | | (168) | |
| Contributions | | 970 | | 813 | | 157 | |
| Loss on disposal of inventories | | 606 | | 1,089 | | (483) | |
| Loss on disposal of property, plant and equipment | | 695 | | 423 | | 272 | |
| Exchange loss | | 725 | | - | | 725 | |
| Other expenses | | 1,061 | | 1,806 | | (745) | |
| Ordinary income | | 18,098 | 6.3 | 15,658 | 3.7 | 2,440 | 15.6 |
| Extraordinary gains | | 544 | 0.2 | 4,882 | 1.2 | (4,338) | (88.9) |
| Gain on sales of subsidiaries' securities | | 248 | | 575 | | (327) | |
| Gain on sales of investments in securities | | 153 | | - | | 153 | |
| Reversal of allowance for doubtful accounts | | 142 | | - | | 142 | |
| Gain on sales of investments in an affiliate | | - | | 2,705 | | (2,705) | |
| Gain on sales of business | | - | | 1,601 | | (1,601) | |
| Extraordinary losses | | 9,503 | 3.3 | 1,786 | 0.4 | 7,717 | 432.1 |
| Premium retirement benefits | | 5,326 | | - | | 5,326 | |
| Costs related to outplacement support | | 3,013 | | - | | 3,013 | |
| Loss on revaluation of investments in securities | | 668 | | 224 | | 444 | |
| Loss on sales of subsidiaries' securities | | 450 | | - | | 450 | |
| Loss on transfer of investments in securities | | 44 | | - | | 44 | |
| Loss related to sales of business | | - | | 1,481 | | (1,481) | |
| Loss on liquidation of business | | - | | 63 | | (63) | |
| Loss on sales of investments in securities | | - | | 16 | | (16) | |
| Income before income taxes and minority interests | | 9,138 | 3.2 | 18,755 | 4.5 | (9,617) | (51.3) |
| Income taxes, current | | 6,134 | 2.2 | 16,717 | 4.0 | (10,583) | (63.3) |
| Income taxes, deferred | | (2,770) | (1.0) | (6,055) | (1.4) | 3,285 | (54.3) |
| Minority interests | | 129 | 0.1 | 362 | 0.1 | (233) | (64.4) |
| Net income | | 5,904 | 2.1 | 8,456 | 2.0 | (2,552) | (30.2) |

Consolidated Statements of Retained Earnings

(Units: millions of yen)

| Account | Period | Year ended March 31, 2003 | | Year ended March 31, 2002 | | Increase (decrease) |
|------------------------------|--|---------------------------|---------|---------------------------|---------|------------------------|
| (Additional paid in capital) | | | | | | |
| I. | Balance at beginning of the period | | 20,227 | | - | 20,227 |
| II. | Balance at end of the period | | 20,227 | | - | 20,227 |
| (Retained Earnings) | | | | | | |
| I. | Balance at beginning of the period | | 228,898 | | 223,528 | 5,370 |
| II. | Increase | | | | | |
| | Net income | 5,904 | | 8,456 | | |
| | Increase in exclusion of consolidated subsidiaries | 983 | 6,887 | - | 8,456 | (1,569) |
| III. | Deductions | | | | | |
| | Cash dividends paid | 2,959 | | 2,960 | | |
| | Bonuses to directors and statutory auditors | 117 | | 125 | | |
| | (Directors) | (114) | | (122) | | |
| | (Statutory auditors) | (3) | | (3) | | |
| | Decrease in exclusion of consolidated subsidiaries | 1,826 | 4,903 | - | 3,086 | 1,817 |
| IV. | Balance at end of the period | | 230,882 | | 228,898 | 1,984 |

Consolidated Balance Sheets

(Assets)

(Units: millions of yen)

| Account | Period | As of March 31, 2003 | | As of March 31, 2002 | | Increase (decrease) |
|---|--------|----------------------|------------|----------------------|------------|------------------------|
| | | Amount | Percentage | Amount | Percentage | |
| (Assets) | | | % | | % | |
| Current assets: | | | | | | |
| Cash and deposits | | 77,593 | | 87,380 | | (9,787) |
| Notes and accounts receivable | | 76,375 | | 126,675 | | (50,300) |
| Marketable securities | | 2,289 | | 2,579 | | (290) |
| Inventories | | 41,275 | | 56,915 | | (15,640) |
| Deferred income taxes | | 4,220 | | 4,895 | | (675) |
| Other current assets | | 8,794 | | 18,201 | | (9,407) |
| Allowance for doubtful accounts | | (61) | | (835) | | 774 |
| Total current assets | | 210,488 | 56.6 | 295,813 | 61.5 | (85,325) |
| Fixed assets: | | | | | | |
| Property, plant and equipment: | | | | | | |
| Buildings and structures | | 34,562 | | 38,497 | | (3,935) |
| Machinery and equipment | | 16,472 | | 17,441 | | (969) |
| Land | | 17,171 | | 21,700 | | (4,529) |
| Construction in progress | | 2,019 | | 3,836 | | (1,817) |
| Other | | 5,359 | | 4,910 | | 449 |
| Property, plant and equipment, net | | 75,585 | 20.4 | 86,387 | 18.0 | (10,802) |
| Excess of cost over net assets acquired | | 329 | | 1,193 | | (864) |
| Other | | 4,991 | | 4,020 | | 971 |
| Total intangible fixed assets | | 5,320 | 1.4 | 5,213 | 1.1 | 107 |
| Investments and other assets: | | | | | | |
| Investments in securities | | 73,098 | | 82,053 | | (8,955) |
| Deferred income taxes | | 3,564 | | 2,950 | | 614 |
| Other | | 3,809 | | 8,591 | | (4,782) |
| Allowance for doubtful accounts | | (162) | | (341) | | 179 |
| Total investments and other assets | | 80,309 | 21.6 | 93,253 | 19.4 | (12,944) |
| Total fixed assets | | 161,215 | 43.4 | 184,854 | 38.5 | (23,639) |
| Total assets | | 371,704 | 100.0 | 480,668 | 100.0 | (108,964) |

Consolidated Balance Sheets

(Liabilities, minority interests and shareholders' equity)

(Units: millions of yen)

| Account | Period | As of March 31, 2003 | | As of March 31, 2002 | | Increase (decrease) |
|---|--------|----------------------|--------------|----------------------|--------------|------------------------|
| | | Amount | Percentage | Amount | Percentage | |
| (Liabilities) | | | % | | % | |
| Current liabilities: | | | | | | |
| Note and accounts payable | | 12,121 | | 82,102 | | (69,981) |
| Short-term bank loans and current portion of long-term debt | | 7,718 | | 18,939 | | (11,221) |
| Accrued income taxes | | 3,924 | | 9,391 | | (5,467) |
| Deferred income taxes | | 137 | | 35 | | 102 |
| Reserves: | | | | | | |
| Reserve for bonuses | | 7,822 | | 9,936 | | (2,114) |
| Other reserves | | 728 | | 561 | | 167 |
| Other current liabilities | | 15,110 | | 19,606 | | (4,496) |
| Total current liabilities | | 47,562 | 12.8 | 140,573 | 29.2 | (93,011) |
| Long-term liabilities: | | | | | | |
| Bonds | | 20,000 | | 20,000 | | 0 |
| Deferred income taxes | | 335 | | 2,390 | | (2,055) |
| Accrued retirement benefits for employees | | 26,338 | | 33,722 | | (7,384) |
| Accrued retirement for directors and statutory auditors | | 416 | | 450 | | (34) |
| Other long-term liabilities | | 2,054 | | 2,407 | | (353) |
| Total long-term liabilities | | 49,145 | 13.2 | 58,971 | 12.3 | (9,826) |
| Total liabilities | | 96,707 | 26.0 | 199,545 | 41.5 | (102,838) |
| (Minority interests) | | | | | | |
| Minority interests | | 172 | 0.1 | 448 | 0.1 | (276) |
| (Shareholders' equity) | | | | | | |
| Common stock | | - | - | 21,279 | 4.4 | (21,279) |
| Additional paid-in capital | | - | - | 20,227 | 4.2 | (20,227) |
| Retained earnings | | - | - | 228,898 | 47.6 | (228,898) |
| Unrealized gain on securities | | - | - | 12,060 | 2.5 | (12,060) |
| Translation adjustments | | - | - | (1,476) | (0.3) | 1,476 |
| Less: | | | | | | |
| Treasury stock, at cost | | - | - | (114) | (0.0) | 114 |
| Shares of the Company's common stock held by subsidiaries | | - | - | (200) | (0.0) | 200 |
| Total shareholders' equity | | - | - | 280,674 | 58.4 | (280,674) |
| Common stock | | 21,279 | 5.7 | - | - | 21,279 |
| Additional paid-in capital | | 20,227 | 5.4 | - | - | 20,227 |
| Retained earnings | | 230,882 | 62.1 | - | - | 230,882 |
| Unrealized gain on securities | | 5,015 | 1.4 | - | - | 5,015 |
| Translation adjustments | | (1,565) | (0.4) | - | - | (1,565) |
| Less: | | | | | | |
| Treasury stock, at cost | | (1,015) | (0.3) | - | - | (1,015) |
| Total shareholders' equity | | 274,824 | 73.9 | - | - | 274,824 |
| Total liabilities, minority interests and shareholders' equity | | 371,704 | 100.0 | 480,668 | 100.0 | (108,964) |

Consolidated Statements of Cash Flows

(Units: millions of yen)

| | Year ended March 31, 2003 | Year ended March 31, 2002 |
|--|------------------------------|------------------------------|
| | Amount | Amount |
| I Operating activities | | |
| Income before income taxes and minority interests | 9,138 | 18,755 |
| Depreciation and amortization | 9,962 | 9,491 |
| Amortization of excess of cost over net assets acquired | 223 | 321 |
| Loss on disposal of property, plant and equipment | 695 | 426 |
| Reversal of (provision for) allowance for doubtful accounts | (232) | 280 |
| Reversal of (provision for) retirement benefits, net of payments | (6,412) | 3,675 |
| Reversal of (provision for) retirement benefits for directors and statutory auditors | (34) | 18 |
| Interest and dividend income | (1,194) | (1,090) |
| Interest expense | 569 | 737 |
| Exchange loss (gain), net | 1,230 | (570) |
| Gain on sales of business | - | (1,601) |
| Gain on sales of investments in an affiliate | - | (2,705) |
| Decrease in notes and accounts receivable, trade | 69,749 | 16,356 |
| Decrease (increase) in inventories | 89 | (32) |
| Decrease in notes and accounts payable, trade | (70,991) | (1,962) |
| Decrease in accrued expenses | (351) | (315) |
| Decrease (increase) in accounts payable, other | (3,154) | 480 |
| Bonuses to directors and statutory auditors | (118) | (126) |
| Other | 8,593 | (162) |
| Subtotal | 17,762 | 41,977 |
| Interest and dividend income received | 1,525 | 1,009 |
| Interest paid | (522) | (647) |
| Income taxes paid | (10,993) | (16,115) |
| Net cash provided by operating activities | 7,771 | 26,224 |
| II Investing activities | | |
| Increase in time deposits | (10,290) | (15,792) |
| Decrease in time deposits | 11,903 | 18,480 |
| Purchases of marketable securities | (29) | (2,159) |
| Proceeds from sales of marketable securities | 2,359 | 159 |
| Purchases of investments in securities | (2,094) | (43,752) |
| Proceeds from sales of investments in securities | 227 | 5 |
| Purchases of property, plant and equipment | (9,012) | (8,809) |
| Proceeds from sales of property, plant and equipment | 495 | 140 |
| Proceeds from collection of loans receivable | 10,519 | 58 |
| Payments for purchases of investments in subsidiaries and affiliates from minority interest | - | (1,728) |
| Proceeds from sales of subsidiaries' securities | 3,697 | 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 | 554 | 152 |
| Proceeds from sales of business | - | 3,210 |
| Other | (2,295) | (1,601) |
| Net cash provided by (used in) investing activities | 6,035 | (51,016) |
| III Financing activities | | |
| Short-term loans, net | (11,151) | 743 |
| Repayment of long-term debt | (65) | (851) |
| Cash dividends paid to shareholders of the Company | (2,953) | (2,954) |
| Cash dividends paid to minority interests | (6) | (21) |
| Other | (693) | (141) |
| Net cash used in financing activities | (14,870) | (3,225) |
| IV Effect of exchange rate changes on cash and cash equivalents | (284) | 336 |
| V Decrease in cash and cash equivalents | (1,348) | (27,681) |
| VI Cash and cash equivalents at beginning of period | 79,715 | 107,264 |
| VII Decrease in cash and cash equivalents resulting from exclusion from consolidation | (6,870) | - |
| VIII Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries | - | 131 |
| Cash and cash equivalents at end of period | 71,496 | 79,715 |

Notes to Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 20 subsidiaries

Shionogi Qualicaps Co., Ltd., Ohmori Group Honsha 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 Engineering Service Co., Ltd., Shionogi Medical Information Co., Ltd., Saishin Igaku Co., Ltd., Soei Co., Ltd., Shionogi Buturyuu Service Co., Ltd., Shionogi General Service Co., Ltd., Kyosaido Co., Ltd., Wakayama Yakuhin Co., Ltd., Shionogi USA, Inc., SG Holding, Inc.,

Excluded from consolidation:

Ohmori Co., Ltd., Ohmori Tohoku Co., Ltd., Ohmori Shikoku Co., Ltd., Ohmori Chugoku Co., Ltd., and Ohmori Kyushu Co., Ltd., were merged.

The Company's equity in SHIONOGI BIOMEDICAL LABORATORIES, INC., Shionogi Clinical Laboratories Co., Ltd., and Shionogi BioReseach Corp., was sold.

Shionogi Holding U.S.A. Inc., has been liquidated.

That portion of the total assets, net sales and net profit (loss) of the 1 un-consolidated subsidiary for the year ended March 31, 2003 attributable to the Company in proportion to its shareholding ratio and retained earnings 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, 2003.

Shionogi-GlaxoSmithKline Holdings 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 the 1 unconsolidated subsidiary and 9 affiliates not accounted for by the equity method which 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 6 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

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

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

(2) Method of depreciation of significant depreciable assets

| | | |
|-------------------------------|-------|--|
| 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] |
| Intangible fixed assets | ----- | Straight-line method |
| | | [Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (in general, five years).] |

(3) Basis for providing significant allowances and reserves

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.

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.

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.

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.

(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

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.

Hedging instruments and hedged items

a. Hedging instruments ----- Forward foreign exchange contracts

b. Hedged items ----- Receivables and payables denominated in foreign currencies

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) Other significant accounting policies

Consumption tax

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

Accounting standards for treasury stock and reversal of legal reserve

Effective the year ended March 31, 2003, the Company has adopted Financial Accounting Standard No.1, "Accounting Standards for Treasury Stock and Reversal of Legal Reserve." The adoption of this standard had no effect on consolidated statements of operations for the year ended March 31, 2003. In accordance with an amendment to the "Regulation for the Preparation of Consolidated Financial Statements", shareholders' equity in the consolidated balance sheet at March 31, 2003 and in the consolidated statement of retained earnings for the year ended March 31, 2003 has been presented in accordance with the amended regulation.

Amounts per share

Effective the year ended March 31, 2003, the Company has adopted Financial Accounting Standard No.2, "Accounting Standards for Earnings per Share" and Financial Accounting Standard Implementation Guidance No.4, "Implementation Guidance for Accounting Standards for Earnings per Share." The effect of the adoption of these standards has been disclosed in "Amounts per Share."

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.

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

| | | | | |
|--|---------------|--------------------|---------------|--------------------|
| Salaries | 23,024 | Million yen | 30,108 | Million yen |
| Provision for reserve for bonuses | 8,548 | | 10,834 | |
| Provision for retirement benefits | 6,035 | | 5,849 | |
| Provision for retirement benefits for directors and statutory auditors | 99 | | 18 | |
| R & D expenses | 31,283 | Million yen | 30,601 | Million yen |
| (R&D expenses above include the following amounts provided as reserves:) | | | | |
| Provision for reserve for bonuses | 3,722 | Million yen | 4,107 | Million yen |
| Provision for retirement benefits | 1,854 | | 2,033 | |

[Notes to consolidated balance sheets]

[As of March 31, 2003]

[As of March 31, 2002]

| | | | | |
|---|---------|-------------|---------|-------------|
| 1. Accumulated depreciation of property, plant and equipment | 163,044 | Million yen | 163,327 | Million yen |
| 2. Guaranteed liabilities | 14 | Million yen | 25 | Million yen |
| 3. Stocks etc, of unconsolidated subsidiaries and affiliates | | | | |
| Investments in securities | 2,066 | Million yen | 4,856 | Million yen |
| Investments and other assets(others "Investments in an affiliate ") | 701 | | 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 | 5 | Million yen |
| Investments in securities | 116 | | 300 | |
| Total | 122 | Million yen | 305 | Million yen |
| Liabilities secured by the above assets: | | | | |
| Other current liabilities | 5 | Million yen | 5 | Million yen |
| Other long-term liabilities (Long-term loans) | 725 | | 725 | |
| Total | 730 | Million yen | 730 | Million yen |

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

| | | | | |
|-------------------------------|---|-------------|-------|-------------|
| Book value of pledged assets: | | | | |
| Cash and deposits | - | Million yen | 115 | Million yen |
| Buildings and structures | - | | 999 | |
| Land | - | | 1,993 | |
| Investments in securities | - | | 39 | |
| Total | - | Million yen | 3,147 | Million yen |

5. At March 31,2003, the number of shares of common stocks in issue was 351,136 thousand shares.
6. The number of shares of treasury stocks held by the Company and consolidated subsidiaries at March 31, 2003 was 3,352 thousand shares of common stocks.
7. 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 was a bank holiday, the balances of notes receivable and payable as of the end of the period include the following notes which matured but were not settled on that day:

| | | | | |
|--|------------------------|-------------|------------------------|-------------|
| | [As of March 31, 2003] | | [As of March 31, 2002] | |
| Notes receivable | - | Million yen | 2,208 | Million yen |
| Notes payable (including notes payable related to construction and installation contracts) | - | Million yen | 338 | 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, 2003) | (As of March 31, 2002) |
|--|---------------------------|---------------------------|
| Cash and deposits | 77,593 Million yen | 87,380 Million yen |
| Time deposits with a maturity exceeding three months | (6,096) | (7,878) |
| Short-term investments maturing within three months of the date of acquisition (marketable securities) | - | 213 |
| <u>Cash and cash equivalents</u> | <u>71,496 Million yen</u> | <u>79,715 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, 2003] | [As of March 31, 2002] |
|---|---|------------------------|
| 1. Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of lease properties | | |
| Acquisition cost equivalent | 1,573 Million yen | 2,242 Million yen |
| Accumulated depreciation equivalent | 1,104 | 1,366 |
| <u>Term-end balance</u> | <u>469 Million yen</u> | <u>876 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 | 250 Million yen | 425 Million yen |
| Exceeding one year | 219 | 451 |
| <u>Total</u> | <u>469 Million yen</u> | <u>876 Million yen</u> |
| 3. Lease payments and accumulated depreciation equivalent | | |
| Lease payments | 337 Million yen | 573 Million yen |
| Accumulated depreciation equivalent | 337 Million yen | 573 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, 2003 | | | As of March 31, 2002 | | |
|---|--|--------------|------------|--|--------------|------------|
| | 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 | 40,657 | 41,465 | 825 | 16,401 | 16,428 | 26 |
| (2) Corporate bonds | - | - | - | - | - | - |
| (3) Other bonds | - | - | - | - | - | - |
| Subtotal | 40,657 | 41,465 | 825 | 16,401 | 16,428 | 26 |

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

(Units: millions of yen)

| | As of March 31, 2003 | | | As of March 31, 2002 | | |
|---|--|--------------|------------|--|--------------|------------|
| | 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 | 29 | 29 | (0) | 24,651 | 24,649 | (1) |
| (2) Corporate bonds | - | - | - | - | - | - |
| (3) Other bonds | - | - | - | - | - | - |
| Subtotal | 29 | 29 | (0) | 24,651 | 24,649 | (1) |
| Total | 40,687 | 41,495 | 825 | 41,052 | 41,078 | 25 |

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, 2003 | | | As of March 31, 2002 | | |
|---|----------------------|--|------------|----------------------|--|------------|
| | Acquisition cost | Value reported in consolidated balance sheet | Difference | Acquisition cost | Value reported in consolidated balance sheet | Difference |
| (1) Stocks | 10,207 | 18,003 | 7,795 | 8,319 | 28,013 | 19,693 |
| (2) Bonds | | | | | | |
| National, local government and other public bonds | - | - | - | - | - | - |
| Corporate bonds | - | - | - | 12 | 12 | 0 |
| Other bonds | 2,788 | 4,324 | 1,535 | 2,852 | 4,516 | 1,664 |
| (3) Other securities | 60 | 126 | 65 | 259 | 315 | 56 |
| Subtotal | 13,057 | 22,454 | 9,396 | 11,444 | 32,858 | 21,413 |

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

(Units: millions of yen)

| | As of March 31, 2003 | | | As of March 31, 2002 | | |
|---|----------------------|--|------------|----------------------|--|------------|
| | Acquisition cost | Value reported in consolidated balance sheet | Difference | Acquisition cost | Value reported in consolidated balance sheet | Difference |
| (1) Stocks | 3,997 | 3,830 | (167) | 379 | 341 | (38) |
| (2) Bonds | | | | | | |
| National, local government and other public bonds | - | - | - | - | - | - |
| Corporate bonds | - | - | - | - | - | - |
| Other bonds | - | - | - | 0 | 0 | (0) |
| (3) Other securities | 5,005 | 4,417 | (587) | 5,005 | 4,478 | (526) |
| Subtotal | 9,002 | 8,247 | (755) | 5,385 | 4,821 | (564) |
| Total | 22,060 | 30,701 | 8,641 | 16,829 | 37,679 | 20,849 |

3. Other securities sold in their fiscal year

(Units: millions of yen)

| Year ended March 31, 2003 | | | Year ended March 31, 2002 | | |
|---------------------------|------------|------------|---------------------------|------------|------------|
| Sales value | Sales gain | Sales loss | Sales value | Sales gain | Sales loss |
| 72 | 161 | (0) | 4 | 0 | - |

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

(Units: millions of yen)

| | As of March 31, 2003 | As of March 31, 2002 |
|--|--|--|
| | Value reported in consolidated balance sheet | Value reported in consolidated balance sheet |
| Other securities | | |
| Unlisted stocks (excluding OTC stocks) | 1,931 | 890 |
| Certificates of deposits (domestic) | 62,900 | 61,840 |

(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, 2003 | | | |
|---|----------------------|------------------------|--------------------------|---------------|
| | Within 1 year | From 1 year to 5 years | From 5 years to 10 years | Over 10 years |
| (1) Bonds | | | | |
| National, local government and other public bonds | 2,031 | 28,502 | 10,153 | - |
| Corporate bonds | - | - | - | - |
| Other bonds | 127 | - | 2,699 | 1,497 |
| (2) Other securities | 63,031 | - | - | - |
| Total | 65,189 | 28,502 | 12,853 | 1,497 |

(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, 2002 | | | |
|---|----------------------|------------------------|--------------------------|---------------|
| | Within 1 year | From 1 year to 5 years | From 5 years to 10 years | Over 10 years |
| (1) Bonds | | | | |
| National, local government and other public bonds | 2,160 | 28,581 | 10,311 | - |
| Corporate bonds | 12 | - | - | - |
| Other bonds | - | 460 | 1,770 | 2,285 |
| (2) Other securities | 62,046 | - | - | - |
| 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.

[Notes to derivative transactions]

Derivative transactions for the year from April 1, 2002 to March 31, 2003 and the year from April 1, 2001 to March 31, 2002.

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 Accounting and 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, 2003.

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, 2003, and March 31, 2002.

[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 31,2003 | As of March 31,2002 |
| a. Retirement benefit obligations | (150,849) | (155,182) |
| b. Pension assets | 81,817 | 88,837 |
| c. Unfunded retirement benefit obligations (a + b) | (69,032) | (66,345) |
| d. Unrecognized difference arising from application of new accounting standards | - | - |
| e. Unrecognized actuarial difference | 52,113 | 43,129 |
| f. Unrecognized prior service cost | (9,419) | (10,506) |
| g. Net accrued retirement benefits reflected in consolidated balance sheet (c + d + e + f) | (26,338) | (33,722) |
| h. Prepaid pension costs | - | - |
| i. Accrued retirement benefits (g – h) | (26,338) | (33,722) |

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. Information on retirement benefit expenses

| | (Units: millions of yen) | |
|--|-----------------------------|-----------------------------|
| | Year ended March 31,2003 | Year ended March 31,2002 |
| a. Service cost | 4,801 | 5,761 |
| b. Interest cost | 4,338 | 5,252 |
| c. Expected return on plan assets | (2,030) | (2,618) |
| d. Amortization arising from application of new accounting standards | - | - |
| e. Amortization of actuarial difference | 4,463 | 2,477 |
| f. Amortization of prior service cost | (1,086) | (362) |
| g. Retirement benefit expenses (a + b + c + d + e + f) | 10,486 | 10,511 |

Notes: 1. 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

| | As of March 31,2003 | As of March 31,2002 |
|--|---|---|
| a. Allocation of estimated amount of retirement benefits to be paid to employees : | Periodic straight-line method | Periodic straight-line method |
| b. Discount rate : | 2.5% | 3.0% |
| c. Expected rate of return on plan assets : | 2.0% to 3.0% | 2.7% to 3.5% |
| d. Years to amortize prior service cost : | 10 years (to be amortized by straight-line method) | 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 : | - | - |

[Notes to tax effects]

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

| | <u>As of March 31, 2003</u> | <u>(Units: millions of yen)</u> <u>As of March 31, 2002</u> |
|---|-----------------------------|--|
| (1) Current : | | |
| Deferred tax assets: | | |
| Accrued bonuses | 2,733 | 2,747 |
| Research and development expenses | 343 | - |
| Accrued enterprise tax | 342 | 840 |
| Reserve for sales rebates | 266 | 242 |
| Unrealized gain on inventories | - | 892 |
| Other | 914 | 676 |
| Subtotal | <u>4,600</u> | <u>5,399</u> |
| Valuation allowance | <u>(56)</u> | <u>(10)</u> |
| Total deferred tax assets | <u>4,544</u> | <u>5,388</u> |
| Deferred tax liabilities: | | |
| Allowance for doubtful accounts | (300) | (389) |
| Other | (160) | (138) |
| Total deferred tax liabilities | <u>(460)</u> | <u>(528)</u> |
| Net deferred tax assets | <u>4,083</u> | <u>4,859</u> |
| (2) Non-current: | | |
| Deferred tax assets: | | |
| Retirement benefits | 5,953 | 5,875 |
| Loss on revaluation of investments in securities | 617 | 295 |
| Tax loss carry forward of consolidated subsidiaries | 227 | 756 |
| Provision for retirement benefits for directors and statutory auditors | 171 | 189 |
| Depreciation of computer software | 121 | 195 |
| Unrealized gain arising from corporate division | - | 1,820 |
| Research and development expenses | - | 1,317 |
| Other | 926 | 456 |
| Subtotal | <u>8,018</u> | <u>10,908</u> |
| Valuation allowance | <u>(453)</u> | <u>(783)</u> |
| Total deferred tax assets | <u>7,564</u> | <u>10,125</u> |
| Deferred tax liabilities: | | |
| Unrealized gain on other securities | (3,510) | (8,665) |
| The differences between book value and current value of consolidated subsidiaries | (532) | (532) |
| Special depreciation | (186) | (280) |
| Other | (106) | (86) |
| Total deferred tax liabilities | <u>(4,336)</u> | <u>(9,565)</u> |
| Net deferred tax assets | <u>3,228</u> | <u>559</u> |

(Note) Net deferred tax assets in the years ended March 31, 2003 and 2002 are included in consolidated balance sheets as follows:

| | | <u>As of March 31, 2003</u> | <u>As of March 31, 2002</u> |
|---------------------|----------------------------|-----------------------------|-----------------------------|
| Current assets | - deferred tax assets | 4,220 | 4,895 |
| Fixed assets | - deferred tax assets | 3,564 | 2,950 |
| Current liabilities | - deferred tax liabilities | (137) | (35) |
| Fixed liabilities | - deferred tax liabilities | (335) | (2,390) |

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

| | <u>As of March 31, 2003</u> | <u>As of March 31, 2002</u> |
|--|-----------------------------|-----------------------------|
| Statutory tax rate | 42.0% | 42.0% |
| Expenses not deductible for income tax purposes | 15.0 | 8.8 |
| Amortization of excess of cost over net assets acquired | 0.9 | 0.6 |
| Inhabitants' per capita taxes | 1.7 | 1.1 |
| Differences between statutory tax rate in Japan and income tax rate applied for overseas consolidated subsidiaries | (1.9) | - |
| Loss carry forward of consolidated subsidiaries | 1.8 | 4.0 |
| Loss carry forward in prior year | (6.6) | - |
| Tax credit | (2.0) | - |
| Income tax refund of overseas consolidated subsidiaries | (3.2) | - |
| Loss on liquidation of a consolidated subsidiary | (10.8) | - |
| Decrease in deferred tax assets at end of year due to change in statutory tax rate | 1.3 | - |
| Other | (1.4) | 0.3 |
| Effective tax rates | <u>36.8%</u> | <u>56.8%</u> |

[Segment Information]

1. Business Segment Information

Year ended March 31, 2003

(Units: millions of yen)

| Account \ Segment | Pharmaceuticals and related businesses | Capsule business | Other businesses | Total | Eliminations and general corporate assets | Consolidated |
|--|--|------------------|------------------|---------|---|--------------|
| Net sales and operating income: | | | | | | |
| Net sales | | | | | | |
| (1) Sales to third parties | 268,382 | 11,859 | 4,990 | 285,231 | - | 285,231 |
| (2) Intergroup sales and transfers | - | 244 | 5,800 | 6,045 | (6,045) | - |
| Total | 268,382 | 12,104 | 10,790 | 291,276 | (6,045) | 285,231 |
| Operating expenses | 252,034 | 10,685 | 9,343 | 272,063 | (6,096) | 265,966 |
| Operating income | 16,347 | 1,419 | 1,447 | 19,213 | 51 | 19,265 |
| Assets, depreciation and capital expenditures: | | | | | | |
| Total assets | 228,025 | 20,525 | 13,736 | 262,287 | 109,416 | 371,704 |
| Depreciation | 9,008 | 1,113 | 577 | 10,699 | - | 10,699 |
| Capital expenditures | 9,272 | 764 | 539 | 10,575 | - | 10,575 |

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 |
|--|--|------------------|------------------|---------|---|--------------|
| 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 |
| 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 |

(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

(Year ended March 31, 2003)

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

(Year ended March 31, 2002)

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

3. Depreciation and capital expenditures include long-term prepaid expenses and their amortized amounts.

4. The amounts of general corporate assets in Eliminations and general corporate assets are 110,208 million yen in the year ended March 31, 2003, and 126,963 million yen in the year ended March 31, 2002, respectively. The significant items are enough operating funds (cash and 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, 2002 to March 31, 2003 and the year from April 1, 2001 to March 31, 2002.

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, 2002 to March 31, 2003 and the year from April 1, 2001 to March 31, 2002.

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, 2002 to March 31, 2003, and for the year from April 1, 2001 to March 31, 2002

There were no significant transactions.

[Amounts per share]

| | Year ended March 31,2003 | (Units: yen) Year ended March 31,2002 |
|--------------------------------|-----------------------------|---|
| Shareholders' equity per share | 789.91 | 806.02 |
| Earnings per share | 16.66 | 24.28 |

Effective the year ended March 31, 2003, the Company has adopted Financial Accounting Standard No.2, "Accounting Standards for Earnings per Share" and Financial Accounting Standard Implementation Guidance No.4, "Implementation Guidance for Accounting Standards for Earnings per Share."

If the Company had adopted these standards and its implementation guidance for the year ended March 31, 2002, the information per share is as follows:

| | (Units: yen) Year ended March 31,2002 |
|--------------------------------|---|
| Shareholders' equity per share | 805.62 |
| Earnings per share | 23.89 |

(Notes)

1. Net income after giving effect to the diluted potential of common stock has not been presented since there are no such potential shares to be issued.
2. Information for the computation of net income per share is as follows.

| | Year ended March 31,2003 | Year ended March 31,2002 |
|---|-----------------------------|-----------------------------|
| Earnings per share (yen) | 16.66 | - |
| Net income (millions of yen) | 5,904 | - |
| The amount which is not attributable to ordinary shareholders (millions of yen) | 105 | - |
| (Bonus to directors and statutory auditors to pay as appropriations of retained earnings) | (105) | - |
| Net income related to common stocks (millions of yen) | 5,799 | - |
| Average number of shares outstanding during the period (thousands of stocks) | 348,034 | - |

[Assumption of going concern]

No applicable

Status of Production, Orders and Sales

1. Production

The consolidated production results for each business segment for the year ended March 31, 2003 was as follows:

(Units: millions of yen)

| Business Segment | [Amounts] | [Increase (decrease) (%)] |
|--|----------------|------------------------------|
| Pharmaceuticals and related businesses | 147,420 | (11.0) |
| Ethical drugs | 136,707 | (11.8) |
| Quasi drugs and OTC drugs | 8,004 | 5.3 |
| Diagnostics | 2,709 | (11.7) |
| Capsule business | 12,060 | (7.3) |
| Other businesses | 1,267 | (77.3) |
| Animal health products | - | (100.0) |
| Agrochemicals | - | (100.0) |
| Industrial chemicals | 1,267 | (15.9) |
| Total | 160,747 | (12.8) |

- (Notes)
1. Amounts are calculated based on net sales prices.
 2. Agrochemicals and Animal health products had been transferred to each joint venture in October 2001, and April 2002, respectively.
 3. Amounts are stated exclusive of consumption tax.

2. Purchases

The consolidated purchases for each business segment for the year ended March 31, 2003 was as follows:

(Units: millions of yen)

| Business Segment | [Amounts] | [Increase (decrease) (%)] |
|--|---------------|------------------------------|
| Pharmaceuticals and related businesses | 97,391 | (51.0) |
| Ethical drugs | 92,132 | (51.9) |
| Quasi drugs and OTC drugs | 4,687 | (26.1) |
| Diagnostics | 572 | (1.4) |
| Capsule business | - | - |
| Other businesses | 667 | (78.5) |
| Animal health products | - | (100.0) |
| Agrochemicals | - | (100.0) |
| Industrial chemicals | 667 | 5.7 |
| Total | 98,058 | (51.4) |

- (Notes)
1. Amounts are based on actual purchases.
 2. Agrochemicals and Animal health products had been transferred to each joint venture in October 2001, and April 2002, respectively.
 3. 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, 2003 was as follows:

(Units: millions of yen)

| Business Segment | [Amounts] | [Increase (decrease) (%)] |
|---|-----------|-------------------------------|
| Pharmaceuticals and related businesses | 268,382 | (32.5) |
| Ethical drugs | 252,807 | (31.3) |
| Quasi drugs and OTC drugs | 11,990 | (33.8) |
| Diagnostics | 3,585 | 13.8 |
| Clinical testing | - | (100.0) |
| Capsule business | 11,859 | (1.9) |
| Other businesses | 4,990 | (52.9) |
| Animal health products | - | (100.0) |
| Agrochemicals | - | (100.0) |
| Industrial chemicals | 2,229 | (7.9) |
| Real estate lease/Physical distributing and other services | 2,760 | 7.2 |
| Total | 285,231 | (32.1) |

- (Notes)
1. Amounts are sales to customers outside the Shionogi Group.
 2. Agrochemicals and Animal health products had been transferred to each joint venture in October 2001, and April 2002, respectively.
 3. Amounts are stated exclusive of consumption tax.