

Interim Financial Statements (Consolidated) for The Year Ending March 31, 2004

November 10, 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: November 10, 2003

Application of U.S. accounting standards: N.A.

1. Financial results for the period from April 1, 2003 to September 30, 2003

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

| | Net sales | | Operating income | | Ordinary income | |
|-------------------------------------|-------------|--------|------------------|-------|-----------------|--------|
| | Million yen | % | Million yen | % | Million yen | % |
| Six months ended September 30, 2003 | 98,754 | (44.3) | 7,712 | 8.9 | 6,564 | 8.9 |
| Six months ended September 30, 2002 | 177,407 | (13.0) | 7,079 | (8.4) | 6,025 | (25.6) |
| Year ended March 31, 2003 | 285,231 | (32.1) | 19,265 | 19.0 | 18,098 | 15.6 |

| | Net income (loss) | | Earnings (loss) per share | Earnings per share (diluted) |
|-------------------------------------|-------------------|--------|---------------------------|------------------------------|
| | Million yen | % | Yen | Yen |
| Six months ended September 30, 2003 | (2,776) | --- | (8.03) | --- |
| Six months ended September 30, 2002 | 900 | (76.4) | 2.58 | --- |
| Year ended March 31, 2003 | 5,904 | (30.2) | 16.66 | --- |

- (Notes) [1] Profit (loss) on investments accounted for by the equity method: Six months ended September 30, 2003: (268) million yen; Six months ended September 30, 2002: (262) million yen; Year ended March 31, 2003: (2,256) million yen
- [2] Average number of shares outstanding during the period (consolidated): Six months ended September 30, 2003: 345,935,172 shares; Six months ended September 30, 2002: 348,181,152 shares; Year ended March 31, 2003: 348,034,077 shares
- [3] Changes in accounting method: Yes
- [4] The percentages shown under net sales, operating income, ordinary income and net income in the table above represent the change from the corresponding figures for the same interim period of the prior year.

(2) Financial position

| | Total assets | Shareholders' equity | Ratio of Shareholders' equity to total assets | Shareholders' equity per share |
|---------------------------|--------------|----------------------|---|--------------------------------|
| | Million yen | Million yen | % | Yen |
| As of September 30, 2003 | 386,028 | 279,901 | 72.5 | 809.19 |
| As of September 30, 2002 | 456,798 | 282,217 | 61.8 | 810.65 |
| Year ended March 31, 2003 | 371,704 | 274,824 | 73.9 | 789.91 |

(Note) Shares outstanding as of the period-end (consolidated): As of September 30, 2003: 345,903,682 shares; As of September 30, 2002: 348,137,002 shares; As of March 31, 2003: 347,783,308 shares

(3) Cash Flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of the period |
|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | Million yen | Million yen | Million yen | Million yen |
| Six months ended September 30, 2003 | 16,637 | 1,644 | (1,761) | 88,409 |
| Six months ended September 30, 2002 | 2,656 | (1,974) | (1,506) | 77,119 |
| Year ended March 31, 2003 | 7,771 | 6,035 | (14,870) | 71,496 |

(4) Scope of consolidation and companies accounted for by the equity method
Consolidated subsidiaries: 14 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): 6 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 year ending March 31, 2004 | 208,900 | 23,000 | 5,200 |

(Reference) Estimated earnings per share for FY 2004: ¥ 15.03

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

Note: These estimates on November 10, 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 7.

Companies in the Shionogi Group

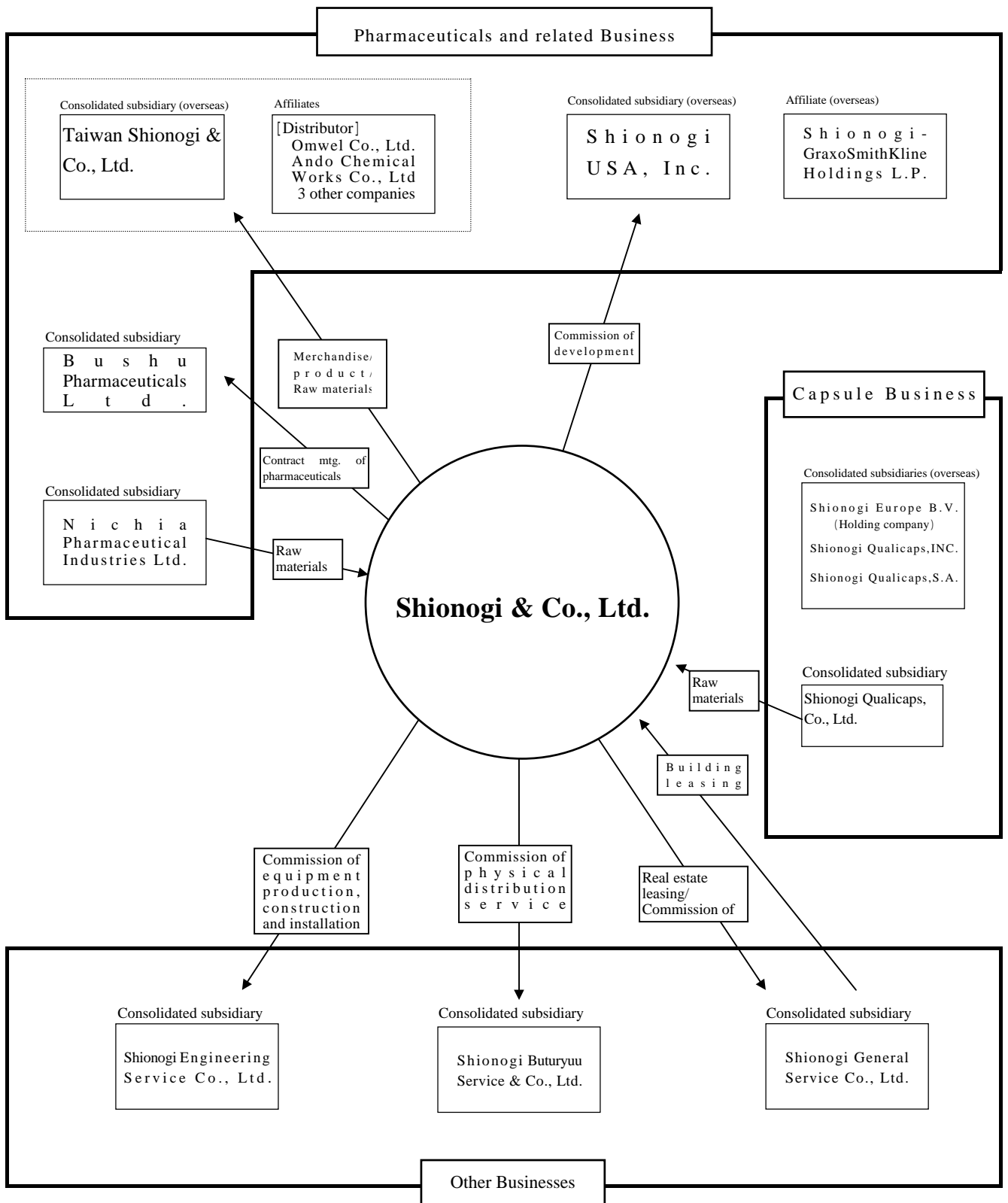
As of September 30, 2003, the Shionogi Group consisted of Shionogi & Co., Ltd. (the "Company"), 14 consolidated subsidiaries, 1 unconsolidated subsidiaries and 11 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs, capsules, as well as industrial chemicals. 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, OTC drugs and Diagnostics | Shionogi & Co., Ltd., Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries Ltd., Taiwan Shionogi & Co., Ltd., Omwell Co., Ltd., Ando Chemical Works Co., LTD., Shionogi USA, Inc., Shionogi-GlaxoSmithKline holdings L.P. 10 other companies (18 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., Shionogi Buturyuu Service Co., Ltd. Shionogi General Service Co., Ltd. Shionogi Engineering Service Co., Ltd. 3 other companies (7 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.



(Note) 1. Three consolidated subsidiaries, 1 unconsolidated subsidiary and 5 affiliates are not shown in this chart as the scale of their business is very small.
 2. Ando Chemical Works Co., Ltd. was merged into SUZUKEN CO., LTD. on October 1, 2003 and excluded from an affiliate.

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, the corporate executive committee which consists of members responsible for the business execution of each division 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 for the sufficient auditing.

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 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 Six Months Ended September 30, 2003

1) General Overview

In the domestic pharmaceutical industry during the six months ended September 30, 2003, measures to control medical costs were strengthened, including an increase in the ratio of patient co-payment and the introduction of the Diagnosis-Related Group/Prospective Payment System (DRG/PPS) at special function hospitals, placing even greater pressure on drug costs. In addition, competition among firms, including foreign pharmaceutical manufacturers, in the area of new drug development and marketing intensified, which made the operating environment increasingly challenging.

Under these circumstances, Shionogi worked to achieve the objectives of the medium-term management plan implemented in April 2000. Shionogi further reinforced research and development and marketing functions in its core ethical drug business, and in the area of manufacturing, focused on building an efficient production network by consolidating production facilities. During the interim period, Shionogi has been working to energize its organization and people by actively reshaping the consciousness of employees through a variety of personal system revisions and enhancement of training and education. In tandem with these efforts, Shionogi implemented an outplacement support program for employees throughout the Company with a retirement date of September 30, 2003, and 375 employees wishing to pursue new directions applied. In business re-engineering, following the transfer of its agrochemical, animal health products, clinical testing services and drug wholesaling businesses, Shionogi conducted a study of its industrial chemicals business and transferred this business to a joint venture company with Degussa Japan Co., Ltd, on October 1, 2003.

Consolidated Results of Operations

(Millions of yen)

| | Net Sales | Operating Income | Ordinary Income | Net Income(loss) |
|--------------------------------|-----------|------------------|-----------------|------------------|
| Six months ended 9/03 | 98,754 | 7,712 | 6,564 | (2,776) |
| Six months ended 9/02 | 177,407 | 7,079 | 6,025 | 900 |
| Percentage Increase (Decrease) | (44.3) | 8.9 | 8.9 | --- |

Sales

Non-consolidated sales of ethical drugs decreased, reflecting a contracting market for core products and severer marketing competition. In addition, the companies of the Ohmori Group of drug wholesalers, which had been consolidated subsidiaries, merged with their respective alliance partners from April through October 2002, and were included in results until the interim period last year. Therefore, consolidated net sales for this interim period totaled ¥98,754 million, a decline of 44.3 percent compared with the same period in the previous year.

Income

On a non-consolidated basis, the reduction of employees in connection with the consolidation of factories and Shionogi's concentration on the pharmaceutical business led to a decrease in manufacturing costs and selling, general and administrative expenses. In addition, Group companies also worked to make their own operations more sufficient, and the results of Ohmori Group companies, which had been included until the interim period last year, were excluded from consolidation. As a result, the ratio of cost of sales to net sales improved substantially, and selling, general and administrative expenses declined. While net sales decreased because of the business structure reforms, consolidated operating income increased 8.9 percent over the same period in the previous year to ¥7,712 million, and consolidated ordinary income also increased 8.9 percent to ¥6,564 million. Shionogi recorded an extraordinary loss of ¥10,214 million due to additional retirement payments to employees who applied for the outplacement support program during the interim period and employees who transferred to joint venture companies of the clinical testing services and industrial chemicals businesses. This loss was recorded as a one-time charge in the interim period. Consequently, Shionogi posted consolidated net loss for the period of ¥2,776 million.

Research and Development

In R&D during the interim period, Shionogi continued to strengthen efforts aimed at the discovery and swift development of original new drugs, narrowing its domain while further clarifying priorities to promote focused allocation of resources. In domestic development, Shionogi obtained approval in April 2003 for OxyContin Tablets, an analgesic for cancer pain, for which an application for manufacturing approval had been filed some time ago, and launched this product in July. In addition, Shionogi filed a new drug application (NDA) for the antibiotic doripenem (general name) in September 2003, and currently has 5 products under application. Overseas, Shionogi-GlaxoSmithKline Pharmaceuticals, LLC, and Shionogi USA, Inc. are moving ahead with development of drugs including an antimentia drug and a drug targeting malignant tumors.

As a result of these activities, consolidated research and development expenditures for the period were ¥14,635 million, and were 14.8 percent of net sales.

The hyperlipidemia drug that Shionogi licensed AstraZeneca plc, which filed NDAs in countries around the world, was approved in the United States in August 2003 and launched in September. It is now marketed 13 countries. Approval of this drug is expected next year in Japan, where Shionogi will co-market it.

Capital Investment

Capital investment during the period totaled ¥2.9 billion, and was centered on manufacturing facilities for consolidation of factories and the manufacture of new products. In addition, Shionogi continued to invest in new system to promote efficient business operations in each division.

2) Segment Information

Pharmaceuticals and Related Businesses

On a non-consolidated basis, sales of ethical drugs decreased despite higher sales of Flomox, an oral cephem antibiotic, because of shrinking markets for Flumarin and Vancomycin, injectable antibiotics, and stronger competition with products of other companies for MS Contin, an analgesic for cancer pain. In addition, Claritin, an anti-allergic launched in September 2002, was slow to penetrate the market in a difficult sales environment, and did not reach its expected sales target. As a result, total sales of ethical drugs decreased from the same period in the previous year, and sales of over-the-counter drugs also declined due to challenging market conditions.

On a consolidated basis, because of the inclusion of results of the Ohmori Group companies in net sales through the previous interim period, total net sales of Pharmaceuticals and Related Businesses decreased 46.7 percent from the interim period in the previous year to ¥90,361 million.

Operating income of Pharmaceuticals and Related Businesses increased 14.7 percent to ¥6,375 million because of lower manufacturing costs due to personnel reductions with the consolidation of factories on a non-consolidated basis, and the exclusion from consolidation of the results of drug wholesalers that posted losses in the previous interim period.

Capsule Business

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

Under these conditions, sales for the interim period increased 3.6 percent compared with the same period in the previous year to ¥5,919 million. Operating income increased 6.3 percent to ¥740 million, due in part to the effect of cost reduction.

Other Businesses

Net sales in industrial chemicals business declined as preparation were made for the transfer of this business to a joint venture company in October. However, sales to outside customers in real estate leasing and other service businesses increased. As a result, overall net sales of Other Businesses segment increased 8.4 percent over the same period in the previous year to ¥2,472 million.

The operating loss in the industrial chemicals business expanded due to the decline in sales. Operating income for Other Businesses segment as a whole declined 28.0 percent to ¥586 million.

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

In the second half of the current fiscal year, pressures on drug costs are projected to become even stronger due to the continued effect of measures enacted to date to control medical costs. Global competition between pharmaceutical manufacturers is also expected to accelerate, resulting in an increasingly challenging operating environment.

Under these circumstances, Shionogi will continue to focus efforts on strengthening R&D and domestic marketing capabilities and building a foundation for global development. In addition, Shionogi will carry out internal structural changes, including reform of the retirement benefit plan.

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 | 208,900 | 24,000 | 23,000 | 5,200 |
| Year ended 3/03 | 285,231 | 19,265 | 18,098 | 5,904 |
| Percentage Increase (Decrease) | (26.8) | 24.6 | 27.1 | (11.9) |

Sales are projected to increase by the expansion of Claritin, which was launched in the previous fiscal year, and other new products. In addition, the level of income would recover due to the benefits from the business structure re-engineering Shionogi has implemented. Shionogi plans to change its retirement benefit plan from the current tax-qualified pension plan to one that combines a defined contribution and a defined benefits pension plan (cash balance plan), with implementation targeted for April 2004. The change is expected to generate an extraordinary loss of approximately ¥1,300 million in the second half of the fiscal year. In addition, Shionogi expects to dispose of disused equipment in connection with the consolidation of factories, and because of this, an extraordinary loss of about ¥700 million is expected. Consequently, a low level of net income is expected due to the combination of these losses with the extraordinary loss recorded in the interim period.

2. Financial Position

(1) Results for the Six Months Ended September 30, 2003

In operating activities for the six months ended September 30, 2003, net loss before income taxes and minority interests was ¥3,747 million. However, the payment of the additional retirement benefits that were a major factor in the loss will be posted in the second half of the fiscal year, and notes and accounts receivable, trade and inventories decreased. As a result, net cash provided by operating activities increased ¥13,981 million compared with the same period a year earlier to ¥16,637 million.

In investing activities, although Shionogi made capital investments, primarily for manufacturing facilities, time deposits decreased. Net cash provided by investing activities totaled ¥1,644 million.

In financing activities, the Company paid cash dividends. Net cash used in financing activities totaled ¥1,761 million.

As a result, cash and cash equivalents at September 30, 2003 stood at ¥88,409 million, an increase of ¥16,913 million from March 31, 2003.

Trends in Cash Flow Indicators

| | Year ended March 2002 | Six months ended September 2002 | Year ended March 2003 | Six months ended September 2003 |
|--|--------------------------|------------------------------------|--------------------------|------------------------------------|
| The ratio of Shareholders' equity (%) | 58.4 | 61.8 | 73.9 | 72.5 |
| The ratio of shareholder's equity calculated based on market value (%) | 144.2 | 100.1 | 151.5 | 173.8 |
| The term for the redemption of liabilities (years) | 1.5 | 7.6 | 3.7 | 0.9 |
| Interest coverage ratio (times) | 40.5 | 9.1 | 14.9 | 69.7 |

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
(The net cash flows from operating activities in the interim periods represent double the amount of actual net cash flows)

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.

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

Events expected to exert a significant influence on cash flows are as follows.

- A recovery in income is expected; however, payments for costs related to outplacement support and additional retirement benefits are estimated at ¥20.5 billion.
- Shionogi plans to make capital investments, primarily for manufacturing facilities, totaling ¥4.7 billion in the second half of the fiscal year. In addition, depreciation and amortization is expected to total ¥4.8 billion.

Interim Consolidated Statements of Income

(Units: millions of yen)

| Account | Period | Six months ended September 30, 2003 | | Six months ended September 30, 2002 | | Increase (decrease) | Year ended March 31, 2003 | |
|---|--------|--|------------|--|------------|------------------------|------------------------------|------------|
| | | Amount | Percentage | Amount | Percentage | | Amount | Percentage |
| | | | % | | % | | | % |
| Net sales | | 98,754 | 100.0 | 177,407 | 100.0 | (78,653) | 285,231 | 100.0 |
| Cost of sales | | 40,697 | 41.2 | 111,197 | 62.7 | (70,500) | 153,402 | 53.8 |
| Gross profit | | 58,057 | 58.8 | 66,209 | 37.3 | (8,152) | 131,829 | 46.2 |
| Selling, general and administrative expenses | | 50,344 | 51.0 | 59,130 | 33.3 | (8,786) | 112,564 | 39.5 |
| Operating income | | 7,712 | 7.8 | 7,079 | 4.0 | 633 | 19,265 | 6.7 |
| Non-operating income | | 1,362 | 1.4 | 1,717 | 1.0 | (355) | 3,461 | 1.2 |
| Interest income | | 378 | | 364 | | 14 | 759 | |
| Dividend income | | 375 | | 386 | | (11) | 434 | |
| Income from real estate rental | | 259 | | 76 | | 183 | -- | |
| Other income | | 349 | | 890 | | (541) | 2,266 | |
| Non-operating expenses | | 2,511 | 2.5 | 2,771 | 1.6 | (260) | 4,628 | 1.6 |
| Interest expense | | 252 | | 312 | | (60) | 569 | |
| Contributions | | 573 | | 540 | | 33 | 970 | |
| Loss on revaluation of inventories | | 299 | | -- | | 299 | -- | |
| Loss on disposal of inventories | | 266 | | 221 | | 45 | 606 | |
| Other expenses | | 1,119 | | 1,696 | | (577) | 2,482 | |
| Ordinary income | | 6,564 | 6.7 | 6,025 | 3.4 | 539 | 18,098 | 6.3 |
| Extraordinary gains | | -- | -- | 620 | 0.3 | (620) | 544 | 0.2 |
| Gain on sales of investments in securities | | -- | | 383 | | (383) | 401 | |
| Reversal of allowance for doubtful accounts | | -- | | 236 | | (236) | 142 | |
| Extraordinary losses | | 10,311 | 10.5 | 5,861 | 3.3 | 4,450 | 9,503 | 3.3 |
| Costs related to outplacement support | | 6,542 | | -- | | 6,542 | 3,013 | |
| Additional retirement benefits | | 3,671 | | 5,239 | | (1,568) | 5,326 | |
| Loss on revaluation of investments in securities | | 97 | | 126 | | (29) | 668 | |
| Loss on sales of investments in securities | | -- | | 450 | | (450) | 450 | |
| Loss on transfer of investments in securities | | -- | | 44 | | (44) | 44 | |
| Income (loss) before income taxes and minority interests | | (3,747) | (3.8) | 784 | 0.4 | (4,531) | 9,138 | 3.2 |
| Income taxes, current | | 537 | 0.5 | 2,703 | 1.5 | (2,166) | 6,134 | 2.2 |
| Income taxes, deferred | | (1,509) | (1.5) | (2,708) | (1.5) | 1,199 | (2,770) | (1.0) |
| Minority interests | | (0) | (0.0) | 110 | 0.1 | (110) | 129 | 0.1 |
| Net income (loss) | | (2,776) | (2.8) | 900 | 0.5 | (3,676) | 5,904 | 2.1 |

Interim Consolidated Statements of Retained Earnings

(Units: millions of yen)

| Account \ Period | Six months ended September 30, 2003 | | Six months ended September 30, 2002 | | Year ended March 31, 2003 | |
|--|-------------------------------------|---------|-------------------------------------|---------|---------------------------|---------|
| (Additional paid in capital) | | | | | | |
| I. Balance at beginning of the period | | 20,227 | | 20,227 | | 20,227 |
| II. Balance at end of the period | | 20,227 | | 20,227 | | 20,227 |
| (Retained Earnings) | | | | | | |
| I. Balance at beginning of the period | | 230,882 | | 228,898 | | 228,898 |
| II. Increase | | | | | | |
| Net income | -- | | 900 | | 5,904 | |
| Increase due to merger of an unconsolidated subsidiary | 2,585 | | -- | | -- | |
| Increase in exclusion of consolidated subsidiaries | -- | 2,585 | 983 | 1,883 | 983 | 6,887 |
| III. Deductions | | | | | | |
| Net loss | 2,776 | | -- | | -- | |
| Cash dividends paid | 1,490 | | 1,479 | | 2,959 | |
| Bonuses to directors and statutory auditors | 104 | | 117 | | 117 | |
| Decrease due to merger of consolidated subsidiaries | 3 | | -- | | -- | |
| Decrease in exclusion of consolidated subsidiaries | 14 | 4,388 | 28 | 1,625 | 1,826 | 4,903 |
| IV. Balance at end of the period | | 229,078 | | 229,155 | | 230,882 |

Interim Consolidated Balance Sheets

(Assets)

(Units: millions of yen)

| Account | As of September 30, 2003 | | As of March 31, 2003 | | Increase (decrease) | As of September 30, 2002 | |
|---|--------------------------|--------------|----------------------|--------------|------------------------|--------------------------|--------------|
| | Amount | Percentage | Amount | Percentage | | Amount | Percentage |
| (Assets) | | % | | % | | | % |
| Current assets: | | | | | | | |
| Cash and deposits | 89,678 | | 77,593 | | 12,085 | 83,268 | |
| Notes and accounts receivable | 70,908 | | 76,375 | | (5,467) | 110,113 | |
| Inventories | 39,572 | | 41,275 | | (1,703) | 54,812 | |
| Deferred income taxes | 8,115 | | 4,220 | | 3,895 | 8,158 | |
| Other current assets | 9,427 | | 11,084 | | (1,657) | 17,305 | |
| Allowance for doubtful accounts | (60) | | (61) | | 1 | (231) | |
| Total current assets | 217,642 | 56.4 | 210,488 | 56.6 | 7,154 | 273,427 | 59.9 |
| Fixed assets: | | | | | | | |
| Property, plant and equipment: | | | | | | | |
| Buildings and structures | 33,907 | | 34,562 | | (655) | 36,859 | |
| Machinery and equipment | 15,690 | | 16,472 | | (782) | 16,432 | |
| Land | 17,295 | | 17,171 | | 124 | 20,289 | |
| Construction in progress | 2,361 | | 2,019 | | 342 | 3,382 | |
| Other | 5,017 | | 5,359 | | (342) | 5,641 | |
| Property, plant and equipment, net | 74,272 | 19.2 | 75,585 | 20.4 | (1,313) | 82,604 | 18.0 |
| Intangible fixed assets | 5,333 | 1.4 | 5,320 | 1.4 | 13 | 4,965 | 1.1 |
| Investments and other assets: | | | | | | | |
| Investments in securities | 84,236 | | 73,098 | | 11,138 | 86,652 | |
| Deferred income taxes | 395 | | 3,564 | | (3,169) | 1,516 | |
| Other | 4,313 | | 3,809 | | 504 | 8,076 | |
| Allowance for doubtful accounts | (164) | | (162) | | (2) | (443) | |
| Total investments and other assets | 88,781 | 23.0 | 80,309 | 21.6 | 8,472 | 95,801 | 21.0 |
| Total fixed assets | 168,386 | 43.6 | 161,215 | 43.4 | 7,171 | 183,371 | 40.1 |
| Total assets | 386,028 | 100.0 | 371,704 | 100.0 | 14,324 | 456,798 | 100.0 |

Interim Consolidated Balance Sheets

(Liabilities, minority interests and shareholders' equity)

(Units: millions of yen)

| Account | Period | As of September 30, 2003 | | As of March 31, 2003 | | Increase (decrease) | As of September 30, 2002 | |
|--|--------|--------------------------|------------|----------------------|------------|------------------------|--------------------------|------------|
| | | Amount | Percentage | Amount | Percentage | | Amount | Percentage |
| (Liabilities) | | | % | | % | | | % |
| Current liabilities: | | | | | | | | |
| Note and accounts payable | | 10,518 | | 12,121 | | (1,603) | 66,955 | |
| Short-term bank loans and current portion of long- term debt | | 8,293 | | 7,718 | | 575 | 19,259 | |
| Accounts payable, other | | 25,487 | | 3,547 | | 21,940 | 7,294 | |
| Reserves: | | | | | | | | |
| Reserve for bonuses | | 6,989 | | 7,822 | | (833) | 8,821 | |
| Other reserves | | 668 | | 728 | | (60) | 677 | |
| Other current liabilities | | 10,258 | | 15,624 | | (5,366) | 16,297 | |
| Total current liabilities | | 62,215 | 16.1 | 47,562 | 12.8 | 14,653 | 119,306 | 26.1 |
| Long-term liabilities: | | | | | | | | |
| Bonds | | 20,000 | | 20,000 | | -- | 20,000 | |
| Deferred income taxes | | 4,227 | | 335 | | 3,892 | 3,965 | |
| Accrued retirement benefits for employees | | 17,663 | | 26,338 | | (8,675) | 28,628 | |
| Other reserves | | 439 | | 416 | | 23 | 366 | |
| Other long-term liabilities | | 1,408 | | 2,054 | | (646) | 2,128 | |
| Total long-term liabilities | | 43,739 | 11.4 | 49,145 | 13.2 | (5,406) | 55,089 | 12.1 |
| Total liabilities | | 105,955 | 27.5 | 96,707 | 26.0 | 9,248 | 174,395 | 38.2 |
| Minority interests | | 171 | 0.0 | 172 | 0.1 | (1) | 185 | 0.0 |
| (Shareholders' equity) | | | | | | | | |
| Common stock | | 21,279 | 5.5 | 21,279 | 5.7 | -- | 21,279 | 4.6 |
| Additional paid-in capital | | 20,227 | 5.3 | 20,227 | 5.4 | -- | 20,227 | 4.4 |
| Retained earnings | | 229,078 | 59.3 | 230,882 | 62.1 | (1,804) | 229,155 | 50.2 |
| Unrealized gain on securities | | 11,707 | 3.0 | 5,015 | 1.4 | 6,692 | 13,955 | 3.1 |
| Translation adjustments | | (1,153) | (0.3) | (1,565) | (0.4) | 412 | (1,957) | (0.4) |
| Less: | | | | | | | | |
| Treasury stock, at cost | | (1,238) | (0.3) | (1,015) | (0.3) | (223) | (443) | (0.1) |
| Total shareholders' equity | | 279,901 | 72.5 | 274,824 | 73.9 | 5,077 | 282,217 | 61.8 |
| Total liabilities, minority interests and shareholders' equity | | 386,028 | 100.0 | 371,704 | 100.0 | 14,324 | 456,798 | 100.0 |

Interim Consolidated Statements of Cash Flows

(Units: millions of yen)

| | Six months ended September 30, 2003 | Six months ended September 30, 2002 | Year ended March 31, 2003 |
|--|--|--|------------------------------|
| | Amount | Amount | Amount |
| I Operating activities | | | |
| Income (loss) before income taxes and minority interests | (3,747) | 784 | 9,138 |
| Depreciation and amortization | 4,609 | 4,843 | 9,962 |
| Amortization of excess of cost over net assets acquired | 40 | 181 | 223 |
| Loss on disposal of property, plant and equipment | 182 | 308 | 695 |
| Provision for (reversal of) allowance for doubtful accounts | 2 | (239) | (232) |
| Reversal of retirement benefits, net of payments | (8,674) | (4,123) | (6,412) |
| Interest and dividend income | (753) | (751) | (1,194) |
| Interest expense | 252 | 312 | 569 |
| Exchange loss | 257 | 787 | 1,230 |
| Decrease in notes and accounts receivable, trade | 5,433 | 20,753 | 69,749 |
| Decrease (increase) in inventories | 1,710 | (437) | 89 |
| Decrease in notes and accounts payable, trade | (1,516) | (13,770) | (70,991) |
| Decrease in accrued expenses | (1,027) | (1,091) | (351) |
| Increase (decrease) in accounts payable, other | 21,752 | 2,507 | (3,154) |
| Bonuses to directors and statutory auditors | (105) | (118) | (118) |
| Other | 910 | 209 | 8,558 |
| Subtotal | 19,325 | 10,158 | 17,762 |
| Interest and dividend income received | 879 | 1,127 | 1,525 |
| Interest paid | (238) | (292) | (522) |
| Income taxes paid | (3,329) | (8,336) | (10,993) |
| Net cash provided by operating activities | 16,637 | 2,656 | 7,771 |
| II Investing activities | | | |
| Increase in time deposits | (144) | (5,947) | (10,290) |
| Decrease in time deposits | 4,952 | 7,611 | 11,903 |
| Purchases of marketable securities | (19) | (29) | (29) |
| Proceeds from sales of marketable securities | 90 | 306 | 2,359 |
| Increase in investments in securities | (247) | (54) | (2,094) |
| Proceeds from sales of investments in securities | -- | 740 | 3,925 |
| Purchases of property, plant and equipment | (2,445) | (4,523) | (9,012) |
| Proceeds from sales of property, plant and equipment | 65 | 319 | 495 |
| Long-term loans made | -- | (294) | -- |
| Proceeds from collection of loans receivable | 1 | 66 | 10,519 |
| Proceeds from sales of a subsidiary's stock, resulting in change in scope of consolidation | -- | 530 | 554 |
| Other | (609) | (699) | (2,295) |
| Net cash provided by (used in) investing activities | 1,644 | (1,974) | 6,035 |
| III Financing activities | | | |
| Short-term loans, net | (166) | 292 | (11,151) |
| Repayment of long-term debt | (34) | (36) | (65) |
| Cash dividends paid to shareholders of the Company | (1,468) | (1,477) | (2,953) |
| Cash dividends paid to minority interests | -- | (6) | (6) |
| Other | (93) | (278) | (693) |
| Net cash used in financing activities | (1,761) | (1,506) | (14,870) |
| IV Effect of exchange rate changes on cash and cash equivalents | 397 | (292) | (284) |
| V Increase (decrease) in cash and cash equivalents | 16,918 | (1,117) | (1,348) |
| VI Cash and cash equivalents at beginning of period | 71,496 | 79,715 | 79,715 |
| VII Decrease in cash and cash equivalents resulting from exclusion from consolidation | (50) | (1,478) | (6,870) |
| VIII Increase in cash and cash equivalents resulting from merger | 45 | -- | -- |
| Cash and cash equivalents at end of period | 88,409 | 77,119 | 71,496 |

Notes to Interim Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 14

Shionogi Qualicaps Co., Ltd., Ohmori Group Honsha Co., Ltd., Taiwan Shionogi & Co., Ltd., Shionogi Europe B.V., Shionogi Qualicaps, Inc., Shionogi Qualicaps, S.A., Bushu Pharmaceuticals Ltd., Nichia Pharmaceutical Industries, Ltd., Shionogi Engineering Service Co., Ltd., Saishin Igaku Co., Ltd., Shionogi Butsuryuu Service Co., Ltd., Shionogi General Service Co., Ltd., Shionogi USA, Inc., SG Holding Inc.,

Excluded from consolidation:

Osaka Yakuhin Co., Ltd., Daiwa Trading Co., Ltd., Soei Co, Ltd., Kyosaido Co., Ltd., and Wakayama Yakuhin Co., Ltd., have been merged into Shionogi & Co., Ltd.

Shionogi Medical Information Co., Ltd., which had been a consolidated subsidiary until the previous period, became a dormant and a no significant company effective this period. The total assets, net sales, net profit and retained earnings of Shionogi Medical Information Co., Ltd. attributed to the Company in proportion to its shareholding ratio had no significant effect on the accompanying interim consolidated financial statements for the six months ended September 30, 2003.

That portion of the total assets, net sales and net profit (loss) of the 1 unconsolidated subsidiary for the six months ended September 30, 2003 attributable to the Company in proportion to its shareholding ratio had no significant effect on the accompanying interim consolidated financial statements.

2. Application of equity method

No unconsolidated subsidiaries were accounted for by the equity method for the six months ended September 30, 2003.

Shionogi-GlaxoSmithKline Holdings L.P. was accounted for by the equity method and its interim closing date differs from the interim consolidated closing date, therefore the interim financial statements in its fiscal year have been used. That portion of the net profit (loss) of the unconsolidated subsidiary and the 10 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 interim consolidated net income or earned surplus of the Company for the current period.

3. Closing date of consolidated subsidiaries

One domestic consolidated subsidiaries close their accounts on September 15, and 6 overseas consolidated subsidiaries close their accounts on June 30, for financial reporting purpose. The accompanying interim consolidated financial statements of the Company have been prepared on the basis of the consolidated subsidiaries' interim 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 interim 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 the 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.
- [2] Intangible fixed assets ----- Straight-line 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]
- [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

- [1] Allowance for doubtful accounts
The allowance for doubtful accounts is provided to cover loss on bad debts. The amount provided for general receivables is based on the historical rate of bad debts; for certain accounts with considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining all possibilities for collection.
- [2] Reserve for bonuses
To prepare for the 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 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) Accounting for significant lease transactions

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

(5) Significant hedge accounting

- [1] 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 on receivables and payables denominated in foreign currencies.

(6) Consumption tax

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

5. Definition of cash and cash equivalents in the interim consolidated statements of cash flows

Cash and cash equivalents reported in the interim consolidated statements of cash flows include cash on hand, bank deposits and deposits in other financial institutions immediately withdrawal 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.

[Change of accounting method]

Through the year ended March 31, 2003, the profit derived from license fees on royalties had been presented as royalty income included in other income in consolidated non-operating income. However, these fees are a portion of the results of major operating activities and this profit is expected to increase in the future assuming an increase in the active usage of the Company's intellectual property. As the materiality of this amount is increasing, effective the six months ended September 30, 2003, the Company has included profit on license fee as royalty income in consolidated net sales in order to achieve a more accurate presentation of consolidated profit and loss.

As a result of this change, net sales and operating income increased by ¥265 million and non-operating income decreased by ¥265 million in comparison with the amounts which would have been recorded if the presentation had been the same as that of the prior year. This change, however, had no effect on consolidated ordinary income.

The impact of this change on segment information is disclosed in 'Segment information.'

| [Notes to interim consolidated statements of income] | [Six months ended September 30, 2003] | [Six months ended September 30, 2002] | [Year ended March 31, 2003] |
|---|---------------------------------------|---------------------------------------|-----------------------------|
| The major items and amounts included in sales, general and administrative expenses are summarized as follows: | | | |
| Salaries | 9,153 Millions of yen | 13,862 Millions of yen | 23,024 Millions of yen |
| Provision for reserve for bonuses | 3,837 | 4,514 | 8,548 |
| Provision for retirement benefits | 3,244 | 3,008 | 6,035 |
| R & D expenses (R&D expenses above include the following amounts provided as reserves:) | 14,635 Millions of yen | 14,914 Millions of yen | 31,283 Millions of yen |
| Provision for reserve for bonuses | 1,577 Millions of yen | 1,861 Millions of yen | 3,722 Millions of yen |
| Provision for retirement benefits | 1,155 | 943 | 1,854 |

| [Notes to interim consolidated balance sheets] | [As of September 30, 2003] | [As of March 31, 2003] | [As of September 30, 2002] |
|--|----------------------------|-------------------------|----------------------------|
| 1. Accumulated depreciation of property, plant and equipment | 165,696 Millions of yen | 163,044 Millions of yen | 163,261 Millions of yen |
| 2. Guaranteed liabilities | 12 Millions of yen | 14 Millions of yen | 19 Millions of yen |
| 3. 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 Millions of yen | 5 Millions of yen | 5 Millions of yen |
| Investments in securities | 253 | 116 | 371 |
| Total | 259 Millions of yen | 122 Millions of yen | 377 Millions of yen |
| Liabilities secured by the above assets: | | | |
| Short-term bank loans and current portion of long-term debt | 725 Millions of yen | -- Millions of yen | -- Millions of yen |
| Other current liabilities | 5 | 5 | 5 |
| Other long-term liabilities Long-term loans | -- | 725 | 725 |
| Total | 730 Millions of yen | 730 Millions of yen | 730 Millions of yen |

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

| | | | |
|-------------------------------|---------------------------|---------------------------|------------------------------|
| Book value of pledged assets: | | | |
| Cash and deposits | -- Millions of yen | -- Millions of yen | 75 Millions of yen |
| Guaranteed deposits | -- | -- | 1,170 |
| Buildings and structures | -- | -- | 461 |
| Land | -- | -- | 3,666 |
| Investments in securities | -- | -- | 225 |
| Total | -- Millions of yen | -- Millions of yen | 5,598 Millions of yen |

5. Accrued consumption tax is included in accounts payable, other.

[Notes to interim consolidated statements of cash flow]

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

| | (As of September 30, 2003) | (As of September 30, 2002) | (As of March 31, 2003) |
|---|-------------------------------|-------------------------------|-------------------------------|
| Cash and deposits | 89,678 Millions of yen | 83,268 Millions of yen | 77,593 Millions of yen |
| Time deposits with a maturity exceeding three months | (1,268) | (6,148) | (6,096) |
| <u>Cash and cash equivalents</u> | <u>88,409 Millions of yen</u> | <u>77,119 Millions of yen</u> | <u>71,496 Millions of yen</u> |

[Notes to lease transactions]

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

| | [Six months ended September 30, 2003] | [Year ended March 31, 2003] | [Six months ended September 30, 2002] |
|--|---|--------------------------------|--|
| 1. Acquisition cost equivalent, accumulated depreciation equivalent and period-end balance equivalent of leased properties | | | |
| Acquisition cost equivalent | 294 Millions of yen | 283 Millions of yen | 1,573 Millions of yen |
| Accumulated depreciation equivalent | <u>174</u> | <u>146</u> | <u>1,077</u> |
| Period-end balance | 119 Millions of yen | 136 Millions of yen | 496 Millions of yen |
| * Tools and furniture account for most of the above balances. | | | |
| 2. Breakdown of period-end balance equivalent of unexpired leases | | | |
| Within one year | 53 Millions of yen | 53 Millions of yen | 250 Millions of yen |
| Exceeding one year | <u>66</u> | <u>82</u> | <u>246</u> |
| Total | 119 Millions of yen | 136 Millions of yen | 496 Millions of yen |
| 3. Lease payments and depreciation equivalent | | | |
| Lease payments | 27 Millions of yen | 337 Millions of yen | 310 Millions of yen |
| Depreciation equivalent | 27 Millions of yen | 337 Millions of yen | 310 Millions of yen |
| 4. Calculation of depreciation equivalent | The lease period is deemed as the useful life of the leased property. The acquisition cost equivalent is depreciated by the straight-line method over the useful life, assuming a nil residual value. | | |
| | | The same as at left | The same as at left |

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

[Notes to securities]

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

(Units: millions of yen)

| | As of September 30, 2003 | | | As of March 31, 2003 | | | As of September 30, 2002 | | |
|---|--|---------------|------------|---|---------------|------------|--|---------------|------------|
| | Value reported in interim consolidated balance sheet | Market price | Difference | Value reported in annual consolidated balance sheet | Market price | Difference | Value reported in interim consolidated balance sheet | Market price | Difference |
| (1) National, local government and other public bonds | 40,559 | 40,608 | 48 | 40,687 | 41,495 | 807 | 40,857 | 41,212 | 354 |
| (2) Corporate bonds | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| (3) Other bonds | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total | 40,559 | 40,608 | 48 | 40,687 | 41,495 | 807 | 40,857 | 41,212 | 354 |

2. Other securities; market value available

(Units: millions of yen)

| | As of September 30, 2003 | | | As of March 31, 2003 | | | As of September 30, 2002 | | |
|---|--------------------------|--|---------------|----------------------|---|--------------|--------------------------|--|---------------|
| | Acquisition cost | Value reported in interim consolidated balance sheet | Difference | Acquisition cost | Value reported in annual consolidated balance sheet | Difference | Acquisition cost | Value reported in interim consolidated balance sheet | Difference |
| (1) Stocks | 14,192 | 33,236 | 19,044 | 14,205 | 21,833 | 7,628 | 9,354 | 31,603 | 22,248 |
| (2) Bonds | | | | | | | | | |
| [1] National, local government and other public bonds | -- | -- | -- | -- | -- | -- | 0 | 0 | 0 |
| [2] Corporate bonds | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| [3] Other bonds | 2,757 | 3,915 | 1,158 | 2,788 | 4,324 | 1,535 | 2,820 | 4,505 | 1,684 |
| (3) Other securities | 5,005 | 4,722 | (282) | 5,065 | 4,543 | (521) | 5,065 | 4,614 | (451) |
| Total | 21,954 | 41,875 | 19,920 | 22,060 | 30,701 | 8,641 | 17,241 | 40,724 | 23,482 |

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

(Units: millions of yen)

| | As of September 30, 2003 | As of March 31, 2003 | As of September 30, 2002 |
|--|--|---|--|
| | Value reported in interim consolidated balance sheet | Value reported in annual consolidated balance sheet | Value reported in interim consolidated balance sheet |
| (1) Bonds and commercial paper to be held until maturity | -- | -- | -- |
| (2) Other securities | | | |
| [1] Unlisted stocks (excluding OTC stocks) | 1,914 | 1,931 | 1,944 |
| [2] Certificates of deposits (domestic) | 78,000 | 62,900 | 61,600 |

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

[Notes to derivative transactions]

Market prices of derivative transaction

The Company did not have any open derivatives positions other than certain hedges against receivables and payables denominated in foreign currency as of September 30, 2003, March 31, 2003 and September 30, 2002.

(Segment Information)

1. Business Segment Information

Six months ended September 30, 2003

(Units: millions of yen)

| Segment Account | Pharmaceuticals and related businesses | Capsule business | Other businesses | Total | Eliminations | Consolidated |
|------------------------------------|--|---------------------|---------------------|---------|--------------|--------------|
| Net sales and operating income: | | | | | | |
| Net sales | | | | | | |
| (1) Sales to third parties | 90,361 | 5,919 | 2,472 | 98,754 | -- | 98,754 |
| (2) Intergroup sales and transfers | -- | 118 | 2,797 | 2,915 | (2,915) | -- |
| Total | 90,361 | 6,038 | 5,269 | 101,669 | (2,915) | 98,754 |
| Operating expenses | 83,986 | 5,297 | 4,683 | 93,967 | (2,925) | 91,041 |
| Operating income | 6,375 | 740 | 586 | 7,702 | 9 | 7,712 |

Six months ended September 30, 2002

(Units: millions of yen)

| Segment Account | Pharmaceuticals and related businesses | Capsule business | Other businesses | Total | Eliminations | Consolidated |
|------------------------------------|--|---------------------|---------------------|---------|--------------|--------------|
| Net sales and operating income: | | | | | | |
| Net sales | | | | | | |
| (1) Sales to third parties | 169,413 | 5,713 | 2,280 | 177,407 | -- | 177,407 |
| (2) Intergroup sales and transfers | -- | 114 | 2,972 | 3,086 | (3,086) | -- |
| Total | 169,413 | 5,828 | 5,252 | 180,494 | (3,086) | 177,407 |
| Operating expenses | 163,853 | 5,131 | 4,438 | 173,423 | (3,096) | 170,327 |
| Operating income | 5,559 | 696 | 814 | 7,070 | 9 | 7,079 |

Year ended March 31, 2003

(Units: millions of yen)

| Segment Account | Pharmaceuticals and related businesses | Capsule business | Other businesses | Total | Eliminations | Consolidated |
|------------------------------------|--|---------------------|---------------------|---------|--------------|--------------|
| Net sales and operating income: | | | | | | |
| Net sales | | | | | | |
| (1) Sales to third parties | 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 |

(Notes)

1. Businesses of the Group are segmented into Pharmaceuticals and Related Businesses, Capsule Business and Other Businesses, considering the types of products/merchandise handled and the similarities in their markets.

2. Major products/merchandise and services provided by each segment

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

3. As described in 'Change of accounting method,' (p.16) effective the six months ended September 30, 2003, the Company has changed its classification of royalty income derived from license fees and began including royalty income in net sales instead of in non-operating income. The effect of this change was to increase net sales and operating income in 'Pharmaceuticals and related businesses' and 'Other businesses' by ¥258 million and ¥7 million, respectively.

2. Segment Information by Geographic Area

Segment information by geographic area for the six months from April 1, 2002 to September 30, 2002, the year from April 1, 2002 to March 31, 2003 and the six months from April 1, 2003 to September 30, 2003.

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

3. Overseas Sales

Overseas sales for the six months from April 1, 2002 to September 30, 2002, the year from April 1, 2002 to March 31, 2003 and the six months from April 1, 2003 to September 30, 2003.

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

(Amounts per share)

| | [Six months ended September 30, 2003] | [Six months ended September 30, 2002] | [Year ended March 31, 2003] |
|--------------------------------|--|--|--------------------------------|
| Shareholders' equity per share | 809.19 Yen | 810.65 Yen | 789.91 Yen |
| Earnings (loss) per share | (8.03) | 2.58 | 16.66 |

(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 (loss) per share is as follows.

| | [Six months ended September 30, 2003] | [Six months ended September 30, 2002] | [Year ended March 31, 2003] |
|---|--|--|--------------------------------|
| Net income (loss) | (2,776) Millions of yen | 900 Millions of yen | 5,904 Millions of yen |
| The amount which is not attributable to ordinary shareholders (Bonus to directors and statutory auditors to pay as appropriations of retained earnings) | -- | -- | 105 |
| Net income (loss) related to common stocks | (2,776) | 900 | 5,799 |
| Average number of shares outstanding during the period | 345,935 Thousands of stocks | 348,181 Thousands of stocks | 348,034 Thousands of stocks |

Status of Production, Orders and Sales

1. Production

The consolidated production results for each business segment for the six months ended September 30, 2003 and September 30, 2002 and the year ended March 31, 2003 were as follows:

(Units: millions of yen)

| Business Segment | [Six months ended September 30, 2003] | [Six months ended September 30, 2002] | [Year ended March 31, 2003] |
|--|--|--|--------------------------------|
| Pharmaceuticals and related businesses | 71,922 | 75,654 | 147,420 |
| Ethical drugs | 67,360 | 70,026 | 136,707 |
| OTC drugs | 3,081 | 4,390 | 8,004 |
| Diagnostics | 1,481 | 1,238 | 2,709 |
| Capsule business | 5,829 | 5,710 | 12,060 |
| Other businesses | 653 | 591 | 1,267 |
| Industrial chemicals | 653 | 591 | 1,267 |
| Total | 78,404 | 81,955 | 160,747 |

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

2. Amounts are stated exclusive of consumption tax.

2. Purchases

The consolidated purchases for each business segment for the six months ended September 30, 2003 and September 30, 2002 and the year ended March 31, 2003 were as follows:

(Units: millions of yen)

| Business Segment | [Six months ended September 30, 2003] | [Six months ended September 30, 2002] | [Year ended March 31, 2003] |
|--|--|--|--------------------------------|
| Pharmaceuticals and related businesses | 11,629 | 86,014 | 97,391 |
| Ethical drugs | 11,048 | 81,125 | 92,132 |
| OTC drugs | 257 | 4,586 | 4,687 |
| Diagnostics | 324 | 303 | 572 |
| Capsule business | -- | -- | -- |
| Other businesses | 266 | 300 | 667 |
| Industrial chemicals | 266 | 300 | 667 |
| Total | 11,895 | 86,314 | 98,058 |

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

2. Amounts are stated exclusive of consumption tax.

3. Orders

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

4. Sales

The consolidated sales results for each business segment for the six months ended September 30, 2003 and September 30, 2002 and the year ended March 31, 2003 were as follows:

(Units: millions of yen)

| Business Segment | [Six months ended September 30, 2003] | [Six months ended September 30, 2002] | [Year ended March 31, 2003] |
|---|--|--|--------------------------------|
| Pharmaceuticals and related businesses | 90,361 | 169,413 | 268,382 |
| Ethical drugs | 84,665 | 159,328 | 252,807 |
| OTC drugs | 3,516 | 8,286 | 11,990 |
| Diagnostics | 2,180 | 1,799 | 3,585 |
| Capsule business | 5,919 | 5,713 | 11,859 |
| Other businesses | 2,472 | 2,280 | 4,990 |
| Industrial chemicals | 965 | 1,088 | 2,229 |
| Real estate lease/Physical distributing and other services | 1,507 | 1,192 | 2,760 |
| Total | 98,754 | 177,407 | 285,231 |

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

2. Amounts are stated exclusive of consumption tax.