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

May 17, 2004

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

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

Code: 4507

Location of Head Office: Osaka Prefecture

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

Representative: Title of Person in Charge: President — Name Motozo Shiono
Contact responsibility: Title of Person in Charge: General Manager, Public Relations Unit — Name Hiromichi Yoshino
TEL: (06)6202-2161

Date of Meeting of Board of Directors for Approving Financial Statements: May 17, 2004

Application of U.S. accounting standards: No

1. Financial results for the period from April 1, 2003 to March 31, 2004

(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, 2004	200,485	(29.7)	20,292	5.3	17,586	(2.8)
Year ended March 31, 2003	285,231	(32.1)	19,265	19.0	18,098	15.6

	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, 2004	2,203	(62.7)	6.06	----	0.8	4.7	8.8
Year ended March 31, 2003	5,904	(30.2)	16.66	----	2.1	4.2	6.3

(Notes)
① Equity in losses on investments accounted for by equity method — Year ended March 31, 2004: (677) million yen — Year ended March 31, 2003: (2,256) million yen
② Average number of shares outstanding during the period (consolidated) — Year ended March 31, 2004: 345,902,642 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 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, 2004	376,160	292,187	77.7	844.53
As of March 31, 2003	371,704	274,824	73.9	789.91

(Note) Shares outstanding as of the period-end (consolidated) — As of March 31, 2004: 345,850,340 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
Year ended March 31, 2004	15,059	(8,044)	(10,340)	68,623
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, 2005 (April 1, 2004 to March 31, 2005)

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
For the six months ending September 30, 2004	96,000	8,000	6,500
For the year ending March 31, 2005	203,000	27,000	18,000

(Reference) Estimated earnings per share for FY 2004: ¥52.05

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 17, 2004 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

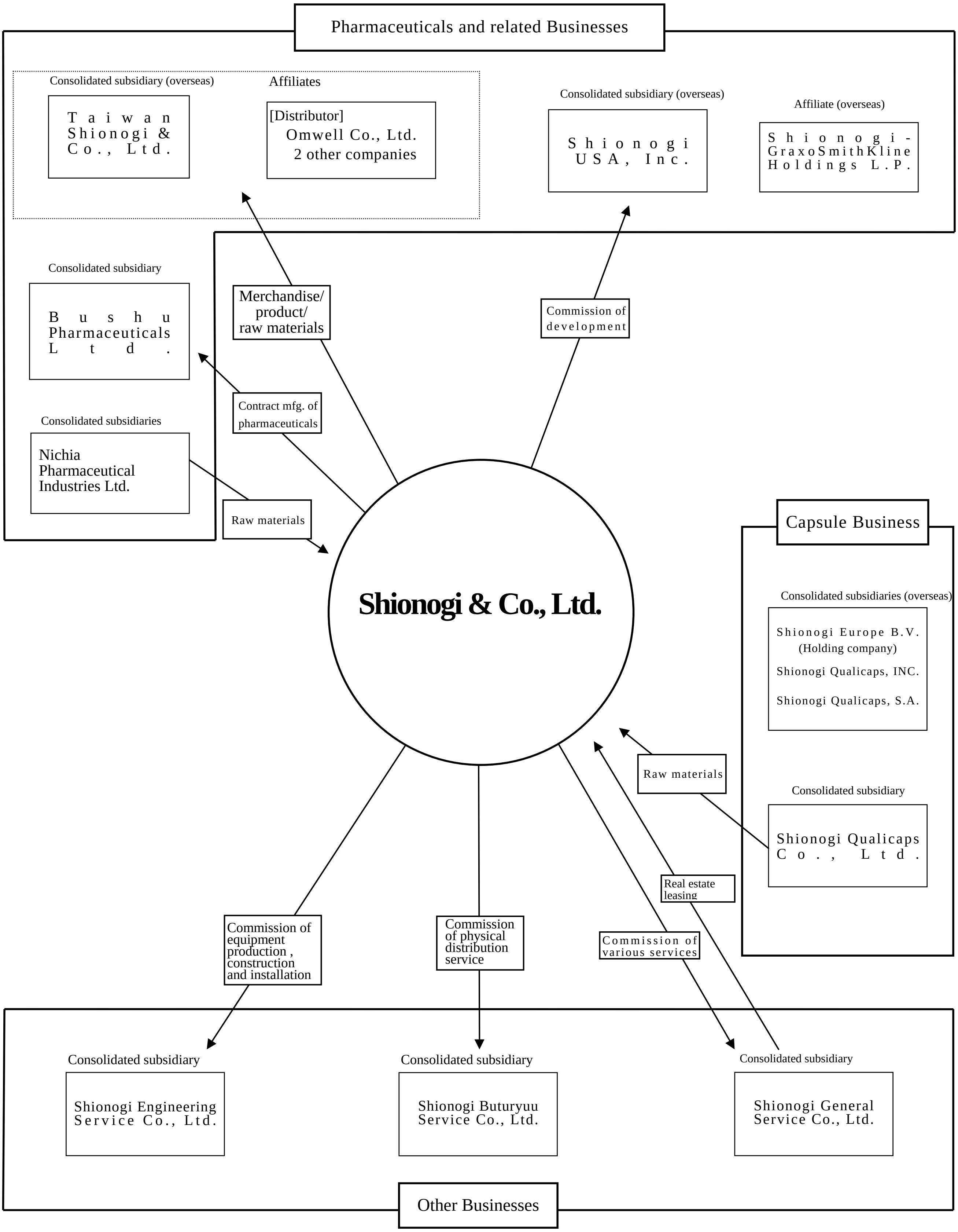
As of March 31, 2004, the Shionogi Group consisted of Shionogi & Co., Ltd. (the "Company"), 14 consolidated subsidiaries, 1 unconsolidated subsidiary and 10 affiliates. These companies are engaged primarily in the manufacture and sale of ethical drugs, OTC drugs, as well as capsules. In addition, they 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., Shionogi USA, Inc., Shionogi-GlaxoSmithKline Holdings L.P., 9 other companies (16 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	Real estate leasing, Physical distribution and other services	Shionogi General Service Co., Ltd. Shionogi Buturyuu Service Co., Ltd. Shionogi Engineering Service Co., Ltd. 5 other companies (8 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) Three consolidated subsidiaries, 1 unconsolidated subsidiary and 6 affiliates are not shown in this chart as the scale of their business is very small.

MANAGEMENT POLICY

1. Fundamental Management Policy

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

2. Management Strategy and Challenge Ahead

Due to government 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

Measures to achieve these targets since April 2000 among non-ethical drug businesses have included the transfer of the agrochemical, animal health products, clinical testing and industrial chemicals businesses to joint-venture companies, each with the partner considered most appropriate. In the pharmaceutical wholesale business, the Company selected mergers with other wholesalers in consideration of future prospects. Together with this re-engineering of its business structure, the Company improved productivity by consolidating factories through effective use of manufacturing subsidiaries and external contractors. In tandem with these measures, the Company also made structural reforms to personnel through implementation of programs including outplacement support and transfers, and, in April 2004, reformed the retirement benefit system, which had been a strain on profitability. As a result of these measures, the Company made a major shift to a business structure that is expected to yield higher profitability, with the ethical drug business forcussed on.

In R&D in the core ethical drug business, the Company narrowed its focus on selected research themes while strengthening allocation of management resources and bolstering the organization, aiming for the discovery and swift development of new original drugs. Also, aiming for unique development of products expected to be marketed globally, the Company strengthened its infrastructure through measures including the establishment of Shionogi USA, Inc. and Shionogi-GlaxoSmithKline Pharmaceuticals, LLC. In the domestic market, the Company has worked to strengthen the sales force through robust training of medical representatives (MRs) and to expand market share in core fields.

However, challenging situations to reach expected sales figures make it unlikely at this stage that the Company will meet the target for consolidated net income of ¥20 billion or above, set for the final year of the medium-term management plan, due to the influence of the market environment and the delayed launch of scheduled new products.

Under these circumstances, the Company will deal with strengthening sales in the domestic ethical drugs business, as its top priority, through continued robust MR training and strengthening of the marketing structure. In addition, the Company will aim for speedier development by reorganizing the domestic development system, and will also build a solid foundation for its overseas development structure for global development. Moreover, in order to keep up with increasingly rapid changes in the management environment, the Company will implement and put into practice management structure reforms to fortify management decision-making functions, accelerate business execution and clarify responsibility.

3. Corporate Governance

In order to respond to the rapidly changing business environment in a timely, flexible manner, and to deal appropriately with management tasks, rapid and appropriate decision-making and execution are indispensable. Also, clarification of oversight functions, compliance with laws and highly transparent operations are all important. In order to achieve these goals, the Board of Directors of the Company resolved upon the content of the following management structure reforms on March 22, 2004.

(1) Reform of the Board of Directors

To strengthen and speed up management decision-making as well as to fortify execution and supervision, management and executive functions will be separated in order to clarify responsibility and authority. Specifically, the number of directors will be reduced from fourteen to five, pending approval at this year's Annual General Meeting of Shareholders.

This reform is aimed at revitalizing the Board of Directors, led by the president, in addition to strengthening (accelerating and optimizing) management decision-making and bolstering execution and supervision.

(2) Introduction of Corporate Officer System

To establish a speedy, flexible and agile business execution structure that enables quick responses to environmental changes, Shionogi introduced and implemented a corporate officer system. April 1, 2004, in addition to nine corporate officers serving concurrently as directors, six corporate officers were newly appointed, creating a business execution structure composed of 15 corporate officers.

Six of the above-mentioned directors serving concurrently as corporate officers will resign as directors at the Annual General Meeting of Shareholders this year, and are scheduled to become full-time corporate officers. These moves will clarify the executive responsibilities and authority of the 15 corporate officers (including three corporate officers serving concurrently as directors) to facilitate swifter, steadier business execution.

(3) Change in Terms of Directors

To clarify directors' management responsibilities and executive oversight responsibilities, the term of office of directors will be changed from two years at present to one year by amending the Articles of Incorporation, pending the approval of this year's Annual General Meeting of Shareholders.

The Company has adopted a corporate auditor system. Corporate auditors participate in important meetings such as Board of Directors' meetings and the 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. The four corporate auditors at present include two outside auditors.

To deal with compliance, the Company 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. Moreover, the Company has also distributed the "Shionogi Compliance Handbook" to all employees, and is taking other measures to promote thorough legal compliance and ethical behavior.

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 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, 2004

1) General Overview

In the domestic pharmaceutical industry during the year ended March 31, 2004, measures to shore up the health insurance system by controlling medical costs were implemented, 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 major pharmaceutical manufacturers in Europe and the U.S., in the area of global new drug development and marketing intensified, which made the operating environment increasingly challenging.

Under these circumstances, the Company 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. In business re-engineering, following the transfer of its agrochemical, animal health products and clinical testing services and businesses, Shionogi transferred its industrial chemicals business to a joint venture company with Degussa Japan Co., Ltd, on October 1, 2003. In addition, Shionogi transferred its manufacturing operations for agrochemicals and animal health products that had been conducted at its Akoh Plant on April 1, 2004. In tandem with these measures, the Company also implemented an outplacement support program for employees wishing to pursue a new direction, which had 375 applicants as of September 30, 2003, and 38 applicants as of March 31, 2004. Moreover, the Company reformed its retirement benefit system to promote a higher sense of independence among employees and contribute to stabilization of Shionogi’s finances by reducing the impact on profits. These measures have significantly advanced the infrastructure for achieving the Company’s targeted business structure.

Consolidated Results of Operations

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
Year ended 3/04	200,485	20,292	17,586	2,203
Year ended 3/03	285,231	19,265	18,098	5,904
Percentage Increase (Decrease)	(29.7)	5.3	(2.8)	(62.7)

Sales

Net sales decreased significantly, due to the inclusion until the first half of the previous fiscal year of the results of the companies of the Ohmori Group, which were merged with their respective alliance partners between April and October 2002 as part of the re-engineering of the business structure. Also, non-consolidated net sales of the core ethical drugs business declined due to sluggishness caused by a contraction in the market for main products and intensified marketing competition. As a result, consolidated net sales totaled ¥200,485 million, a decline of 29.7 percent compared with the previous fiscal year.

Income

On a non-consolidated basis, net sales decreased but income improved, as manufacturing costs and selling, general and administrative expenses decreased due to the reduction of employees, consolidation of factories and other factors. As a result, consolidated operating income increased 5.3 percent compared with the previous fiscal year to ¥20,292 million, and the ratio of operating income to net sales improved to 10.1 percent. The balance of non-operating income and expenses worsened due to factors including a decline in income from industrial property rights and an increase in the loss on disposal of inventory, and consolidated ordinary income declined slightly by 2.8 percent compared with previous fiscal year to ¥17,586 million. Shionogi recorded an extraordinary loss exceeding ¥12.4 billion due to additional retirement payments to employees who applied for the outplacement support program and employees who transferred to joint venture companies of the clinical testing services and industrial chemicals businesses. Consequently, consolidated net income decreased 62.7 percent compared with the previous fiscal year to ¥2,203 million.

For the year ended March 31, 2004, 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, Shionogi strengthened efforts aimed at the discovery and swift development of original new drugs, narrowing its research areas and target diseases and 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, and launched this product in July. In addition, Shionogi filed a new drug application (NDA) for the antibiotic doripenem in September 2003. Overseas, Shionogi-GlaxoSmithKline Pharmaceuticals, LLC, and Shionogi USA, Inc. are moving ahead with development of drugs including an antidementia drug and a drug targeting malignant tumors.

As a result of these activities, consolidated research and development expenditures for the fiscal year were ¥29,807 million, and were 14.9 percent of net sales.

The hyperlipidemia drug that Shionogi licensed Astra Zeneca plc, which filed NDAs in countries around the world, was approved in the U.S. in August 2003 and launched in September. Increased royalty income from Astra Zeneca plc is expected with the steady expansion of sales in the future. Approval of this drug is expected this year in Japan, where Shionogi will co-market it.

Capital Investment

Capital investment during the fiscal year totaled ¥5.8 billion, and was centered on strengthening manufacturing facilities to consolidate factories and manufacture new products, as well as the expansion of research facilities. In addition, Shionogi continued from the previous fiscal year to invest aggressively in a new system, which was nearly completed during the fiscal year. These measures contributed to advancements in the infrastructure for effective use of information by management and for efficient operations.

2) Segment Information

Pharmaceuticals and Related Businesses

On a non-consolidated basis, sales of ethical drugs decreased due to market contraction and intensified competition resulting from government policies to contain healthcare costs, together with the lower prevalence of influenza and pollen allergies during the fiscal year. Sales of over-the-counter products also declined due to challenging market conditions. Sales of diagnostics products increased only slightly, due to intensified competition among main products. Moreover, because the Ohmori Group companies were removed from the scope of consolidation as of the end of the interim period of the previous fiscal year, total net sales of Pharmaceuticals and Related Businesses decreased 31.0 percent compared with the previous fiscal year to ¥185,255 million.

Operating income of Pharmaceuticals and Related Businesses increased 8.3 percent year-on-year to ¥17,709 million, due to reduction of primarily non-consolidated manufacturing costs and selling, general and administrative expenses, and an improvement in the income ratio due to the exclusion from consolidation of Ohmori Group companies, which had been running deficits.

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.

Due to decreased sales volume of capsules caused by intensified competition, net sales were ¥11,431 million, a decrease of 3.6 percent compared with the previous fiscal year.

As a result, operating income decreased 7.9 percent to ¥1,307 million.

Other Businesses

In line with the re-engineering of the business structure, the industrial chemicals business was transferred to a joint venture company in October 2003. Consequently, net sales of Other Businesses, which now comprises real estate leasing and other businesses, declined 23.9 percent compared with the previous fiscal year to ¥3,798 million.

Total operating income declined 14.4 percent to ¥1,238 million.

(2) Forecast for the Year Ending March 31, 2005

Projected results for the year ending March 31, 2005 are as follows.

Consolidated Projection

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
Year ending 3/05	203,000	28,500	27,000	18,000
Year ended 3/04	200,485	20,292	17,586	2,203
Percentage Increase	1.3	40.4	53.5	717.1

In the domestic ethical drug market, a 4.2 percent average reduction in National Health Insurance (NHI) drug prices was instituted in April 2004, and policies designed to contain the rising healthcare costs will continue. Under these circumstances, the Company will continue to strengthen research and development areas and the domestic sales force through the implementation of management structure reforms to respond promptly to the changing environment.

Shionogi forecasts improvement in revenues and increase of profits due to the effects of the re-engineering of its business structure and the introduction of new retirement benefit system. Shionogi plans to post a ¥3.5 billion extraordinary gain in connection with the part transferred to the defined contribution pension plan accompanied with the termination of the former retirement benefit system.

2. Financial Position

In operating activities for the year ended March 31, 2004, income before income taxes and minority interests decreased significantly. However due to the gain on inventory reductions and reductions in income taxes paid, net cash provided by operating activities increased ¥7,288 million compared with the previous fiscal year to ¥15,059 million.

In investing activities, net cash used in investing activities totaled ¥8,044 million, due to factors including capital investments for manufacturing facilities and an increase in investments in securities.

In financing activities, net cash used in financing activities totaled ¥10,340 million, due to factors including the payment of cash dividends and the repayment of debt.

As a result, cash and cash equivalents at March 31, 2004 stood at ¥68,623 million, a decrease of ¥2,873 million from March 31, 2003.

Trends in Cash Flow Indicators

	Year ended March 2000	Year ended March 2001	Year ended March 2002	Year ended March 2003	Year ended March 2004
The ratio of Shareholders' equity (%)	57.7	57.7	58.4	73.9	77.7
The ratio of shareholder's equity calculated based on market value (%)	142.9	135.4	144.2	151.5	169.0
The term for the redemption of liabilities (years)	2.3	1.7	1.5	3.7	1.4
Interest coverage ratio (times)	26.7	35.2	40.5	14.9	32.4

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, 2004		Year ended March 31, 2003		Increase (decrease)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
		%		%		%
Net sales	200,485	100.0	285,231	100.0	(84,746)	(29.7)
Cost of sales	79,856	39.8	153,402	53.8	(73,546)	(47.9)
Gross profit	120,629	60.2	131,829	46.2	(11,200)	(8.5)
Selling, general and administrative expenses	100,337	50.1	112,564	39.5	(12,227)	(10.9)
Operating income	20,292	10.1	19,265	6.7	1,027	5.3
Non-operating income	2,416	1.2	3,461	1.2	(1,045)	(30.2)
Interest income	670		759		(89)	
Dividend income	552		434		118	
Income from real estate rental	610		112		498	
Other income	583		2,153		(1,570)	
Non-operating expenses	5,121	2.5	4,628	1.6	493	10.7
Interest expense	494		569		(75)	
Contributions	1,101		970		131	
Loss on disposal of inventories	805		606		199	
Loss on disposal of property, plant and equipment	415		695		(280)	
Exchange loss	665		725		(60)	
Other expenses	1,639		1,061		578	
Ordinary income	17,586	8.8	18,098	6.3	(512)	(2.8)
Extraordinary gains	16	0.0	544	0.2	(528)	(97.1)
Gain on sales of subsidiaries' securities	13		248		(235)	
Gain on sales of investments in securities	2		153		(151)	
Reversal of allowance for doubtful accounts	--		142		(142)	
Extraordinary losses	12,424	6.2	9,503	3.3	2,921	30.7
Costs related to outplacement support	7,081		3,013		4,068	
Additional retirement benefits	3,845		5,326		(1,481)	
Loss on revaluation of investment in securities	99		668		(569)	
Loss on sales of subsidiary's securities	--		450		(450)	
Loss on transfer of investments in securities	--		44		(44)	
Other losses	1,397		--		1,397	
Income before income taxes and minority interests	5,178	2.6	9,138	3.2	(3,960)	(43.3)
Income taxes, current	2,101	1.1	6,134	2.2	(4,033)	(65.7)
Income taxes, deferred	844	0.4	(2,770)	(1.0)	3,614	
Minority interests	(28)	(0.0)	129	0.1	(157)	
Net income	2,203	1.1	5,904	2.1	(3,701)	(62.7)

Consolidated Statements of Retained Earnings

(Units: millions of yen)

Account \ Period	Year ended March 31, 2004		Year ended March 31, 2003		Increase (decrease)
(Additional paid in capital)					
I. Balance at beginning of the period		20,227		20,227	0
II. Balance at end of the period		20,227		20,227	0
(Retained Earnings)					
I. Balance at beginning of the period		230,882		228,898	1,984
II. Increase					
Net income	2,203		5,904		
Increase due to merger of an unconsolidated subsidiary	2,585		--		
Increase in exclusion of consolidated subsidiaries	--	4,788	983	6,887	(2,099)
III. Deductions					
Cash dividends paid	2,960		2,959		
Bonuses to directors and statutory auditors	104		117		
(Directors)	(100)		(114)		
(Statutory auditors)	(3)		(3)		
Decrease due to merger of consolidated subsidiaries	3		--		
Decrease in exclusion of consolidated subsidiaries	14	3,082	1,826	4,903	(1,821)
IV. Balance at end of the period		232,589		230,882	1,707

Consolidated Balance Sheets

(Assets)

(Units: millions of yen)

Account \ Period	As of March 31, 2004 Amount	Percentage	As of March 31, 2003 Amount	Percentage	Increase (decrease)
(Assets)		%		%	
Current assets:					
Cash and deposits	75,044		77,593		(2,549)
Notes and accounts receivable	71,459		76,375		(4,916)
Marketable securities	23,059		2,289		20,770
Inventories	33,549		41,275		(7,726)
Deferred income taxes	3,990		4,220		(230)
Other current assets	7,111		8,794		(1,683)
Allowance for doubtful accounts	(64)		(61)		(3)
Total current assets	214,150	56.9	210,488	56.6	3,662
Fixed assets:					
Property, plant and equipment:					
Buildings and structures	33,035		34,562		(1,527)
Machinery and equipment	15,231		16,472		(1,241)
Land	17,282		17,171		111
Construction in progress	1,269		2,019		(750)
Other	5,175		5,359		(184)
Property, plant and equipment, net	71,993	19.1	75,585	20.4	(3,592)
Excess of cost over net assets acquired	243		329		(86)
Other	4,943		4,991		(48)
Total intangible fixed assets	5,187	1.4	5,320	1.4	(133)
Investments and other assets:					
Investments in securities	80,787		73,098		7,689
Deferred income taxes	384		3,564		(3,180)
Other	3,824		3,809		15
Allowance for doubtful accounts	(166)		(162)		(4)
Total investments and other assets	84,829	22.6	80,309	21.6	4,520
Total fixed assets	162,010	43.1	161,215	43.4	795
Total assets	376,160	100.0	371,704	100.0	4,456

Consolidated Balance Sheets

(Liabilities, minority interests and shareholders' equity)

(Units: millions of yen)

Account \ Period	As of March 31, 2004 Amount	As of March 31, 2004 Percentage	As of March 31, 2003 Amount	As of March 31, 2003 Percentage	Increase (decrease)
(Liabilities)		%		%	
Current liabilities:					
Note and accounts payable	10,346		12,121		(1,775)
Short-term bank loans and current portion of long-term debt	1,033		7,718		(6,685)
Accrued income taxes	1,487		3,924		(2,437)
Deferred income taxes	--		137		(137)
Reserves:					
Reserve for bonuses	6,343		7,822		(1,479)
Other reserves	710		728		(18)
Other current liabilities	14,847		15,110		(263)
Total current liabilities	34,768	9.2	47,562	12.8	(12,794)
Long-term liabilities:					
Bonds	20,000		20,000		0
Deferred income taxes	8,339		335		8,004
Accrued retirement benefits for employees	18,829		26,338		(7,509)
Accrued retirement for directors and statutory auditors	462		416		46
Other long-term liabilities	1,374		2,054		(680)
Total long-term liabilities	49,005	13.0	49,145	13.2	(140)
Total liabilities	83,773	22.2	96,707	26.0	(12,934)
(Minority interests)					
Minority interests	199	0.1	172	0.1	27
(Shareholders' equity)					
Common stock	21,279	5.7	21,279	5.7	0
Additional paid-in capital	20,227	5.4	20,227	5.4	0
Retained earnings	232,589	61.8	230,882	62.1	1,707
Unrealized gain on securities	21,023	5.6	5,015	1.4	16,008
Translation adjustments	(1,588)	(0.4)	(1,565)	(0.4)	(23)
Less:					
Treasury stock, at cost	(1,343)	(0.4)	(1,015)	(0.3)	(328)
Total shareholders' equity	292,187	77.7	274,824	73.9	17,363
Total liabilities, minority interests and shareholders' equity	376,160	100.0	371,704	100.0	4,456

Consolidated Statements of Cash Flows

(Units: millions of yen)

		Year ended March 31, 2004	Year ended March 31, 2003
		Amount	Amount
I	Operating activities		
	Income before income taxes and minority interests	5,178	9,138
	Depreciation and amortization	9,623	9,962
	Amortization of excess of cost over net assets acquired	81	223
	Loss on disposal of property, plant and equipment	415	695
	Provision for (reversal of) allowance for doubtful accounts	11	(232)
	Reversal of retirement benefits, net of payments	(7,509)	(6,412)
	Provision for (reversal of) retirement benefits for directors and statutory auditors	46	(34)
	Interest and dividend income	(1,223)	(1,194)
	Interest expense	494	569
	Exchange loss , net	421	1,230
	Decrease in notes and accounts receivable, trade	4,705	69,749
	Decrease in inventories	7,285	89
	Decrease in notes and accounts payable, trade	(1,631)	(70,991)
	Decrease in accrued expenses	(890)	(351)
	Increase (decrease) in accounts payable, other	1,807	(3,154)
	Bonuses to directors and statutory auditors	(105)	(118)
	Other	(155)	8,593
	Subtotal	18,555	17,762
	Interest and dividend income received	1,490	1,525
	Interest paid	(464)	(522)
	Income taxes paid	(4,521)	(10,993)
	Net cash provided by operating activities	15,059	7,771
Ⅱ	Investing activities		
	Increase in time deposits	(5,411)	(10,290)
	Decrease in time deposits	4,944	11,903
	Purchases of marketable securities	(19)	(29)
	Proceeds from sales of marketable securities	2,199	2,359
	Purchases of investments in securities	(4,360)	(2,094)
	Proceeds from sales of investments in securities	4	227
	Purchases of property, plant and equipment	(4,404)	(9,012)
	Proceeds from sales of property, plant and equipment	157	495
	Proceeds from collection of loans receivable	1	10,519
	Payments for purchases of investments in an affiliate	(206)	--
	Proceeds from sales of investments in an affiliate	23	3,697
	Proceeds from sales of business	263	--
	Proceeds from sales of a subsidiary’s stock, resulting in change in scope of consolidation	--	554
	Other	(1,236)	(2,295)
	Net cash (used in) provided by investing activities	(8,044)	6,035
Ⅲ	Financing activities		
	Short-term loans, net	(7,086)	(11,151)
	Repayment of long-term debt	(120)	(65)
	Cash dividends paid to shareholders of the Company	(2,936)	(2,953)
	Cash dividends paid to minority interests	--	(6)
	Other	(196)	(693)
	Net cash used in financing activities	(10,340)	(14,870)
Ⅳ	Effect of exchange rate changes on cash and cash equivalents	456	(284)
Ⅴ	Decrease in cash and cash equivalents	(2,868)	(1,348)
Ⅵ	Cash and cash equivalents at beginning of period	71,496	79,715
Ⅶ	Decrease in cash and cash equivalents resulting from exclusion from consolidation	(50)	(6,870)
Ⅷ	Increase in cash and cash equivalents resulting from merger of consolidated and unconsolidated subsidiaries	45	--
Ⅸ	Cash and cash equivalents at end of period	68,623	71,496

Notes to Consolidated Financial Statements

1. Scope of consolidation

Number of consolidated subsidiaries: 14 subsidiaries

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 Buturyuu 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 consolidated financial statements for the year ended March 31, 2004. All shares in this company were sold in November 2004.

That portion of the total assets, net sales and net profit (loss) of the 1 unconsolidated subsidiary for the year ended March 31, 2004 attributable to the Company in proportion to its shareholding ratio had no significant effect on the accompanying consolidated financial statements.

2. Application of equity method

No unconsolidated subsidiaries were accounted for by the equity method for the year ended March 31, 2004.

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

One domestic consolidated subsidiary closes its 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

① Securities
Held-to-maturity securities ---------------- Amortized cost method
Other securities
Market value available ---------------- At fair value, based on market price or other appropriate quotation as of period end
(Unrealized gain is charged directly to capital; cost of sales is accounted for by the moving average method.)
Market value not available ---------------- At cost determined by the moving average method

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

(2) Method of depreciation of significant depreciable assets

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

[Buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998 are depreciated by straight-line method.
The useful lives are principally as follows:
Buildings and structures: 2 to 60 years
Machinery and equipment and vehicles: 2 to 17years]

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

[Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).]

(3) Basis for providing significant allowances and reserves

① Allowance for doubtful accounts

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

② Reserve for bonuses

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

③ Accrued retirement benefits for employees

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

Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

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

(Additional information)

The Company transfers a certain portion of its retirement benefit plans to a defined contribution pension plan in April 2004. With respect to this transfer, the Company will adopt "Accounting for Transfers Among Retirement Benefit Plans" ("Financial Accounting Standard Implementation Guidance No. 1"). The effect of the adoption of this accounting standard is projected to generate gain of 3,563 million yen for the year ending March 31, 2005.

④ Accrued retirement benefits for directors and statutory auditors

To prepare for the payment of retirement benefits to directors and statutory auditors, a reserve for their retirement benefits is provided for the estimated amounts as of the year end based on the Company's internal rules.

(4) Foreign currency translation

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

(5) Accounting for significant lease transactions

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

(6) Significant hedge accounting

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

② Hedging instruments and hedged items

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

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

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

(7) Other significant accounting policies

Consumption tax

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

5. Valuation of assets and liabilities in the consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are revalued at their current value.

6. Amortization of excess of cost over net assets acquired

Excess of cost over net assets acquired is amortized by the straight-line method over 5 years. If the amount is immaterial, it is fully charged to income as incurred.

7. Appropriation of retained earnings

Consolidated statements of retained earnings are prepared on the appropriations approved at a shareholders' meeting held at the close of each fiscal year.

8. Definition of cash and cash equivalents in the consolidated cash flow statements

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

[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 potion 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 year ended March 31, 2004, 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 ¥1,244 million and non-operating income decreased by ¥1,244 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 consolidated statements of income]

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

	[Year ended March 31, 2004]		[Year ended March 31, 2003]	
Salaries	22,246	Million yen	23,024	Million yen
Provision for reserve for bonuses	3,660		8,548	
Provision for retirement benefits	6,124		6,035	
Provision for retirement benefits for directors and statutory auditors	46		99	
R & D expenses	29,807	Million yen	31,283	Million yen

(R&D expenses above include the following amounts provided as reserves:)

	[Year ended March 31, 2004]		[Year ended March 31, 2003]	
Provision for reserve for bonuses	1,440	Million yen	3,722	Million yen
Provision for retirement benefits	2,275		1,854	

[Notes to consolidated balance sheets]

		[As of March 31, 2004]		[As of March 31, 2003]	
1.	Accumulated depreciation of property, plant and equipment	164,756	Million yen	163,044	Million yen
2.	Guaranteed liabilities	11	Million yen	14	Million yen
3.	Stocks etc, of unconsolidated subsidiaries and affiliates				
	Investments in securities(stocks)	2,241	Million yen	2,066	Million yen
	Investments and other assets(investments)	965		701	

4. Commitments ---- Lines of Credit

The Company entered into line-of-credit commitments with 9 banks in order to enhance its working capital efficiency. The outstanding balances of these lines of credit at March 31, 2004 were as follows:

Total amount of lines of credit	20,000	Million yen	--	Million yen
The amount of borrowing	--		--	
Outstanding balances	20,000		--	

5. Pledged assets and secured liabilities

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	437		116	
Total	443	Million yen	122	Million yen
Liabilities secured by the above assets:				
Other current liabilities	4	Million yen	5	Million yen
Short-term bank loans and current portion of long-term debt	725		--	
Other long-term liabilities	--		725	
Total	729	Million yen	730	Million yen

5.	The number of shares of stocks in issue				
	Common stocks	351,136	Thousand shares	The same as at left	
6.	The number of shares of treasury stocks held by the Company and consolidated subsidiaries				
	Common stocks	5,285	Thousand shares	3,352	Thousand shares

[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, 2004]		[As of March 31, 2003]	
Cash and deposits	75,044	Million yen	77,593	Million yen
Time deposits with a maturity exceeding three months	(6,421)		(6,096)	
Cash and cash equivalents	68,623	Million yen	71,496	Million yen

[Notes to lease transactions]

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

	[As of March 31, 2004]		[As of March 31, 2003]	
1. Acquisition cost equivalent, accumulated depreciation equivalent and period end balance equivalent of lease properties				
Acquisition cost equivalent	286	Million yen	283	Million yen
Accumulated depreciation equivalent	195		146	
Term-end balance	91	Million yen	136	Million yen

* Tools and furniture account for most of the above balances.

	[As of March 31, 2004]		[As of March 31, 2003]	
2. Breakdown of period end balance equivalent of unexpired leases				
Within one year	49	Million yen	53	Million yen
Exceeding one year	42		82	
Total	91	Million yen	136	Million yen
3. Lease payments and depreciation equivalent				
Lease payments	55	Million yen	337	Million yen
Depreciation equivalent	55	Million yen	337	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, 2004			As of March 31, 2003		
	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	38,412	38,647	235	40,657	41,465	807
(2) Corporate bonds	--	--	--	--	--	--
(3) Other bonds	--	--	--	--	--	--
Subtotal	38,412	38,647	235	40,657	41,465	807

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

(Units: millions of yen)

	As of March 31, 2004			As of March 31, 2003		
	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	2,019	1,928	(91)	29	29	(0)
(2) Corporate bonds	--	--	--	--	--	--
(3) Other bonds	--	--	--	--	--	--
Subtotal	2,019	1,928	(91)	29	29	(0)
Total	40,432	40,576	143	40,687	41,495	807

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, 2004			As of March 31, 2003		
	Acquisition cost	Value reported in consolidated balance sheet	Difference	Acquisition cost	Value reported in consolidated balance sheet	Difference
(1) Stocks	14,200	48,251	34,051	10,207	18,003	7,795
(2) Bonds						
① National, local government and other public bonds	--	--	--	--	--	--
② Corporate bonds	--	--	--	--	--	--
③ Other bonds	2,646	3,605	959	2,788	4,324	1,535
(3) Other securities	5,000	5,074	74	60	126	65
Subtotal	21,846	56,931	35,084	13,057	22,454	9,396

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

(Units: millions of yen)

	As of March 31, 2004			As of March 31, 2003		
	Acquisition cost	Value reported in consolidated balance sheet	Difference	Acquisition cost	Value reported in consolidated balance sheet	Difference
(1) Stocks	12	10	(1)	3,997	3,830	(167)
(2) Bonds						
① National, local government and other public bonds	--	--	--	--	--	--
② Corporate bonds	--	--	--	--	--	--
③ Other bonds	--	--	--	--	--	--
(3) Other securities	5	5	(0)	5,005	4,417	(587)
Subtotal	17	15	(1)	9,002	8,247	(755)
Total	21,864	56,947	35,082	22,060	30,701	8,641

3. Other securities sold in their fiscal year

(Units: millions of yen)

Year ended March 31, 2004			Year ended March 31, 2003		
Sales value	Sales gain	Sales loss	Sales value	Sales gain	Sales loss
3	2	--	72	161	(0)

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

(Units: millions of yen)

	As of March 31, 2004	As of March 31, 2003
	Value reported in consolidated balance sheet	Value reported in consolidated balance sheet
Other securities		
① Unlisted stocks (excluding OTC stocks)	4,224	1,931
② Certificates of deposits (domestic)	63,900	62,900

(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, 2004			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
(1) Bonds				
① National, local government and other public bonds	22,179	8,202	10,030	--
② Corporate bonds	--	--	--	--
③ Other bonds	854	--	1,423	1,327
(2) Other securities	63,900	--	--	--
Total	86,934	8,202	11,454	1,327

(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, 2003			
	Within 1 year	From1 year to 5 years	From5 years to 10 years	Over 10 years
(1) Bonds				
① National, local government and other public bonds	2,031	28,502	10,153	--
② Corporate bonds	--	--	--	--
③ 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.

[Notes to derivative transactions]

Derivative transactions for the year from April 1, 2003 to March 31, 2004 and the year from April 1, 2002 to March 31, 2003.

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, 2004.

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, 2004, and March 31, 2003.

[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, additional 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 consolidated subsidiaries have also adopted a defined contribution plan.
The Company transfers its retirement benefit plans to a cash balance plan (a money market pension plan), a lump-sum payment plan and a defined contribution pension plan in April 2004.
One domestic consolidated subsidiary adopted a defined contribution pension plan effective January 2004.

2. Information on retirement benefit obligations

(Units: millions of yen)

		As of March 31,2004	As of March 31,2003
a.	Retirement benefit obligations	(121,402)	(150,849)
b.	Pension assets	101,070	81,817
c.	Unfunded retirement benefit obligations (a + b)	(20,332)	(69,032)
d.	Unrecognized actuarial difference	28,328	52,113
e.	Unrecognized prior service cost	(26,825)	(9,419)
f.	Net accrued retirement benefits reflected in consolidated balance sheet (c + d + e)	(18,829)	(26,338)
g.	Prepaid pension costs	--	--
h.	Accrued retirement benefits (f – g)	(18,829)	(26,338)

Notes: 1. The above amounts do not include temporary additional retirement benefits.
2. Prior service cost has been recognized due to a recent amendment to the Company’s defined benefit pension plan and lump-sum payment plans which resulted in a decrease in the projected benefit obligation.
3.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 31,2004	Year ended March 31,2003
a.	Service cost	4,237	4,801
b.	Interest cost	3,682	4,338
c.	Expected return on plan assets	(1,563)	(2,030)
d.	Amortization of actuarial difference	5,897	4,463
e.	Amortization of prior service cost	(1,724)	(1,086)
f.	Other cost	54	--
g.	Retirement benefit expenses (a + b + c + d + e + f)	10,583	10,486

Notes: 1. In addition to the above retirement benefit expenses, the Company recorded additional retirement benefits of 21 million yen as an operating expense, 61 million yen as a non-operating expense, and 10,810 million yen as an extraordinary loss.
2. Retirement benefit expenses of consolidated subsidiaries which have the simplified computation methods are included in "a. Service cost".
3. The Company transfers a certain portion of its retirement benefit plans to a defined contribution pension plan in April 2004. With respect to this transfer, the Company will adopt “Accounting for Transfers Among Retirement Benefit Plans” (“Financial Accounting Standard Implementation Guidance No. 1”). The effect of the adoption of this accounting standard is projected to generate gain of 3,563 million yen for the year ending March 31, 2005.
4. ‘f. Other cost’ presents the contributions to the defined contribution retirement benefit plans.

4. Basis of determining retirement benefit obligations and other expenses

		As of March 31,2004	As of March 31,2003
a. Allocation of estimated amount of retirement benefits to be paid to employees	:	Periodic straight-line method	The same as at left
b. Discount rate	:	2.0%	2.5%
c. Expected rate of return on plan assets	:	2.0%	2.0% to 3.0%
d. Years to amortize prior service cost	:	10 years(to be amortized by straight-line method)	The same as at left
e. Years to amortize actuarial difference	:	10 years (to be amortized by straight-line method in the each following year)	The same as at left

[Notes to tax effects]

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

(Units: millions of yen)

	As of March 31, 2004	As of March 31, 2003
(1) Current :		
Deferred tax assets:		
Accrued bonuses	2,591	2,733
Research and development expenses	286	343
Reserve for sales rebates	251	266
Accrued enterprise tax	154	342
Other	1,199	914
Subtotal	4,483	4,600
Valuation allowance	(48)	(56)
Total deferred tax assets	4,435	4,544
Deferred tax liabilities:		
Allowance for doubtful accounts	(365)	(300)
Other	(79)	(160)
Total deferred tax liabilities	(444)	(460)
Net deferred tax assets	3,990	4,083
(2) Non-current:		
Deferred tax assets:		
Retirement benefits	5,009	5,953
Research and development expenses	772	--
Loss on revaluation of investments in securities	510	617
Provision for retirement benefits for directors and statutory auditors	187	171
Loss carry forward of consolidated subsidiaries	88	227
Depreciation of computer software	49	121
Other	383	926
Subtotal	7,001	8,018
Valuation allowance	(88)	(453)
Total deferred tax assets	6,912	7,564
Deferred tax liabilities:		
Unrealized gain on other securities	(13,950)	(3,510)
The differences between book value and current value of consolidated subsidiaries	(532)	(532)
Special depreciation	(311)	(186)
Other	(72)	(106)
Total deferred tax liabilities	(14,867)	(4,336)
Net deferred tax (liabilities) assets	(7,954)	3,228

(Note) Net deferred tax assets in the years ended March 31, 2004 and 2003 are included in consolidated balance sheets as follows:

		As of March 31, 2004	As of March 31, 2003
Current assets	--deferred tax assets	3,990	4,220
Fixed assets	--deferred tax assets	384	3,564
Current liabilities	--deferred tax liabilities	--	(137)
Fixed liabilities	--deferred tax liabilities	(8,339)	(335)

2. The effective tax rates for the years ended March 31, 2004 and 2003 differ from the statutory tax rate above for the following reasons:

	As of March 31, 2004	As of March 31, 2003
Statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	26.7	15.0
Dividends not taxable for income tax purpose	(0.5)	--
Amortization of excess of cost over net assets acquired	0.7	0.9
Tax credit	(14.9)	(2.0)
Decrease in deferred tax assets at end of year due to change in statutory tax rate	4.8	1.3
Loss carry forward taken over upon the merger	(3.0)	--
Inhabitants' per capita taxes	2.5	1.7
Loss carry forward of consolidated subsidiaries	1.4	1.8
Differences between statutory tax rate in Japan and income tax rate applied for overseas consolidated subsidiaries	(1.3)	(1.9)
Loss carry forward in prior year	--	(6.6)
Loss on liquidation of a consolidated subsidiary	--	(10.8)
Income tax refund of overseas consolidated subsidiaries	--	(3.2)
Other	(1.5)	(1.4)
Effective tax rates	56.9%	36.8%

[Segment Information]

1. Business Segment Information

Year ended March 31, 2004 (Units: millions of yen)

Account \ Segment	Pharmaceuticals and related businesses	Capsule business	Other businesses	Total	Eliminations and general corporate assets	Consolidated
Ⅰ Net sales and operating income:						
Net sales						
(1) Sales to third parties	185,255	11,431	3,798	200,485	--	200,485
(2) Intergroup sales and transfers	--	220	5,791	6,011	(6,011)	--
Total	185,255	11,651	9,589	206,497	(6,011)	200,485
Operating expenses	167,546	10,344	8,351	186,242	(6,049)	180,193
Operating income	17,709	1,307	1,238	20,254	37	20,292
Ⅱ Assets, depreciation and capital expenditures:						
Total assets	206,208	19,975	16,944	243,128	133,032	376,160
Depreciation	8,559	1,048	617	10,225	--	10,225
Capital expenditures	7,569	465	186	8,221	--	8,221

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
Ⅰ 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 (loss)	16,347	1,419	1,447	19,213	51	19,265
Ⅱ 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

(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, 2004)

Business Segment	Major products/merchandise and services
Pharmaceuticals and related businesses	Ethical drugs, OTC drugs and Diagnostics
Capsule business	Capsules
Other businesses	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 133,949 million yen in the year ended March 31, 2004, and 110,208 million yen in the year ended March 31, 2003, 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.

5. As described in 'Change of accounting method'(p.17), effective the year ended March 31, 2004, 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 1,237 million yen and 7 million yen, respectively.

2. Segment Information by Geographic Area
Segment information by geographic area for the year from April 1, 2003 to March 31, 2004 and the year from April 1, 2002 to March 31, 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 year from April 1, 2003 to March 31, 2004 and the year from April 1, 2002 to March 31, 2003.

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, 2003 to March 31, 2004, and for the year from April 1, 2002 to March 31, 2003

There were no significant transactions.

[Amounts per share]

(Units: yen)

	Year ended March 31,2004	Year ended March 31,2003
Shareholders’ equity per share	844.53	789.91
Earnings per share	6.06	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 per share is as follows.

	Year ended March 31,2004	Year ended March 31,2003
Net income (millions of yen)	2,203	5,904
The amount which is not attributable to ordinary shareholders (millions of yen)	105	105
(Bonus to directors and statutory auditors to pay as appropriations of retained earnings)	(105)	(105)
Net income related to common stocks (millions of yen)	2,097	5,799
Average number of shares outstanding during the period (thousands of stocks)	345,902	348,034

Status of Production, Orders and Sales

1. Production
   The consolidated production results for each business segment for the year ended March 31, 2004 was as follows:

(Units: millions of yen)

Business Segment		[Amounts]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses		134,316	(8.9)
	Ethical drugs	127,146	(7.0)
	OTC drugs	4,301	(46.3)
	Diagnostics	2,869	5.9
Capsule business		11,781	(2.3)
Other businesses		653	(48.5)
	Industrial chemicals	653	(48.5)
Total		146,750	(8.7)

(Notes) 1. Amounts are calculated based on net sales prices.
2. The Company's industrial chemicals business was transferred to a joint venture in October 2003.
3. Amounts are stated exclusive of consumption tax.

2. Purchases
   The consolidated purchases for each business segment for the year ended March 31, 2004 was as follows:

(Units: millions of yen)

Business Segment		[Amounts]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses		22,148	(77.3)
	Ethical drugs	21,016	(77.2)
	OTC drugs	507	(89.2)
	Diagnostics	625	9.3
Capsule business		--	--
Other businesses		266	(60.1)
	Industrial chemicals	266	(60.1)
Total		22,414	(77.1)

(Notes) 1. Amounts are based on actual purchases.
2. The Company's industrial chemicals business was transferred to a joint venture in October 2003.
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, 2004 was as follows:

(Units: millions of yen)

Business Segment		[Amounts]	[Increase (decrease) (%)]
Pharmaceuticals and related businesses		185,255	(31.0)
	Ethical drugs	173,471	(31.4)
	OTC drugs	6,752	(43.7)
	Diagnostics	3,795	5.9
	License fee as royalty income	1,237	--
Capsule business		11,431	(3.6)
Other businesses		3,798	(23.9)
	Industrial chemicals	966	(56.7)
	Real estate lease/Physical distributing and other services	2,832	2.6
Total		200,485	(29.7)

(Notes) 1. Amounts are sales to customers outside the Shionogi Group.
2. The Company's industrial chemicals business was transferred to a joint venture in October 2003.
3. Amounts are stated exclusive of consumption tax.