

Six-Year Summary of Selected Financial Data .....	40	Consolidated Statements of Changes in Net Assets.....	48
Management's Discussion and Analysis.....	41	Consolidated Statements of Cash Flows.....	49
Consolidated Balance Sheets .....	45	Notes to Consolidated Financial Statements...	50
Consolidated Statements of Income .....	47	Report of Independent Auditors.....	61

## Six-Year Summary of Selected Financial Data

Shionogi & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31

	2009	2008	2007	2006	2005	2004	2009
	Millions of yen						Thousands of U.S. dollars
<b>For the year ended March 31:</b>							
Net sales .....	¥227,512	¥ 214,268	¥ 199,759	¥196,389	¥199,365	¥200,485	\$2,316,115
Cost of sales.....	70,929	68,594	67,542	68,708	74,069	79,856	722,071
Selling, general and administrative expenses .....	124,568	105,275	103,354	98,455	96,567	100,337	1,268,126
Operating income .....	32,015	40,399	28,863	29,226	28,729	20,292	325,918
Income before income taxes and minority interests.....	30,786	39,963	31,723	38,798	31,655	5,178	313,407
Net income .....	15,661	25,064	18,595	22,735	18,942	2,204	159,432
Research and development expenses....	52,822	40,290	37,456	32,257	29,409	29,808	537,738
Capital investments.....	10,875	11,661	11,411	5,386	5,424	4,404	109,946
<b>As of March 31:</b>							
Property, plant and equipment, net .....	¥ 71,812	¥ 70,378	¥ 67,815	¥ 64,251	¥ 68,191	¥ 71,993	\$ 731,060
Total assets.....	501,853	413,704	429,569	427,683	396,999	376,161	5,108,959
Total long-term liabilities.....	114,955	29,024	36,282	38,371	27,783	49,005	1,170,264
Total net assets.....	310,094	342,236	345,752	337,434	300,065	292,387	3,156,816
Working capital.....	125,920	152,520	161,355	156,449	152,914	179,382	1,281,889
Number of shares of common stock issued (in thousands).....	351,136	351,136	351,136	351,136	351,136	351,136	
	Yen						U.S. dollars
<b>Per share amounts:</b>							
Net income .....	¥ 46.75	¥ 74.21	¥ 54.61	¥ 66.55	¥ 54.64	¥ 6.06	\$ 0.48
Net assets.....	924.43	1,020.31	1,014.73	989.76	879.79	844.53	9.41
Cash dividends applicable to the year ...	28.00	22.00	16.00	16.00	12.00	8.50	0.29
<b>Financial indicators:</b>							
Interest coverage ratio (times).....	37.3	306.3	225.6	72.1	68.5	32.4	
Net worth ratio (%).....	61.7	82.7	80.4	78.8	75.5	77.7	

\* U.S. dollar figures have been calculated, for convenience only, at the rate of ¥98.23 = US\$1.00, the approximate rate of exchange on March 31, 2009.

\* From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former shareholders' equity, valuation and translation adjustments, and minority interests as total net assets. Figures for fiscal years through the year ended March 31, 2006 have been calculated in conformity with the new standard.

# Management's Discussion and Analysis

## Overview of Results

During fiscal 2008, the fiscal year ended March 31, 2009, the Japanese pharmaceutical industry's operating environment continued to be harsh due to such factors as stepped-up government initiatives aimed at restraining the rise in medical spending—including moves to promote the greater use of generics and the diagnosis procedure combination (DPC) reimbursement system—and the April 2008 revision of National Health Insurance (NHI) drug reimbursement prices, which amounted to an average 5.2% price reduction for the industry as a whole.

Amid this operating environment, the Shionogi Group proactively took R&D, manufacturing, and marketing initiatives designed to realize the goals of the Group's second medium-term management plan. This plan covers the period from April 2005 to March 2010, which is strategically positioned as the initial stage of the Group's drive to promote a long-term surge in business operations centered on core prescription drug business. As it moved ahead with measures to create R&D systems that generate a continual stream of in-house drug candidates and developing them globally, Shionogi also steadily endeavored to advance products now under development to the next development stage. In manufacturing, Shionogi worked to establish quality assurance and production systems that can support global business expansion while also moving to further reduce the cost of sales by reevaluating procurement methods and augmenting productivity. In domestic marketing, Shionogi concentrated resources on products with a high level of growth potential, centered on the hyperlipidemia treatment Crestor®. Shionogi also moved forward with the strengthening of systematic marketing activities aimed at producing regarding strategically emphasized products that help lay a solid foundation for future sustained growth.

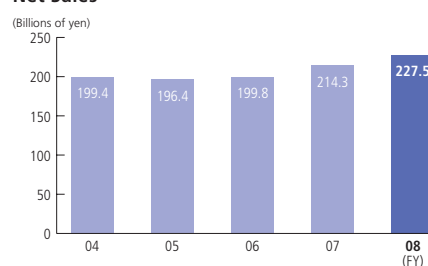
In addition, with the goals of establishing marketing systems in the United States, increasing the value of the in-house products it is developing, and increasing the momentum behind its long-term corporate development, Shionogi converted U.S. pharmaceutical company Sciele Pharma, Inc., into a consolidated subsidiary in October 2008.

## Net Sales

Net sales increased to ¥227,512 million, up 6.2% from the fiscal 2007 level. Factors supporting the increase included growth in sales of such mainstay prescription drugs as Crestor® and cancer pain drugs as well as contributions from such new drugs as

Irbetan®, a hypertension treatment, and Differin® Gel, a topical treatment for acne vulgaris. On the other hand, sales of the anti-cancer agent Imunace® were reduced by the launch of competing products, and the impact of the NHI drug reimbursement price adjustment shrank the Japanese drug market and depressed net sales of antibiotics and other products, leading to an overall decline in net sales of prescription drugs. However, royalty income from industrial property rights increased greatly, reflecting the expanded overseas sales of Crestor® by AstraZeneca and the inclusion of Sciele Pharma in the scope of consolidation.

## Net Sales



## Gross Profit

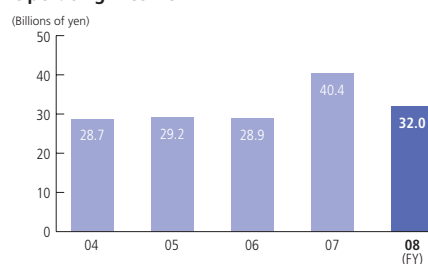
The cost of sales rose ¥2,335 million from fiscal 2007, to ¥70,929 million, but the cost of sales ratio decreased to 31.2% of net sales, from 32.0% owing to the rise in royalty income and the consolidation of Sciele Pharma. As a result, gross profit increased 7.5%, to ¥156,583 million.

## Operating Expenses and Operating Income

Selling, general and administrative (SG&A) expenses increased 18.3% compared with fiscal 2007, to ¥124,568 million, and the SG&A expenses to net sales ratio rose to 54.7%, from 49.1%. The primary factor causing the increase was the disposition of business combination accounting expenses associated with Sciele Pharma, which caused large increases in R&D expenses and SG&A expenses.

As a result, operating income fell 20.8%, to ¥32,015 million.

## Operating Income



## Other Income (Expenses)

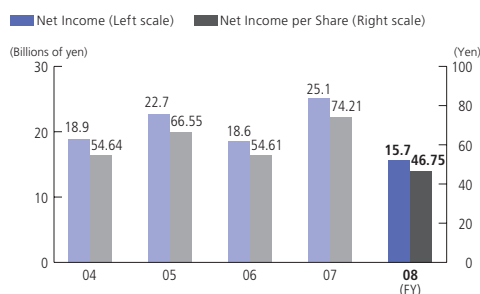
Net other expenses totaled ¥1,229 million, compared with net other expenses of ¥436 million in fiscal 2007. Net interest and dividend income decreased to ¥1,634 million, from ¥2,309 million for the previous fiscal year, and the gain on exchange of investments in securities fell to zero, although the loss on disposal of inventories fell.

## Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests decreased 23.0% from the fiscal 2007 level, to ¥30,786 million. Income taxes, including the income tax adjustment figure, increased 1.4%, to ¥15,087 million, and the effective tax rate increased to 49.0%, from 37.2%, reflecting the exclusion of in-process R&D expenses associated with the Sciele Pharma acquisition from the income tax adjustment figure.

As a result, net income fell 37.5%, to ¥15,661 million, and the net income ratio declined to 6.9%, from 11.7%. Net income per share dropped to ¥46.75, from ¥74.21 in fiscal 2007.

### Net Income and Net Income per Share



Looking at the year-on-year change in consolidated performance calculated on a basis that excludes the impact of business combination accounting and the performance of Sciele Pharma and therefore corresponds to the Shionogi Group's situation before the acquisition of Sciele Pharma, net sales and operating income would have increased 1.9% and 2.0%, respectively, while net income would have declined 0.1%.

The impact of business combination accounting associated with the acquisition of Sciele Pharma was as follows.

(Millions of yen)		
Type of Impact	Value	Relevant Accounting Item
Amortization of intangible assets (marketing rights)	¥ 873	Selling expenses
In-process R&D expenses	9,669	R&D expenses
Amortization of goodwill	906	Selling expenses
Tax-effect accounting related to intangible fixed assets	(310)	Income tax adjustment

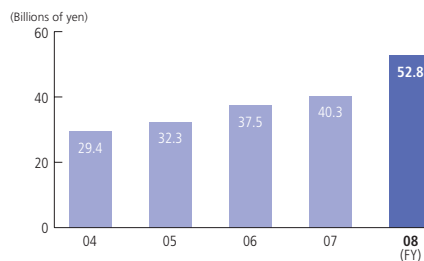
## Research and Development Expenses

In Japan, Shionogi launched three new drugs during fiscal 2008, including Irbetan® in July 2008; Differin® in October 2008; and the idiopathic pulmonary fibrosis treatment Pirespa® in December 2008. One application is pending in Japan, and application for duloxetine hydrochloride for the indication of depression was submitted in January 2008. Including overseas projects, Shionogi is currently in the process of developing such drugs as those for treating obesity, influenza, HIV, and atopic dermatitis.

Regarding R&D facilities, Shionogi cooperated with Hokkaido University to establish the Shionogi Innovation Center for Drug Discovery, which is expected to help identify additional drug discovery seeds of new drugs and strengthen the Shionogi Group's technological base for discovering globally competitive drug candidates.

As a result of these activities, overall Group R&D expenses were ¥52,822 million, and represented 23.2% of net sales. In-process R&D expenses due to business combination accounting associated with the acquisition of Sciele Pharma amounting to ¥9,669 million were included within consolidated R&D expenses for fiscal 2008.

### R&D Expenses



## Cash Flows

Although income before income taxes and minority interests decreased compared with the previous fiscal year, because of a rise in such non-fund transaction expenses as depreciation and amortization and in-process R&D expenses associated with the acquisition of Sciele Pharma, net cash provided by operating activities increased ¥13,501 million, to ¥29,120 million.

Net cash used in investing activities totaled ¥149,056 million, mainly due to expenditure for the acquisition of Sciele Pharma and other capital investments.

Net cash provided by financing activities totaled ¥105,294 million due to borrowings arranged to finance the acquisition of Sciele Pharma.

As a result, cash and cash equivalents at the end of the year decreased ¥16,073 million from a year earlier, to ¥51,536 million.

## Capital Investments

Capital investments by the Shionogi Group during fiscal 2008 totaled ¥10,875 million. The Group proactively made investments centered on the construction of a new solid dosage forms formulation and packaging facility at the Settsu Plant and other projects to upgrade and expand manufacturing and research facilities.

## Assets, Liabilities, and Net Assets

As of March 31, 2009, total assets were ¥501,853 million, an increase of ¥88,149 million from a year earlier. This was owing to a ¥7,760 million increase in current assets, to ¥202,724 million; a ¥1,434 million rise in property, plant and equipment, to ¥71,812 million; and a ¥78,955 million surge in investments and other assets, to ¥227,317 million.

The rise in current assets reflected a ¥7,437 million rise in notes and accounts receivable, which was offset by a ¥16,073 million drop in cash and cash equivalents. The growth in investments and other assets reflected the recording of ¥71,625 million in goodwill and an increase of ¥41,048 million in marketing rights, although these items were partially offset by a ¥40,401 million fall in investments in securities.

Total liabilities increased ¥120,291 million from a year earlier, to ¥191,759 million. Current liabilities were up ¥34,360 million, to ¥76,804 million, while long-term liabilities grew ¥85,931 million, to ¥114,955 million. Principal factors behind the rise in total liabilities included growth of ¥10,000 million in short-term borrowings,

¥14,000 million in the current portion of long-term borrowings, and ¥91,000 million in new long-term borrowings together with a ¥4,562 million decrease in deferred income taxes.

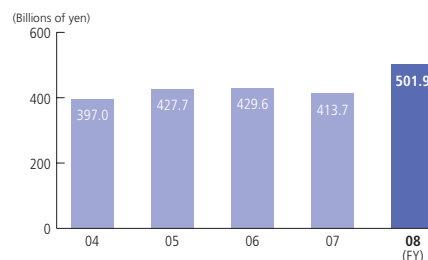
Total net assets decreased ¥32,142 million from a year earlier, to ¥310,094 million. While shareholders' equity increased ¥6,578 million, the net unrealized holding gain on securities was down ¥13,860 million, and translation adjustments were down ¥25,011 million.

The October 2008 acquisition of Sciele Pharma added that company's trade receivables and inventories to Shionogi's consolidated figures, and the acquisition also added the value of Sciele Pharma's marketing rights at the time of the acquisition as well as goodwill to consolidated total assets. In addition, to procure funds for the acquisition, borrowings were increased and liquidity on hand was drawn on, causing a decrease in marketable securities and investment securities. In addition, the impact of currency exchange rate fluctuations between the time of the acquisition and the end of fiscal 2008 caused a drop in translation adjustments.

Other significant factors having an effect besides the acquisition included the impact of slack stock market conditions, which led to decreases in investments in securities, deferred income taxes, and the net unrealized holding gain on securities. On the other hand, the launch of new products was accompanied by a rise in inventories.

As a result, the net worth ratio, defined as the ratio of total net assets to total assets, was 61.7%, compared to 82.7% a year earlier.

**Total Assets**



## Dividends

Shionogi aims to steadily increase dividends in line with performance while proactively investing in its businesses to increase corporate value from a medium- to long-term perspective. Regarding the appropriation of internal reserves, the Company emphasizes providing funding for future business development, including investment in R&D to develop new drugs. Shionogi's target for the consolidated dividend payout ratio for fiscal 2009 is 35%.

Shionogi's Articles of Incorporation stipulate the distribution of retained earnings twice each year as interim and year-end dividends when possible. The General Meeting of Shareholders held after the close of each fiscal year determines the year-end dividend, and the Board of Directors determines the interim dividend. As net income for fiscal 2008 was distorted by the impact of expenses associated with the acquisition of Sciele Pharma, the year-end dividend for fiscal 2008 was set at ¥14.00 per share based on consideration of the underlying level of profitability in fiscal 2008 as well as the prospective profitability levels in fiscal 2009 and subsequently. The total of the interim dividend and the year-end dividend was ¥28.00 per share. Consequently, the consolidated dividend payout ratio for fiscal 2008 was 59.9%.

### **Business and Other Risks**

The main types of risk that might have a significant impact on the Shionogi Group's management performance and financial condition are listed below.

Forward-looking statements in the text reflect the Group's judgment as of March 31, 2009.

#### **① Systemic and Regulatory Risk**

In the Japanese pharmaceutical industry, revisions to the National Health Insurance (NHI) system are being considered, including revisions to the NHI drug price system. These trends could affect the results of the Shionogi Group. In addition, an increase in the strictness of Japanese or overseas regulations concerning such items as the development and manufacture of pharmaceuticals could present the Group with additional expenses or make it difficult for its products to comply with regulations, and there is a possibility that this might have an impact on the Group's performance.

#### **② Risk of Adverse Drug Reactions**

Pharmaceuticals entail the risk of unanticipated adverse drug reactions that could involve termination of sales, product recalls, and other outcomes that could affect the results of the Shionogi Group.

#### **③ Pharmaceutical R&D Risk**

Pharmaceutical R&D requires substantial commitment of resources and time. In addition, new drugs are subject to numerous uncertainties prior to the start of actual sales.

#### **④ Intellectual Property Risk**

The Shionogi Group uses patents as intellectual property to protect the pharmaceuticals it discovers and generate income from them. However, the various types of intellectual property may be unable to provide adequate protection, or may infringe on the intellectual property of third parties.

#### **⑤ Risk of Dependence on Certain Products**

The Shionogi Group obtains approximately 35% of its product sales and industrial property rights royalty income from two of its products, Crestor® and Flomox® (as of fiscal 2008). If the incidence of an unexpected factor were to cause a drop in or the discontinuation of the sales of one of these products, there is a possibility that this might have an impact on the Group's performance.

#### **⑥ Intensification of Global Competition**

Global competition involving non-Japanese companies in the prescription drug industry's R&D and sales operations is becoming increasingly intense.

#### **⑦ Risk of Alliances with Other Companies**

The Shionogi Group engages in diverse forms of alliances with other companies with respect to joint research, joint development, joint marketing, and other activities, including cooperation in such forms as cooperative research projects, cooperative development projects, the in-licensing and out-licensing of technologies, and cooperative marketing projects. If some situation were to change or eliminate these cooperative relationships, it might have an impact on the Group's performance.

#### **⑧ Plant Closure and Shutdown Risk**

The sudden occurrence of natural disasters or other unforeseen incidents could dictate the closure or shutdown of plants, which could affect the results of the Shionogi Group.

#### **⑨ Capital Market and Foreign Exchange Risk**

Fluctuations in stock and foreign exchange markets that exceed the projected range could affect the results and financial position of the Shionogi Group.

#### **⑩ Other Risks**

In addition to the above-listed risks, the Shionogi Group's business activities involve the risk of lawsuits, risks related to regulatory and economic factors, and diverse other risks. The above list of risks does not include all the types of risks the Shionogi Group is exposed to.

# Consolidated Balance Sheets

Shionogi & Co., Ltd. and Consolidated Subsidiaries  
March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 9) .....	¥ 51,536	¥ 67,609	\$ 524,646
Short-term investments (Note 5).....	7,267	6,540	73,979
Notes and accounts receivable:			
Affiliates .....	4,333	4,160	44,111
Trade .....	74,208	66,945	755,452
Allowance for doubtful accounts .....	(12)	(13)	(122)
	<u>78,529</u>	<u>71,092</u>	<u>799,441</u>
Inventories (Note 6) .....	43,028	34,081	438,033
Deferred income taxes (Note 12) .....	5,189	4,450	52,825
Other current assets .....	17,175	11,192	174,845
Total current assets .....	<u>202,724</u>	<u>194,964</u>	<u>2,063,769</u>
<b>Property, plant and equipment:</b>			
Land.....	14,809	14,812	150,759
Buildings and structures .....	100,296	98,346	1,021,032
Machinery and equipment.....	87,771	84,691	893,525
Furniture and fixtures .....	32,933	32,037	335,264
Construction in progress .....	8,408	5,022	85,595
Accumulated depreciation .....	(172,405)	(164,530)	(1,755,115)
Property, plant and equipment, net.....	<u>71,812</u>	<u>70,378</u>	<u>731,060</u>
<b>Investments and other assets:</b>			
Investments in securities (Note 5).....	62,153	102,554	632,729
Investments in affiliates .....	4,661	2,899	47,450
Prepaid pension costs (Note 14).....	25,972	23,339	264,400
Goodwill .....	71,625	—	729,156
Marketing rights.....	42,153	1,105	429,126
Long-term prepaid expenses.....	12,736	13,188	129,655
Deferred income taxes (Note 12) .....	97	18	987
Other assets .....	7,920	5,259	80,627
Total investments and other assets .....	<u>227,317</u>	<u>148,362</u>	<u>2,314,130</u>
<b>Total assets</b> .....	<b>¥501,853</b>	<b>¥413,704</b>	<b>\$5,108,959</b>

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Notes and accounts payable:			
Affiliates .....	¥ 1,728	¥ 1,986	\$ 17,591
Trade .....	13,716	9,315	139,631
Construction.....	2,961	3,092	30,143
Short-term bank loans (Note 7) .....	10,000	—	101,802
Current portion of long-term debt (Note 7) .....	14,000	—	142,523
Allowance for employees' bonuses.....	5,325	6,715	54,210
Accrued expenses.....	10,956	6,196	111,534
Accrued income taxes (Note 12).....	7,929	7,416	80,719
Other current liabilities (Notes 8 and 9).....	10,189	7,724	103,726
Total current liabilities .....	76,804	42,444	781,879
<b>Long-term liabilities:</b>			
Long-term debt (Note 7).....	91,000	—	926,397
Accrued retirement benefits for employees (Note 14) .....	7,793	7,949	79,334
Accrued retirement benefits for directors and corporate auditors.....	156	169	1,588
Deferred income taxes (Note 12) .....	13,999	18,561	142,513
Long-term accounts payable—other (Note 8) .....	891	1,321	9,071
Other long-term liabilities.....	1,116	1,024	11,361
Total long-term liabilities .....	114,955	29,024	1,170,264
Contingent liabilities (Note 10)			
<b>Net assets:</b>			
Shareholders' equity (Note 11):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2009 and 2008 .....	21,280	21,280	216,634
Capital surplus.....	20,227	20,227	205,915
Retained earnings.....	304,762	297,812	3,102,535
Less treasury stock, at cost.....	(19,653)	(19,281)	(200,071)
Total shareholders' equity .....	326,616	320,038	3,325,013
Valuation and translation adjustments:			
Net unrealized holding gain on securities .....	8,208	22,068	83,559
Translation adjustments .....	(25,189)	(178)	(256,429)
Total valuation and translation adjustments .....	(16,981)	21,890	(172,870)
Minority interests .....	459	308	4,673
Total net assets .....	310,094	342,236	3,156,816
<b>Total liabilities and net assets.....</b>	<b>¥501,853</b>	<b>¥413,704</b>	<b>\$5,108,959</b>

# Consolidated Statements of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
<b>Net sales</b> (Note 22) .....	<b>¥227,512</b>	¥214,268	<b>\$2,316,115</b>
<b>Cost of sales</b> .....	<b>70,929</b>	68,594	<b>722,071</b>
Gross profit .....	<b>156,583</b>	145,674	<b>1,594,044</b>
<b>Selling, general and administrative expenses</b> (Note 15).....	<b>124,568</b>	105,275	<b>1,268,126</b>
Operating income (Note 22) .....	<b>32,015</b>	40,399	<b>325,918</b>
<b>Other income (expenses):</b>			
Interest and dividend income.....	<b>2,336</b>	2,393	<b>23,781</b>
Interest expense .....	<b>(702)</b>	(84)	<b>(7,146)</b>
Loss on disposal of property, plant and equipment .....	<b>(427)</b>	(880)	<b>(4,347)</b>
Loss on revaluation of inventories.....	<b>(89)</b>	(1,666)	<b>(906)</b>
Gain on sales of investments in securities .....	<b>213</b>	276	<b>2,168</b>
Gain on exchange of investment securities .....	—	1,044	—
Loss on sales of investments in securities .....	<b>(25)</b>	—	<b>(255)</b>
Loss on sales of investments in an affiliate .....	—	(25)	—
Loss on valuation of investment securities.....	—	(415)	—
Special contract expenses (Note 16).....	<b>(700)</b>	—	<b>(7,126)</b>
Special retirement expenses.....	<b>(363)</b>	—	<b>(3,695)</b>
Casualty losses (Note 17).....	<b>(254)</b>	—	<b>(2,586)</b>
Other, net .....	<b>(1,218)</b>	(1,079)	<b>(12,399)</b>
	<b>(1,229)</b>	(436)	<b>(12,511)</b>
Income before income taxes and minority interests .....	<b>30,786</b>	39,963	<b>313,407</b>
<b>Income taxes</b> (Note 12):			
Current .....	<b>14,718</b>	11,766	<b>149,832</b>
Deferred.....	<b>369</b>	3,107	<b>3,756</b>
	<b>15,087</b>	14,873	<b>153,588</b>
Income before minority interests .....	<b>15,699</b>	25,090	<b>159,819</b>
<b>Minority interests</b> .....	<b>38</b>	26	<b>387</b>
<b>Net income</b> (Note 20).....	<b>¥ 15,661</b>	¥ 25,064	<b>\$ 159,432</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2009 and 2008

	Millions of yen									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007 ....	¥21,280	¥20,227	¥278,871	¥ (9,088)	¥311,290	¥34,263	¥ (84)	¥ 34,179	¥283	¥345,752
Net income .....	—	—	25,064	—	25,064	—	—	—	—	25,064
Dividends .....	—	—	(6,123)	—	(6,123)	—	—	—	—	(6,123)
Purchases of treasury stock...	—	—	—	(10,193)	(10,193)	—	—	—	—	(10,193)
Other changes .....	—	—	—	—	—	(12,195)	(94)	(12,289)	25	(12,264)
Balance at March 31, 2008 ....	21,280	20,227	297,812	(19,281)	320,038	22,068	(178)	21,890	308	342,236
Net income .....	—	—	15,661	—	15,661	—	—	—	—	15,661
Dividends .....	—	—	(8,711)	—	(8,711)	—	—	—	—	(8,711)
Purchases of treasury stock...	—	—	—	(372)	(372)	—	—	—	—	(372)
Other changes .....	—	—	—	—	—	(13,860)	(25,011)	(38,871)	151	(38,720)
Balance at March 31, 2009 ...	¥21,280	¥20,227	¥304,762	¥(19,653)	¥326,616	¥ 8,208	¥(25,189)	¥(16,981)	¥459	¥310,094

	Thousands of dollars (Note 3)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008 ....	\$216,634	\$205,915	\$3,031,782	\$(196,284)	\$3,258,047	\$224,656	\$ (1,812)	\$ 222,844	\$3,136	\$3,484,027
Net income .....	—	—	159,432	—	159,432	—	—	—	—	159,432
Dividends .....	—	—	(88,679)	—	(88,679)	—	—	—	—	(88,679)
Purchases of treasury stock...	—	—	—	(3,787)	(3,787)	—	—	—	—	(3,787)
Other changes .....	—	—	—	—	—	(141,097)	(254,617)	(395,714)	1,537	(394,177)
Balance at March 31, 2009 ...	\$216,634	\$205,915	\$3,102,535	\$(200,071)	\$3,325,013	\$ 83,559	\$(256,429)	\$(172,870)	\$4,673	\$3,156,816

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
<b>Operating activities</b>			
Income before income taxes and minority interests .....	¥ 30,786	¥39,963	\$ 313,407
Adjustments for:			
Depreciation and amortization .....	13,468	10,666	137,107
Amortization of goodwill.....	907	—	9,234
Write-off of purchased in-process research and development costs.....	9,669	—	98,432
Gain on sales of investments in securities .....	(188)	(276)	(1,914)
Reversal of retirement benefits, net of payments .....	(2,802)	(3,591)	(28,525)
Interest and dividend income.....	(2,336)	(2,393)	(23,781)
Interest expense .....	702	84	7,147
Other .....	938	1,233	9,549
Changes in operating assets and liabilities:			
Notes and accounts receivable .....	(2,419)	(76)	(24,626)
Inventories.....	(7,361)	(1,712)	(74,936)
Other current assets.....	(2,756)	(8,368)	(28,057)
Notes and accounts payable .....	1,393	(861)	14,181
Accrued expenses.....	(3,823)	556	(38,919)
Other current liabilities.....	3,867	(10,567)	39,367
Subtotal .....	40,045	24,658	407,666
Interest and dividends received.....	2,386	2,598	24,290
Interest paid.....	(780)	(51)	(7,941)
Income taxes paid.....	(12,531)	(11,586)	(127,568)
Net cash provided by operating activities.....	29,120	15,619	296,447
<b>Investing activities</b>			
Increase in short-term investments .....	(4,233)	(4,835)	(43,093)
Proceeds from sales of short-term investments.....	8,094	18,554	82,398
Increase in investments in securities .....	(5,583)	(7,209)	(56,836)
Purchases of property, plant and equipment.....	(11,200)	(11,661)	(114,018)
Proceeds from sales of investments in securities .....	18,345	1,071	186,756
Increase in investment in an affiliate.....	(1,921)	(634)	(19,556)
Proceeds from sale of investment in an affiliate .....	—	443	—
Acquisition of investment in subsidiaries resulting in change in scope of consolidation (Note 19).....	(146,767)	—	(1,494,116)
Other.....	(5,791)	(1,065)	(58,953)
Net cash used in investing activities.....	(149,056)	(5,336)	(1,517,418)
<b>Financing activities</b>			
Increase in short-term bank loans, net.....	10,000	—	101,802
Proceeds from long-term debt.....	105,000	—	1,068,920
Purchases of treasury stock .....	(372)	(10,205)	(3,787)
Repayment of installment accounts payable .....	(746)	(802)	(7,594)
Cash dividends paid.....	(8,702)	(6,114)	(88,588)
Issuance of shares of common stock to minority shareholders of consolidated subsidiaries.....	116	—	1,181
Other.....	(2)	(3)	(21)
Net cash provided by (used in) financing activities .....	105,294	(17,124)	1,071,913
Effect of exchange rate changes on cash and cash equivalents .....	(1,431)	(96)	(14,568)
Net decrease in cash and cash equivalents.....	(16,073)	(6,937)	(163,626)
Cash and cash equivalents at beginning of year.....	67,609	74,546	688,272
Cash and cash equivalents at end of year .....	¥ 51,536	¥67,609	\$ 524,646

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries

## 1. Basis of Preparation

The accompanying consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2008 to the 2009 presentation. Such reclassifications had no effect on consolidated net income or net assets.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and all companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. The Company has applied the equity method to its investment in two affiliates and one affiliate for the years ended March 31, 2009 and 2008, respectively.

Investments in affiliates not accounted for by the equity method are carried at cost.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Eight overseas consolidated subsidiaries close their accounts on December 31 and two close their accounts on September 30. These year-ends differ from that of the Company. The two companies whose year-end date is September 30 prepare the financial statements as of and for the year ended December 31 solely for consolidation purposes. As a result, adjustments have been made for any significant intercompany transactions which took place during the period from January 1 to March 31.

### (b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

The financial statements of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding minority interests are translated at their historical exchange rates. Adjustments resulting from translating the foreign currency financial statements are not included in the determination of net income and are reported as "Translation adjustments" in net assets in the consolidated balance sheets.

### (c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

### (d) Short-term investments and investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

### (e) Inventories

Inventories are principally stated at the lower of cost, determined by the average method, or net selling value.

#### *Change in accounting policy*

Effective April 1, 2008, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9 issued on July 5, 2006). This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

As a result of this change, operating income decreased by ¥316 million (\$3,217 thousand) and income before income taxes decreased by ¥135 million (\$1,374 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

### (f) Property, plant and equipment (other than leased assets)

Property, plant and equipment are stated at cost.

Depreciation of buildings (except for structures attached to the buildings) acquired on or subsequent to April 1, 1998 is calculated principally by the straight-line method over the estimated useful lives of the respective assets. Depreciation of other property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the respective assets.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	2 to 60 years
Machinery, equipment and vehicles	2 to 17 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

#### *Supplemental information*

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the useful lives of machinery and equipment as allowed under the revisions of the Corporation Tax Law. The effect of this change was to decrease depreciation expense by ¥423 million (\$4,306 thousand) and increase operating income and income before income taxes by the same amount for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

Effective the year ended March 31, 2008, the salvage value of property, plant and equipment acquired before April 1, 2007 which have been fully depreciated to their respective depreciable limits under the Corporation Tax Law is to be depreciated by the straight-line method to nil over a period of five years. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥850 million for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

#### *Change in accounting policy*

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 based on an amendment to the Corporation Tax Law of Japan. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥498 million for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

#### **(g) Intangible assets (other than leased assets)**

Intangible assets are amortized by the straight-line method.

#### **(h) Leases**

Finance lease transactions that do not transfer ownership are depreciated to a nil residual value over the period of the lease contract using the straight-line method.

#### *Change in accounting policy*

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries applied "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 issued on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 issued on March 30, 2007). Under this accounting standard, finance lease transactions that do not transfer ownership, which had previously been accounted for as operating leases, are capitalized and recognized as fixed assets.

As a result, leased assets of ¥3 million (\$3,054 thousand), which are included in property, plant and equipment, were recognized. There was no impact on operating income and income before income taxes and minority interests.

In addition, the finance lease transactions entered into on or before March 31, 2008 that do not transfer ownership continue to be accounted for as operating leases.

#### **(i) Goodwill**

Goodwill is amortized over 20 years by the straight-line method.

#### **(j) Research and development expenses and computer software**

Research and development expenses are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income as incurred unless these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

#### **(k) Income taxes**

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

#### **(l) Allowance for doubtful accounts**

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

#### **(m) Allowance for employees' bonuses**

Allowance for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year.

#### **(n) Retirement benefits**

The Company has a defined benefit pension plan known as a "cash balance plan," which allows pension benefits to fluctuate in accordance with market interest rates, and also has a lump-sum payment plan and a defined contribution pension plan. Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In addition, certain consolidated subsidiaries have defined contribution pension plans.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the year-end.

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

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

In addition, directors and corporate auditors of the Company who held their positions as of June 29, 2004 are customarily entitled to lump-sum payments under an unfunded retirement benefit plan, because the retirement benefits system for directors and corporate auditors was abolished in June 2004. The provision for retirement allowances for these officers has been made at estimated amounts based on the Company's internal rules and no additional provision has been made for the year ended March 31, 2009.

#### (o) Hedge accounting

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method, which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

#### (p) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 25 (1)).

### 3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥98.23 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2009. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 4. Change in Accounting Policy

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) and made necessary adjustments in the consolidation process. The effect of this change was to decrease operating income and income before income taxes by ¥906 million (\$9,223 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

### 5. Short-Term Investments and Investments in Securities

(1) Marketable securities classified as held-to-maturity debt securities at March 31, 2009 and 2008 were as follows:

	Millions of yen			
	2009			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Government bonds, municipal bonds, etc. ....	¥20	¥—	¥0	¥20

	Millions of yen			
	2008			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Government bonds, municipal bonds, etc. ....	¥40,093	¥1,174	¥0	¥41,267

	Thousands of U.S. dollars			
	2009			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Government bonds, municipal bonds, etc. ....	\$204	\$—	\$0	\$204

(2) Marketable securities classified as other securities at March 31, 2009 and 2008 were as follows:

	Millions of yen			
	2009			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities .....	¥21,003	¥13,870	¥(761)	¥34,112
Government bonds, municipal bonds, etc. ....	19,856	784	(8)	20,632
Other securities .....	10,022	—	(74)	9,948
	¥50,881	¥14,654	¥(843)	¥64,692

	Millions of yen			
	2008			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities .....	¥20,928	¥36,819	¥(118)	¥57,629
Government bonds, municipal bonds, etc. ....	1,291	540	—	1,831
Other securities .....	5,000	—	(89)	4,911
	¥27,219	¥37,359	¥(207)	¥64,371

	Thousands of U.S. dollars			
	2009			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities .....	\$213,815	\$141,199	\$(7,747)	\$347,267
Government bonds, municipal bonds, etc. ....	202,138	7,981	(81)	210,038
Other securities .....	102,025	—	(753)	101,272
	\$517,978	\$149,180	\$(8,581)	\$658,577

(3) Proceeds from sales of, and gross realized gain and loss on, held-to-maturity debt securities for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Proceeds from sales.....	¥18,197	¥—	\$185,249
Gross realized gain.....	213	—	2,168
Gross realized loss.....	(25)	—	(255)

(4) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Proceeds from sales.....	¥ 2	¥288	\$20
Gross realized gain.....	1	276	10
Gross realized loss.....	—	0	—

(5) The carrying value of investments in non-marketable securities at March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Other securities:			
Unlisted equity securities.....	¥2,592	¥2,118	\$26,387

(6) Change in holding purpose of securities

During the year ended March 31, 2009, the Company sold a certain portion of its held-to-maturity debt securities prior to maturity. Under "Practical Guideline of Accounting Standards for Financial Instruments," the Company was required to transfer the remaining held-to-maturity debt securities to other securities. As a result, all remaining held-to-maturity debt securities totaling ¥20,144 million (\$205,070 thousand) were transferred to other securities due to a change in the holding purpose of securities. The effect of this transfer is to increase short-term investments by ¥19 million (\$193 thousand), investments in securities by ¥219 million (\$2,229 thousand) and net unrealized holding gain on securities by ¥141 million (\$1,435 thousand) as of March 31, 2009 as compared to the corresponding amounts which would have been recorded under the previous categorization.

(7) The redemption schedule of debt securities classified as other securities with maturities at March 31, 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2009		2009	
	Government bonds, municipal bonds, etc.	Other	Government bonds, municipal bonds, etc.	Other
Due within one year.....	¥ 5,132	¥30,300	\$ 52,245	\$308,460
Due after one year through five years.....	12,180	—	123,995	—
Due after five years through ten years.....	2,058	—	20,951	—
Due after ten years.....	1,282	—	13,051	—

## 6. Inventories

Inventories at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Merchandise.....	¥ 3,239	¥ 3,467	\$ 32,973
Finished goods.....	12,770	9,374	130,001
Semi-finished goods and work in process.....	17,180	15,344	174,896
Raw materials and supplies.....	9,839	5,896	100,163
	¥43,028	¥34,081	\$438,033

## 7. Short-Term Bank Loans and Long-Term Debt

The annual average interest rate applicable to short-term bank loans at March 31, 2009 was 1.1%.

Long-term debt at March 31, 2009 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2009	2009
Loans from banks and financial institutions with an average interest rate of 1.3%:		
Unsecured.....	¥105,000	\$1,068,920
	105,000	1,068,920
Less current portion.....	(14,000)	(142,523)
	¥ 91,000	\$ 926,397

The aggregate annual maturities of long-term debt subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010.....	¥ 14,000	\$ 142,523
2011.....	14,000	142,523
2012.....	14,000	142,523
2013.....	14,000	142,523
2014.....	39,000	397,027
2015 and thereafter.....	10,000	101,801
	¥105,000	\$1,068,920

## 8. Installment Accounts Payable

The current portion of installment accounts payable was included in "Other current liabilities" at March 31, 2009 and 2008. The current and long-term portions of installment accounts payable at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current portion.....	¥ 748	¥ 745	\$ 7,615
Long-term portion.....	573	1,321	5,833
	<b>¥1,321</b>	<b>¥2,066</b>	<b>\$13,448</b>

The annual maturities of installment accounts payable subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010.....	¥ 748	\$ 7,615
2011.....	573	5,833
	<b>¥1,321</b>	<b>\$13,448</b>

## 9. Pledged Assets

Assets pledged as collateral at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents.....	¥7	\$71

The corresponding liabilities secured by such collateral at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deposits received from employees (included in "other current liabilities") .....	¥7	\$71

## 10. Contingent Liabilities

The Company was contingently liable for the guarantee of employees' housing loans of ¥35 million (\$356 thousand) at March 31, 2009.

## 11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2009 and 2008 amounted to ¥5,388 million (\$54,851 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

The Board of Directors of the Company at a meeting held on September 18, 2007 approved a resolution to acquire up to a maximum of 5,500,000 of its own shares of common stock. Under this acquisition plan, the Company has acquired 5,232,000 of its own shares of common stock for a total amount of ¥9,998 million (\$101,782 thousand) as of March 31, 2009. The Company has also purchased 176,697 shares and 97,369 shares of common stock from shareholders who had fractional shares of less than one unit for the years ended March 31, 2009 and 2008, respectively.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2009 and 2008 are summarized as follows:

	Number of shares			
	2009			
	March 31, 2008	Increase	Decrease	March 31, 2009
Issued shares of				
common stock ....	351,136,165	—	—	351,136,165
Treasury stock .....	16,013,128	176,697	—	16,189,825
	Number of shares			
	2008			
	March 31, 2007	Increase	Decrease	March 31, 2008
Issued shares of				
common stock ....	351,136,165	—	—	351,136,165
Treasury stock .....	10,683,759	5,329,369	—	16,013,128

## 12. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2009 and 2008.

The overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates for the years ended March 31, 2009 and 2008 differ from the above statutory tax rate for the following reasons:

	2009	2008
Statutory tax rate .....	40.6%	40.6%
Expenses not deductible for income tax purposes .....	4.0	3.1
Dividends not taxable for income tax purposes .....	(0.8)	(0.6)
Amortization of goodwill.....	1.0	—
Inhabitants' per capita taxes .....	0.4	0.3
Tax credits .....	(8.6)	(4.4)
Difference in statutory tax rates of		
overseas subsidiaries.....	1.1	(0.2)
In-process R&D costs .....	11.1	—
Revaluation of investment in an affiliate .....	—	(1.1)
Other .....	0.2	(0.5)
Effective tax rates.....	49.0%	37.2%

The tax effects of temporary differences at March 31, 2009 and 2008 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Allowance for employees' bonuses ...	¥ 2,107	¥ 2,726	\$ 21,450
Retirement benefits .....	63	68	641
Accrued enterprise taxes.....	796	688	8,103
Research and development costs.....	2,541	1,964	25,868
Reserve for sales rebates.....	347	342	3,533
Loss on revaluation of investments in securities.....	440	437	4,479
Tax loss carryforwards of a consolidated subsidiary .....	362	353	3,685
Other .....	5,749	2,110	58,526
Valuation allowance.....	(754)	(742)	(7,676)
Total deferred tax assets .....	11,651	7,946	118,609
Deferred tax liabilities:			
Unrealized gain on other securities....	(5,610)	(15,083)	(57,111)
Sales rights .....	(4,628)	—	(47,114)
Specially recognized depreciation reserve fund .....	(189)	(315)	(1,924)
Prepaid pension costs .....	(7,087)	(5,956)	(72,147)
Other .....	(2,850)	(685)	(29,013)
Total deferred tax liabilities .....	(20,364)	(22,039)	(207,309)
Net deferred tax liabilities .....	¥ (8,713)	¥(14,093)	\$ (88,700)

## 13. Leases

The Company and its consolidated subsidiaries lease certain machinery, equipment and vehicles and have entered into a number of finance lease contracts that do not transfer the ownership of the leased property to the Company and its consolidated subsidiaries.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and its consolidated subsidiaries at March 31, 2009 and 2008, for lease contracts entered into before March 31, 2008, that would have been reflected in the accompanying consolidated balance sheets if the finance leases that do not transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which were accounted for as operating leases) had been capitalized:

	Millions of yen		
	2009		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles .....	¥ 800	¥ 674	¥126
Other .....	1,397	1,004	393
Total .....	¥2,197	¥1,678	¥519

	Millions of yen		
	2008		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles .....	¥ 741	¥ 554	¥187
Other .....	1,325	659	666
Total .....	¥2,066	¥1,213	¥853

	Thousands of U.S. dollars		
	2009		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles .....	\$ 8,144	\$ 6,861	\$1,283
Other .....	14,222	10,221	4,001
Total .....	\$22,366	\$17,082	\$5,284

Depreciation of the leased assets, which is computed by the straight-line method over the respective lease terms assuming a nil residual value, amounted to ¥501 million (\$5,100 thousand) and ¥479 million for the years ended March 31, 2009 and 2008, respectively.

Finance lease payments of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Lease payments.....	¥501	¥479	\$5,100

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 under finance lease transactions that do not transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year .....	<b>¥472</b>	<b>\$4,805</b>
Due after one year .....	<b>47</b>	<b>479</b>
Total .....	<b>¥519</b>	<b>\$5,284</b>

The acquisition costs and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

There are no loss on impairment of leased assets for the years ended March 31, 2009 and 2008.

#### 14. Retirement Benefits

The following table sets forth the retirement benefit obligation, plan assets and the funded status of the Company's and its consolidated subsidiaries' defined benefit pension plans at March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Retirement benefit obligation			
at end of year.....	<b>¥(88,167)</b>	¥(89,438)	<b>\$(897,556)</b>
Fair value of plan assets			
at end of year.....	<b>80,639</b>	108,811	<b>820,920</b>
Unfunded status .....	<b>(7,528)</b>	—	<b>(76,636)</b>
Plan assets in excess of retirement benefit obligation.....	—	19,373	—
Unrecognized prior service cost .....	<b>(10,956)</b>	(13,630)	<b>(111,534)</b>
Unrecognized actuarial gain .....	<b>36,663</b>	9,646	<b>373,236</b>
Net retirement benefit obligation.....	<b>18,179</b>	15,389	<b>185,066</b>
Prepaid pension costs.....	<b>25,972</b>	23,338	<b>264,400</b>
Accrued retirement benefits for employees .....	<b>¥ (7,793)</b>	¥ (7,949)	<b>\$ (79,334)</b>

The components of retirement benefit expenses for the years ended March 31, 2009 and 2008 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost.....	<b>¥1,828</b>	¥1,851	<b>\$18,609</b>
Interest cost .....	<b>1,788</b>	1,836	<b>18,202</b>
Expected return on plan assets .....	<b>(3,891)</b>	(2,786)	<b>(39,611)</b>
Amortization of actuarial loss .....	<b>2,869</b>	1,135	<b>29,207</b>
Amortization of prior service cost .....	<b>(2,674)</b>	(2,674)	<b>(27,222)</b>
Contributions to the defined contribution pension plan.....	<b>825</b>	813	<b>8,399</b>
Retirement benefit expenses.....	<b>¥ 745</b>	¥ 175	<b>\$ 7,584</b>

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Discount rate .....	<b>2.0%</b>	2.0%
Expected rates of return on plan assets.....	<b>3.6%</b>	2.2%

#### 15. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2009 and 2008 amounted to ¥52,822 million (\$537,738 thousand) and ¥40,290 million, respectively.

#### 16. Special Contract Expenses

Special contract expenses represent payment for the extension of a sales license contract that stipulates the release of the obligation to dispose the licensed products.

#### 17. Casualty Losses

Casualty losses included construction costs for recovery and loss on disposal of inventories and fixed assets damaged by earthquakes.

#### 18. Related Party Transactions

Principal transactions between a consolidated subsidiary and related parties for the year ended March 31, 2009 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2009	2009
Shunjusha Co., Ltd.:		
Rent received—land and office building .....	<b>¥ 45</b>	<b>\$ 458</b>
Rent expense—building.....	<b>143</b>	<b>1,456</b>
Management fee for leased property .....	<b>4</b>	<b>41</b>

Shunjusha Co., Ltd. is 99.9% directly owned by a relative of a director of the Company and has been engaged in the real estate leasing business. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥701 million (\$7,136 thousand) as of March 31, 2009.

The prices for the above related party transactions were determined with reference to market value, transactions made in the same area and so on.

There were no outstanding balances in connection with related party transactions above as of March 31, 2009.

Effective the year ended March 31, 2009, the Company has adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13 issued on October 17, 2006). As a result of the adoption of this accounting standard, transactions involving the Company, its subsidiaries or affiliates and any related parties were newly disclosed for the year ended March 31, 2009.

## 19. Supplementary Cash Flow Information

On October 9, 2008, the Company purchased shares of Sciele Pharma, Inc. ("Sciele") and initially consolidated the accounts of Sciele as of and for the year ended March 31, 2009. The assets and liabilities included in consolidation are summarized as follows:

	Thousands of U.S. dollars	
	Millions of yen	2009
	2009	2009
Current assets .....	¥ 27,051	\$ 275,384
Intangible assets.....	44,525	453,273
In-process research and development costs.....	9,669	98,432
Goodwill .....	79,664	810,995
Other non-current assets .....	2,228	22,681
Current liabilities .....	(13,446)	(136,883)
Non-current liabilities .....	(5,076)	(51,674)
Foreign currency translation adjustment.....	11,998	122,142
Acquisition cost.....	¥156,613	\$1,594,350
Cash and cash equivalents of Sciele.....	(9,846)	(100,234)
Cash disbursement .....	¥146,767	\$1,494,116

## 20. Amounts per Share

Amounts per share as of and for the years ended March 31, 2009 and 2008 were as follows:

	Yen		U.S. dollars
	2009	2008	2009
Net income .....	¥ 46.75	¥ 74.21	\$0.48
Net assets .....	924.43	1,020.31	9.41
Cash dividends applicable to the year .....	28.00	22.00	0.29

Diluted net income per share has not been presented since no potentially dilutive securities have been issued.

Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the year-end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of basic net income per share for the years ended March 31, 2009 and 2008 in the table above is summarized as follows:

	Thousands of U.S. dollars		
	Millions of yen	2009	
	2009	2008	
Information used in computation of basic net income per share:			
Net income .....	¥15,661	¥25,064	\$159,432
	Thousands of shares		
	2009	2008	
Weighted-average number of shares of common stock outstanding .....	335,022	337,744	

The financial data used in the computation of net assets per share at March 31, 2009 and 2008 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Total net assets.....	¥310,094	¥342,236	\$3,156,816
Amounts deducted from total net assets:.....	459	308	4,673
(Amounts attributed to minority interests in total net assets).....	(459)	(308)	(4,673)
Net assets used in the calculation of net assets per share.....	¥309,635	¥341,928	\$3,152,143
	Thousands of shares		
	2009	2008	
Number of shares used in the calculation of net assets per share.....	334,946	335,123	

## 21. Derivatives

Derivative financial instruments are utilized by the Company principally to reduce the risk arising from fluctuation in foreign exchange rates in relation to assets and liabilities denominated in foreign currency and in interest rates of bank loans.

The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of derivatives transactions. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

The Company is exposed to certain market risk arising from its forward foreign exchange contracts and interest-rate swaps. The Company is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency contracts and interest-rate swaps; however, the Company does not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

Disclosure of fair value information on derivatives has been omitted because all open derivatives positions qualified for hedge accounting.

## 22. Segment Information

The Company and its consolidated subsidiaries are engaged primarily in the manufacture and sale of pharmaceutical products and in related marketing activities in Japan and overseas, principally in North America and Europe, in two major segments.

The segment pharmaceuticals and related businesses includes more than 90% of the total sales, operating income and total assets of all business segments. Therefore, the disclosure of business segment information has been omitted for the year ended March 31, 2009.

The business segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2008 is outlined as follows:

	Millions of yen				
	Year ended March 31, 2008				
	Pharmaceuticals	Other	Total	Eliminations and general corporate assets	Consolidated
<b>I. Sales and operating income</b>					
Sales to third parties .....	¥208,431	¥ 5,837	¥214,268	¥ —	¥214,268
Intragroup sales and transfers .....	—	3,730	3,730	(3,730)	—
Net sales .....	208,431	9,567	217,998	(3,730)	214,268
Operating expenses .....	169,612	7,987	177,599	(3,730)	173,869
Operating income.....	¥ 38,819	¥ 1,580	¥ 40,399	¥ 0	¥ 40,399
<b>II. Total assets, depreciation and capital expenditures</b>					
Total assets.....	¥270,751	¥11,092	¥281,843	¥131,861	¥413,704
Depreciation.....	11,844	9	11,853	—	11,853
Capital expenditures.....	25,586	9	25,595	—	25,595

As described in Note 2 (f), effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 based on an amendment to the Corporation Tax Law. The effect of this change was to increase operating expenses by ¥498 million in the "Pharmaceuticals" segment and by ¥0 million in the "Other" segment, and to decrease operating income in both segments by the same amounts for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

As described in Note 2 (f), effective the year ended March 31, 2008, the salvage value of property, plant and equipment acquired before April 1, 2007 which have been fully depreciated to their respective depreciable limits under the Corporation Tax Law is to be depreciated to nil over a period of five years. The effect of this change was to increase operating expenses by ¥850 million in the "Pharmaceuticals" segment and by ¥0 million in the "Other" segment, and to decrease operating income in both segments by the same amounts for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 is outlined as follows:

	Millions of yen					
	Year ended March 31, 2009					
	Japan	North America	Other	Total	Eliminations and general corporate assets	Consolidated
<b>I. Sales and operating income</b>						
Sales to third parties.....	¥215,875	¥ 9,885	¥1,752	¥227,512	¥ —	¥227,512
Intragroup sales and transfers .....	436	3,253	56	3,745	(3,745)	—
Net sales .....	216,311	13,138	1,808	231,257	(3,745)	227,512
Operating expenses .....	175,916	21,072	1,348	198,336	(2,839)	195,497
Operating income (loss).....	¥ 40,395	¥ (7,934)	¥ 460	¥ 32,921	¥ (906)	¥ 32,015
<b>II. Total assets</b> .....	¥276,221	¥67,846	¥3,741	¥347,808	¥154,045	¥501,853

	Thousands of U.S. dollars					
	Year ended March 31, 2009					
	Japan	North America	Other	Total	Eliminations and general corporate assets	Consolidated
<b>I. Sales and operating income</b>						
Sales to third parties .....	\$2,197,648	\$100,631	\$17,836	\$2,316,115	\$ —	\$2,316,115
Intragroup sales and transfers .....	4,439	33,116	570	38,125	(38,125)	—
Net sales .....	2,202,087	133,747	18,406	2,354,240	(38,125)	2,316,115
Operating expenses .....	1,790,858	214,517	13,723	2,019,098	(28,901)	1,990,197
Operating income (loss).....	\$ 411,229	\$ (80,770)	\$ 4,683	\$ 335,142	\$ (9,224)	\$ 325,918
<b>II. Total assets</b> .....	\$2,811,982	\$690,685	\$38,084	\$3,540,751	\$1,568,208	\$5,108,959

The above categories are based on geographic proximity. "North America" mainly represents the United States of America, and "Other" mainly represents Asian countries.

As described in Note 2 (e), effective the year ended March 31, 2009, the Company has applied "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9 issued on July 5, 2006). The effect of this change was to increase operating expenses in the "Japan" segment by ¥316 million (\$3,217 thousand) and decrease operating income by the same amount for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

As described in Note 2 (h), effective the year ended March 31, 2009, the Company has applied "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13; Business Accounting Council Committee No. 1 issued on June 17, 1993 revised on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16; the Japanese Institute of Certified Public Accountants, Accounting Committee issued on January 18, 1994 revised on March 30, 2007). The effect of this change is to increase assets in the "Japan" segment by ¥3 million (\$31 thousand) as at March 31, 2009 from the corresponding amount which would have been recorded under the previous method. There was no effect on operating expenses and income.

As described in Note 4, effective the year ended March 31, 2009, the Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18 issued on May 17, 2006). The effect of this change was to increase operating expenses included in the "Eliminations and general corporate assets" segment by ¥906 million (\$9,223 thousand) and decrease operating income by the same amount for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

As described in Note 2 (f), effective the year ended March 31, 2009, the Company and its consolidated subsidiaries have changed the useful lives of machinery and equipment. The effect of this change was to decrease operating expenses in the "Japan" segment by ¥423 million (\$4,306 thousand) and increase operating income by the same amount for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

As more than 90% of consolidated net sales for the year ended March 31, 2008 were made in Japan, the disclosure of geographical segment information has been omitted.

Overseas sales for the years ended March 31, 2009 and 2008 are outlined as follows:

	Millions of yen		
	Year ended March 31, 2009		
	Europe	Other	Total
I. Overseas sales .....	¥36,180	¥18,306	¥ 54,486
I. Consolidated net sales .....	—	—	227,512
III. Overseas sales as a percentage of consolidated net sales .....	15.9%	8.0%	23.9%

	Millions of yen		
	Year ended March 31, 2008		
	Europe	Other	Total
I. Overseas sales .....	¥32,336	¥5,322	¥ 37,658
II. Consolidated net sales .....	—	—	214,268
III. Overseas sales as a percentage of consolidated net sales .....	15.1%	2.5%	17.6%

	Thousands of U.S. dollars		
	Year ended March 31, 2009		
	Europe	Other	Total
I. Overseas sales .....	\$368,319	\$186,359	\$ 554,678
II. Consolidated net sales .....	—	—	2,316,115

Overseas sales represent those of the Company and consolidated subsidiaries outside Japan and include royalty revenue. The above categories are based on geographic proximity. The main countries and regions included in each category were as follows:

- (1) Europe: United Kingdom, Switzerland, Germany and other
- (2) Other: North America, Asia and other

### 23. Business Combinations

On October 9, 2008, the Company acquired all the outstanding shares of Sciele for \$1,446 million in cash. Sciele is engaged in research, development and sales of pharmaceuticals. The Company determined that the acquisition would enable it to enhance the market presence as well as sales structure in the United States of America, which will contribute to realizing the value of the Company's original products and ensure long-term growth in the future.

The acquisition was accounted for using the purchase method of accounting. Goodwill of \$718 million was recognized and to be amortized during the period of 20 years.

The assets acquired and liabilities assumed are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets .....	¥ 27,051	\$ 270,553
Non-current assets .....	126,418	1,264,309
Total assets .....	¥153,469	\$1,534,842
Current liabilities .....	13,446	134,478
Non-current liabilities .....	5,076	50,765
Total liabilities .....	¥ 18,522	\$ 185,243

The transaction was made in U.S. dollars and the amounts in yen in the above table represent amounts booked in the consolidated financial statements.

In connection with this acquisition, the Company allocated \$96 million and \$445 million from acquisition cost (see Note 19) to research and development cost and marketing rights, respectively. Marketing rights are amortized over a period of 3 to 12 years.

The effect on the consolidated statement of income for the year ended March 31, 2009, assuming that this acquisition had been completed at April 1, 2008, is as follows:

	Millions of yen	Thousands of U.S. dollars
	(Unaudited)	
Net sales .....	<b>¥36,780</b>	<b>\$404</b>
Operating income .....	<b>7,283</b>	<b>80</b>
Income before income taxes and minority interests...	<b>3,915</b>	<b>73</b>

These amounts represent the consolidated statement of income for the year ended December 31, 2008 of Sciele and its consolidated subsidiaries. The exchange rate to Japanese yen amounts was ¥91.04 = U.S.\$1.00, the approximate rate of exchange in effect on December 31, 2008.

## 24. Litigation

In March 2007, a suit was brought against the Company in Osaka District Court by a former employee who is one of the inventors of the basic patent for Crestor®, claiming that the Company should pay the amount of about ¥870 million (\$8,857 thousand) as reasonable compensation under Article 35 of the Patent Act with respect to the amount of about ¥20,300 million (\$206,658 thousand) which the Company received from AstraZeneca during the period ended on September 30, 2006. The suit ended in November 2008 with a mutually agreed settlement through sufficient claims and demonstrations by both parties.

In December 2007, the Company brought a patent infringement action jointly with AstraZeneca against seven (7) generic drug companies (another company was added later), which filed New Drug Applications for generic drugs of Crestor®, such as Cobalt Pharmaceuticals, Inc., Apotex, Inc. and others to prevent such generic drug companies from selling any generic drugs under the patent owned by the Company in the U.S.A. In this action, the procedure of discovery was initiated, and the Company expects that it will take considerable time before the procedure of trials is initiated and the judgment for such action is obtained.

In May 2008, a suit was brought against the Company in Osaka District Court by Collectis who is the exclusive licensee of a patent owned by the Pasteur Institute claiming that our use of the technology relating to the genetically modified mice for research would infringe on the patent and the Company should pay ¥970 million (\$9,875 thousand). The suit is pending in court.

In February 2009, the Company brought a patent infringement action against ITOCHU CHEMICAL FRONTIER Corporation, who is the importer of bulk powder of Cefcapene Pivoxil Hydrochloride Monohydrate, under the patent of the crystal for Cefcapene Pivoxil Hydrochloride Monohydrate owned by the Company and simultaneously initiated the procedures to petition for a provisional deposition order thereunder. Both procedures are in initial stages of deliberation.

## 25. Subsequent Events

### (1) Dividend

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009, was approved at a shareholders' meeting held on June 25, 2009:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥14.00 = U.S.\$0.14 per share) .....	<b>¥4,689</b>	<b>\$47,735</b>

### (2) Acquisition of Victory Pharma, Inc.

In May 2009, Sciele agreed to acquire all of the shares of Victory Pharma, Inc., a privately held U.S. pharmaceutical company located in San Diego, California, focused on the acquisition, development, and marketing of products to treat pain and related conditions for \$150 million; however, in July 2009, they mutually agreed to terminate their merger agreement due to the occurrence of an unforeseen development.

### (3) Bond issuances

On June 11, 2009, the Company issued unsecured 0.769% Japanese yen bonds of ¥10,000 million (\$101,802 thousand). The bonds are due June 11, 2012. The issue price of the bonds was 100% of the face value of the bonds.

On the same day, the Company also issued unsecured 1.123% Japanese yen bonds of ¥20,000 million (\$203,604 thousand). The bonds are due June 11, 2014. The issue price of the bonds was 100% of the face value of the bonds.

Proceeds from the issuance of these bonds will be utilized for repayment of loans and others.

