SHIONOGI ANNUAL REPORT 2007

Year ended March 31, 2007

SHIONOGI & CO., LTD.

The Company Policy of Shionogi (Established in 1957)

Shionogi's purpose

Shionogi strives constantly to provide medicine of the best possible kind essential for protection of the health of the people.

For this purpose, Shionogi will need to

Pursue the search for even better medicine.
Produce even better medicine.
Promote the word of even better medicine to an even greater number of people so that an even greater number of people will be able to use such medicine.
Pursue, produce and promote in an even more economical manner.

For this purpose, Shionogi people will need to

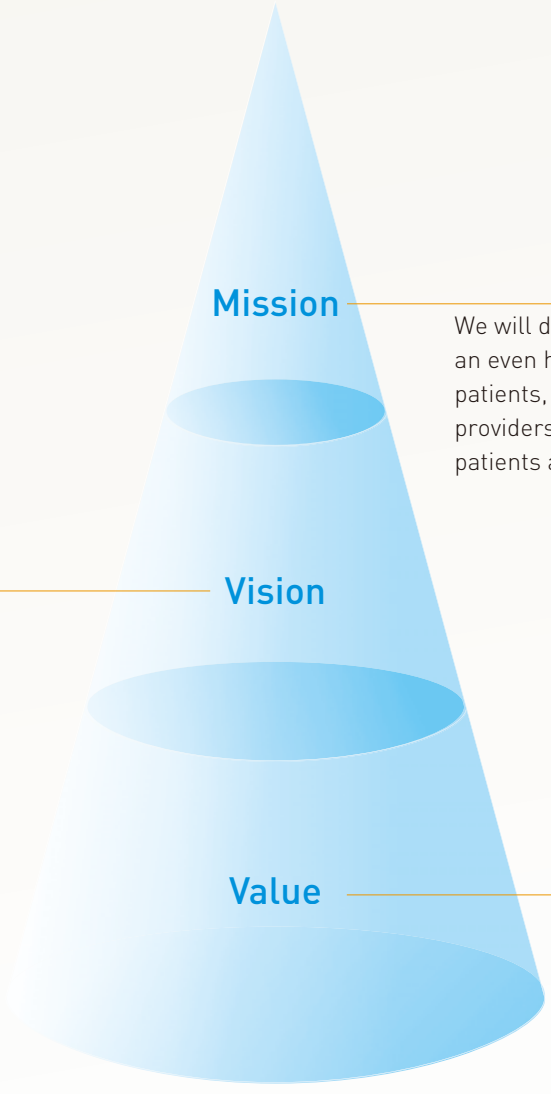
Strive ceaselessly day after day to improve their skills.
Strive ceaselessly day after day to improve as human beings.

As a result, Shionogi people will

Find even greater satisfaction in their daily work and in their daily lives.
Find even greater improvement in the quality of their lives.
Find even greater prosperity in their lives.

Shionogi's Action Guidelines (Established in 2004)

An easy-to-understand framework for implementing the Company Policy of Shionogi through current and future activities



Mission

We will deliver pharmaceuticals that offer an even higher level of satisfaction to patients, their families and healthcare providers and improve the quality of life for patients and their families.

Vision

A company with a strong presence worldwide

A company that has pride and dreams and embraces challenges

Value

Customer Focus, Trust, Professionalism, On-Site Orientation, Respect for the Individual

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Editorial Policy

As a new initiative, this Annual Report for the fiscal year ended March 31, 2007 (fiscal 2006) integrates the Annual Report and Environmental Report we have been publishing separately for many years. The report contains information on Shionogi's various economic, social and environmental activities. Our hope is that these materials will serve as a key tool for informing and gaining the trust of all stakeholders. Contents have been edited for ease of understanding. Details and related information are also available on the Company website (http://www.shionogi.co.jp/).

Period under Review

Fiscal 2006 (April 1, 2006 - March 31, 2007)
Certain activities continuing into fiscal 2007 and thereafter are also included.

Scope and Organization

- The Annual Report encompasses the activities of Shionogi & Co., Ltd., its ten consolidated subsidiaries and six affiliates.
- The section entitled Shionogi's Environmental Activities covers business facilities of Shionogi & Co., Ltd. and eight of its domestic and overseas subsidiaries. In this report, "Shionogi" refers to Shionogi & Co., Ltd. and all its on-site subsidiaries. "Domestic subsidiaries" refers to the two domestic manufacturing subsidiaries (Bushu Pharmaceuticals Ltd. and Nichia Pharmaceutical Industries Ltd.) and two domestic non-manufacturing subsidiaries (Shionogi General Service Co., Ltd. and Saishin Igaku Co., Ltd.), and "overseas subsidiary" refers to Taiwan Shionogi & Co., Ltd. "Shionogi Group" refers to all the aforementioned companies.

Notes Concerning Numerical Values and Graphs

- All monetary values are rounded down to the nearest million or billion, as applicable, and all percentages are rounded down to two decimal places. Totals may not match due to rounding.

Forward-Looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

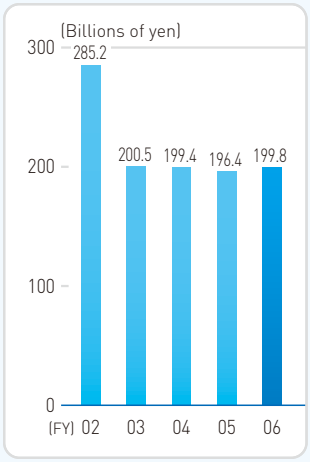
Financial Highlights

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

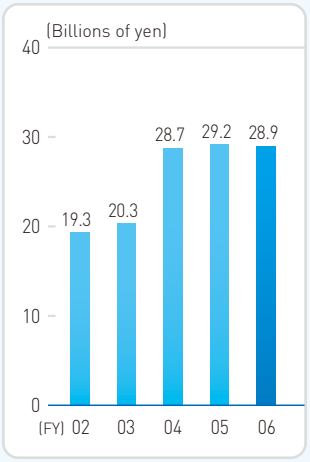
	Millions of yen			% change	Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007/2006	2007
For the year ended March 31:					
Net sales	¥199,759	¥196,389	¥199,365	1.7%	$1,691,583
Operating income	28,863	29,226	28,729	(1.2)	244,415
Income before income taxes and minority interests	31,723	38,798	31,655	(18.2)	268,634
Net income	18,595	22,735	18,942	(18.2)	157,465
Research and development expenses	37,456	32,257	29,409	16.1	317,182
Capital investments	11,411	5,386	5,424	111.9	96,630
Depreciation and amortization	8,798	8,653	9,412	1.7	74,502
As of March 31:					
Total assets	¥429,569	¥427,683	¥396,999	0.4%	$3,637,641
Net assets (Note 2)	345,752	337,434	300,065	2.5	2,927,869
Per share amounts (in yen and U.S. dollars):					
Net income	¥ 54.61	¥ 66.55	¥ 54.64	(17.9)%	$0.46
Net assets	1,014.73	989.76	879.79	2.5	8.59
Cash dividends applicable to the year	16.00	16.00	12.00	—	0.14
Number of employees	4,958	4,997	5,522		

Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥118.09 = US$1.00, the approximate rate of exchange on March 31, 2007.
2. 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. Total net assets for prior years has been calculated in conformity with the new standard.

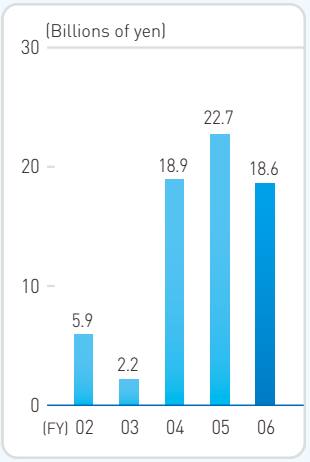
Net Sales



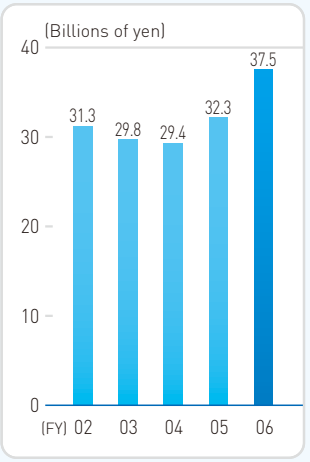
Operating Income



Net Income



Research and Development Expenses



To Our Stakeholders

In fiscal 2006, the second year of the second medium-term management plan, while R&D continued to progress steadily, we recognized there were still issues to be addressed in order to strengthen sales and marketing. In fiscal 2007, the midway point of the plan, the entire Shionogi Group will work together to achieve its goals by concentrating management resources in order to enhance sales and marketing and accelerate research and development

Performance in Fiscal 2006

During fiscal 2006, the fiscal year ended March 31, 2007, against the backdrop of discussions on containing rising healthcare costs, National Health Insurance (NHI) drug prices were reduced by an average of 6.7 percent across the industry in April 2006. Moreover, the market environment became increasingly severe due to factors including the promotion of generic drugs and strengthening of the Diagnosis Related Group/Prospective Payment System (DRG/PPS) for medical expenses. In the global market, competition in sales and R&D also further intensified, and domestic pharmaceutical companies stepped up business concentration, consolidation and restructuring.

Under these conditions, in fiscal 2006, the Shionogi Group continued working to achieve the goals of the second medium term management plan (from April 2005 through March 2010) aimed at long-term growth as a pharmaceutical company. As a result, consolidated net sales increased 1.7 percent compared with the previous year to ¥199.8 billion. Royalty income from industrial property rights increased, and our efforts to cut manufacturing costs improved the cost of sales ratio. However, operating income decreased 1.2 percent from the previous fiscal year to ¥28.9 billion due mainly to the impact of NHI drug price revisions and an increase in research and development expenses resulting from aggressive investment in R&D activities. Net income was ¥18.6 billion, a decrease of 18.2 percent compared with the previous fiscal year, when the Company recorded extraordinary income from the sale of the capsule business.

Shionogi's basic policy for profit distribution is to steadily increase dividends in line with performance while aggressively investing in its business to increase corporate value with a medium-to-long-term perspective. Including interim and year-end dividends of ¥8, total dividends for fiscal 2006 were ¥16, unchanged from a year earlier. Accordingly, the payout ratio was 29.3 percent.

Toward Higher Corporate Value

Based on an evaluation of the progress of the second medium-term management plan over the past two years, the Shionogi Group has revised its targets and strategies for the remaining three years of the plan from fiscal 2007 through fiscal 2009. In doing so, we have taken into account such factors as the greater-than-anticipated progress of measures to contain healthcare costs and the slower-than-expected growth of new product sales, despite the fact that the Company was able to advance R&D programs on schedule. In an increasingly challenging operating environment, Shionogi will work to achieve the new targets with a focus on stepping up R&D and strengthening sales and marketing. As we do, we continue to believe that fulfilling our corporate policy, "to strive constantly to provide medicine of the best possible kind essential for protection of the health of the people," will contribute to greater benefits for all our stakeholders, including shareholders, customers, business partners, employees and society.

I look forward to your continuing trust and support.

September 2007

Motozo Shiono
President and Representative Director

Interview with President Motozo Shiono

Looking back, how would you summarize Shionogi's performance in fiscal 2006?

Two years have elapsed since Shionogi's second medium-term management plan began in April 2005 under the banner, "preparing for a significant leap forward."

During that time, we have concentrated research and development resources in the three targeted areas of infectious diseases, pain and metabolic syndrome. In fiscal 2006, we advanced S-2367 (obesity), developed in-house, to Phase IIb clinical trials. In addition, we stepped up the clinical stage of S-777469 (antipruritic and anti-inflammatory agent) as a globally strategic product.

Aggressive in-licensing efforts resulted in the acquisition of marketing rights for Adapalene, a topical treatment of acne vulgaris, and the right to develop and commercialize peramivir, a treatment for influenza. This was a significant achievement considering the worldwide difficulty of discovering new drug candidates.

Shionogi also actively leveraged external resources at the research stage. We conducted collaborative research with U.S.-based Purdue Pharma L.P. and Hokkaido University. We also agreed with Eli Lilly and Company of the U.S. to co-develop and co-market duloxetine, a serotonin-norepinephrine reuptake inhibitor (SNRI) for treating depression and diabetic peripheral neuropathic pain, in Japan. Research and development progressed smoothly, with nearly all products advancing to subsequent development stages.

In sales and marketing, however, the domestic market environment has become increasingly challenging. Healthcare reforms aimed at containing medical treatment costs have progressed in response to Japan's growing elderly population. The number of hospitals adopting the Diagnosis Related Group/Prospective Payment System (DRG/PPS) is increasing and usage of generic drugs is growing. In addition, in April 2006, National Health Insurance (NHI) drug prices declined an average of 6.7 percent on an industry-wide basis.

Faced with these conditions, in the two years since the start of our second medium-term management plan, Shionogi has launched and focused on providing information activities on three major products expected to support our "significant leap forward": the hyperlipidemia treatment Crestor, the carbapenem antibiotic Finibax, and the new quinolone antibiotic Avelox.

However, in addition to the increasingly challenging external environment mentioned above, we experienced delays in compiling evidence to support the growth of new products and in streamlining organizations responsible for formulating and implementing marketing strategies. As a result, fiscal 2006 sales results were disappointing. In addition to weak performance by established products including antibiotics, sales of the three new products, Crestor, Finibax and Avelox, did not expand as planned.

President Motozo Shiono shakes hands with BioCryst Pharmaceuticals, Inc. CEO Jon P. Stonehouse after concluding an in-licensing agreement for peramivir.

Shionogi announced revisions to the second medium-term management plan in April 2007. What factors led to these revisions, and what issues will you focus on in the future?

Over the past two years, our R&D has progressed relatively smoothly. In clinical development, we advanced almost all development candidate compounds to subsequent stages. In particular, we filed NDAs for the antihypertensive irbesartan and pirfenidone, a treatment for idiopathic pulmonary fibrosis, as planned. In research, initiatives for future growth are progressing smoothly, such as collaborative research with Hokkaido University, and with Purdue Pharma L.P. in the area of pain treatments.

In sales and marketing, we completed a post-marketing surveillance study involving about 10,000 patients for Crestor in cooperation with AstraZeneca K.K. to strengthen the evidence on the drug's use by Japanese patients. The study was successful and was completed earlier than originally planned. However, organizational issues remain. For example, there is still room for improvement in coordinating sales and marketing. In addition, the market environment for prescription drugs is becoming more challenging than initially anticipated. For these and other reasons, domestic sales of prescription drugs were short of our fiscal 2006 target.

Based on our performance and changes in the operating environment over the past two years, we have revised our numerical targets and strategies for the remaining three years of the second medium-term management plan, starting from fiscal 2007.

Our key objective in R&D is the continuous discovery and development of new world-class drugs, which we will achieve by focusing our efforts on activating personnel and upgrading our organizational framework for simultaneous development in Japan, the United States and Europe.

In sales and marketing, we will concentrate resources on new products such as Crestor, Finibax and Avelox, and expand market share by enhancing efforts at advanced treatment hospitals and promoting thorough area-based marketing that takes regional healthcare conditions into account.

In "preparing for a significant leap forward," we also plan to make strategic investments totaling more than ¥60 billion over the next three years. This will be used for various purposes, including strengthening drug discovery research for drug seeds, aggressive in-licensing, and capital investment in manufacturing and R&D.

Strengthening marketing capabilities is a key issue. What specific measures is Shionogi taking to achieve this?

Recognizing that a more organized approach was critical for effectively providing information that satisfies the needs of healthcare providers as well as patients, in fiscal 2006 we began working to rebuild our sales and marketing organizations and systems.

First, on an organizational level, we clarified marketing functions and responsibilities in October 2006 by placing the Marketing Department, which was formerly in the Human Health Care Division, under the Corporate Strategic Planning Executive. We also appointed a director with jurisdiction to evaluate and adjust matters such as the adequacy of marketing strategies formulated by the Corporate Strategic Planning Executive, the diffusion of these strategies throughout the organization, and collaboration between R&D and manufacturing. This new system will facilitate a more organized approach to sales and marketing. We also plan to expand our current medical representative (MR) staff from 1,400 to 1,500 by fiscal 2009.

In fiscal 2007, our sales and marketing activities will focus on MR efforts at advanced treatment hospitals. We will establish managers directly linked to the Marketing Department to accomplish a variety of objectives, including accelerating MR activities, enhancing specialized education for MRs assigned to advanced treatment hospitals, and bolstering communication with and understanding of the needs of healthcare professionals through greater use of web conferencing. To establish a system that responds flexibly to local needs, we will enhance area-based marketing by establishing marketing plan promoters who link MRs with the Marketing Department. In addition, we will strengthen overall support from

Research, Development and Manufacturing divisions for MR activities with the cross-divisional Therapeutic Area Conference (TAC).

In April 2007, we established the Cancer Pain Management Business Development Department to enhance efforts to spread information on cancer pain treatment. Specific initiatives will include developing and disseminating information on cancer pain treatment in cooperation with authorities and other companies; disseminating and expanding the World Health Organization's National Cancer Control Programmes; and enhancing the quality of cancer pain management by promoting wider use of controlled-release OxyContin and immediate-release OxiNorm.

Shionogi is currently concentrating resources on new products and conducting sales and marketing activities based on this new organizational framework. We expect to make significant progress in establishing a strong marketing presence once interdepartmental linkages are firmly ingrained.

What expectations do you have for Crestor as a driver of Shionogi's future growth?

We conducted a study to confirm the efficacy and safety profile for the hyperlipidemia treatment Crestor for use by Japanese patients. This study was the first in Japan to conform to the ICH-E2E Guideline for pharmacovigilance planning. Response to study results was very positive, driving sales growth as soon as we stepped up Crestor to regular promotional activities. In terms of new patient prescription share, Crestor is holding its own against rival drugs launched earlier.

Evidence of Crestor's safety for use by Japanese patients is consistent with overseas findings. Moreover, it shows excellent efficacy at a minimal dose of 2.5mg/day and is economical. For these three reasons, we believe that Crestor is indeed the "best statin." Crestor is the key to achieving the goals of the second medium-term management plan, and Shionogi is currently allocating all available resources to providing information in order to increase its market penetration.

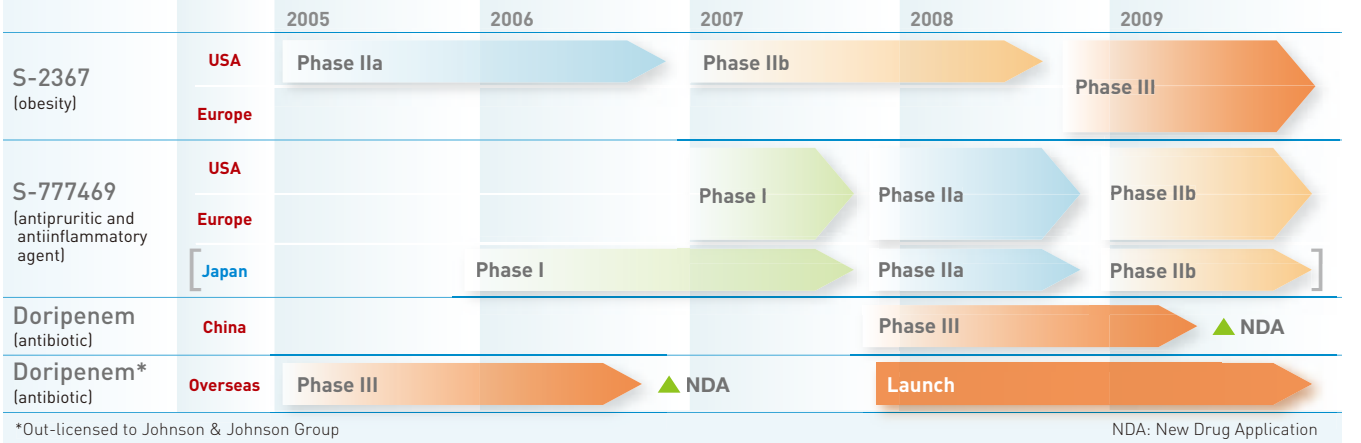
Shionogi has positioned overseas development as a primary objective. What specific measures are you planning?

Success in overseas markets largely depends on developing new core drugs and building a sales infrastructure that enables the speedy expansion of sales after launch.

In research, where continuous discovery of new drug candidates that can compete in the global market is vital, we intend to consistently advance at least two new compounds developed in-house to clinical trials every year. We will also work to enhance the lineup of drug seeds by further strengthening collaborative research and other activities.

In development, we aim to develop multiple original drugs simultaneously in Japan, the United States and

Overseas Development Plans in the Second Medium-Term Management Plan



*Out-licensed to Johnson & Johnson Group

NDA: New Drug Application

Europe, and create strategic global drugs such as S-2367 (obesity) and S-777469 (antipruritic and antiinflammatory agent) and their successors; build a global development framework; and pursue new business opportunities through strategic alliances.

In addition, we aim to establish our presence in markets other than the United States and Europe. The Company is currently considering the development of original antibiotics in China, where significant market expansion is expected in the future.

Mergers and integration are increasing in the Japanese pharmaceutical industry. How does Shionogi plan to respond to the growing realignment?

Increasing scale does not necessarily lead to higher profitability. In the past, scale expansion was touted as the key to success, but some companies that followed a strategy of expansion through merger have seen a decrease in their R&D and marketing efficiency. Organizational inefficiencies sometimes arise when scale expands, which lowers employee morale. I believe that the way to expand earnings and increase corporate value is to raise the efficiency and productivity of R&D, manufacturing and marketing within an appropriately sized enterprise, not simply to pursue size for its own sake.

The Shionogi Group's R&D organization has already generated many promising drug seeds. I therefore believe that we are fully capable of achieving continuous growth in corporate value without expanding our scale through mergers or integration.

What is Shionogi's approach to enhancing corporate social responsibility (CSR)?

The Company Policy of Shionogi clearly states that the purpose of our business activities is "to strive constantly to provide medicine of the best possible kind essential for protection of the health of the people." This enduring policy indicates how Shionogi should behave to maintain its value in society. Through our activities as a pharmaceutical company, we contribute to society. In this sense, we believe that implementing our philosophy leads to fulfilling our social responsibilities as a corporation. To achieve its purpose, Shionogi instituted action guidelines, which are shared by all employees, that state how each employee should conduct his or her business activities.

In other words, the basis of our CSR activities is to act in accordance with the Company Policy of Shionogi and our Action Guidelines as a member of society, and to fulfill our social responsibilities by steadfastly striving to reach the goals of the Company. We believe that by conducting ourselves in this way, we are implementing CSR because we can contribute to patients and physicians who need medicines, healthcare providers and shareholders, and to society as a whole. This in turn leads to the development of Shionogi employees.

Environmental initiatives are also a part of Shionogi's CSR activities. We work to improve the global environment by reducing our environmental load in all areas of our business.

In conclusion, please explain Shionogi's shareholder returns policy.

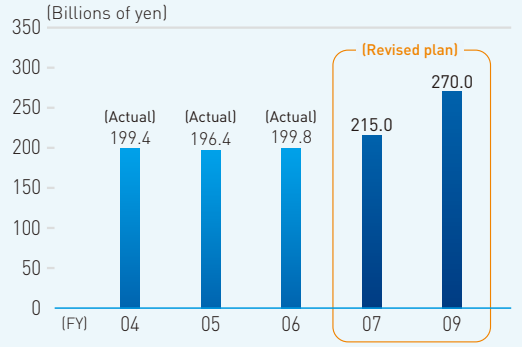
Based on a policy of maintaining steady dividends for shareholders, the Company has paid dividends while comprehensively taking into account factors including improving performance, strengthening its financial position, and changes in the operating environment. For the remainder of the second medium-term management plan, the Company will invest aggressively to improve its profit base for a significant leap forward beyond 2010. At the same time, however, Shionogi has addressed the issue of shareholder returns by setting a fiscal 2009 target of a consolidated payout ratio of 35 percent. We will continue to pay dividends in accordance with fiscal year results while working to improve profit levels and steadily raise the consolidated payout ratio.

Overview of the Second Medium-Term Management Plan (April 2005 — March 2010)

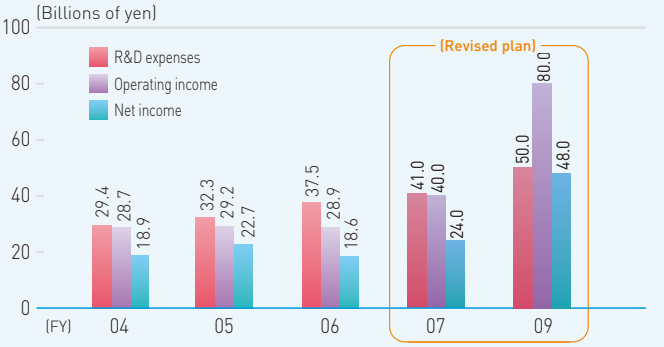
Framework

Numerical Targets

Net Sales



R&D Expenses, Operating Income and Net Income



Initiatives in 2007 and Beyond

Research and Development Goals

- Achieve continuous discovery of drug seeds through alliances and other means
- Quickly establish global development capabilities in order to accelerate development of new drugs in Japan, the United States and Europe
- Further concentrate resources in targeted areas to speed original drug candidates from Drug Candidate Selection (DCS) to the Proof of Concept (POC) stage and achieve world-class productivity
- Develop globally strategic drugs such as S-2367 (obesity) and S-777469 (antipruritic and antiinflammatory agent) and deploy them overseas
- Concentrate investment on R&D and on building a functional organizational structure (for example, train personnel for simultaneous development in Japan, the United States and Europe)
- Aggressively pursue business opportunities including strategic alliances for global development

New Sales and Marketing Strategies for Prescription Drugs

- Expand market share by concentrating resources on new products Crestor, Finibax and Avelox
- Establish the Cancer Pain Management Business Development Department and enhance efforts to promote the spread of cancer pain treatment
- Enhance efforts at advanced treatment hospitals
- Strengthen area-based marketing

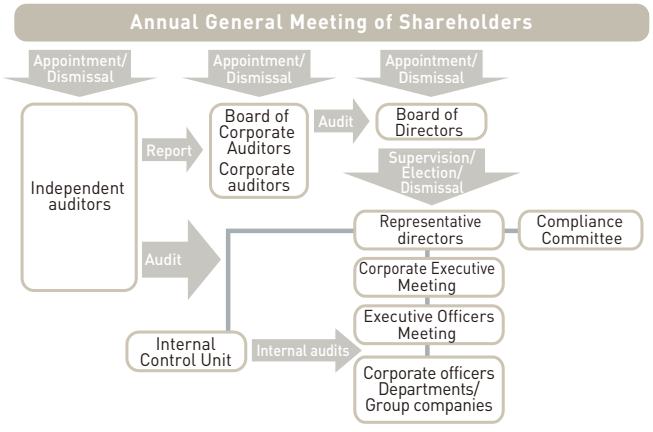
Corporate Governance

In line with the Company Policy of Shionogi, we recognize our social mission to continually discover, develop and provide effective, safe medicines. Shionogi is also aware that continually fulfilling this social mission will lead to high corporate value, and has therefore given first priority to carrying out sound, transparent management through the corporate governance framework it has established.

Corporate Governance Framework

Shionogi has adopted a corporate auditor system, with a Board of Directors, a Board of Corporate Auditors and independent auditors. The Company has also introduced a corporate officer system to ensure timely response to changes in the business environment and agile, flexible operations. To deliberate over matters of business execution, Shionogi has established the Corporate Executive Meeting and the Executive Officers Meeting. The Executive Officers Meeting is a forum for discussing matters of business execution, while the role of the Corporate Executive Meeting is to receive reports from the Executive Officers Meeting and provide a higher level of discussion on important matters. The Board of Directors makes decisions on matters affecting management and supervises business execution. The corporate auditors attend meetings of the Board of Directors, the Corporate Executive Meeting and other important meetings, offering opinions when necessary. They also check the legality and propriety of directors and corporate officers' activities through work and accounting audits in accordance with corporate auditing standards.

Corporate Governance Structure



Upgrading the Internal Control System

On May 15, 2006, the Board of Directors adopted the Basic Policy for building an Internal Control System to create a system for ensuring appropriate business operations at Shionogi as required by the Companies Act, which went into effect in May 2006. Based on the system's first year of operation, the Board of Directors re-envisioned, strengthened and enhanced it with the adoption of the next Basic Policy for building an Internal Control System on April 23, 2007.

Overview of the Basic Policy for building an Internal Control System

Shionogi is committed to promoting transparent and honest management through its directors and employees, who share the values of the Company Policy of Shionogi and maintain compliance in daily activities. To raise the effectiveness of the duties they carry out, Shionogi is upgrading its system to ensure appropriate business operations in accordance with the Companies Act and its enforcement.

At the Corporate Executive Meeting and the Executive Officers Meeting, the directors conduct full discussion of important matters regarding the execution of duties at the Company and Group companies to ensure that the directors carry out their duties legally and effectively.

Based on these discussions, the Board of Directors carries out appropriate management decision-making in accordance with laws, the Company's articles of incorporation and rules of the Board of Directors.

The corporate auditors ensure the effectiveness of audits by cooperating with the independent auditors and Internal Control Unit in auditing and counseling, and by regularly exchanging opinions with the representative directors.

To ensure compliance and information security, the Compliance Committee, under the direct jurisdiction of the representative directors, develops policies for strengthening legal compliance and ethical behavior in business activities, and distributes the Compliance Handbook to officers and all employees. The Office of the Compliance Committee (Legal Affairs Department) conducts regular training while providing administrative support with regard to compliance risks throughout the Company. Regarding information security, Shionogi upgrades its system for managing information, electronic memory media and electronic signatures and stores and manages important documents appropriately.

Regarding risk management, the Company's four divisions, three executives and two other business divisions avoid or mitigate risk by establishing response measures that match their respective degree of risk. In particular, the Corporate Executive Meeting and other meetings discuss policies for responding to significant management risks, and each section of the Company's organization cooperates with related divisions to respond as necessary based on these policies.

Shionogi promotes crisis management of urgent accidents with the aim of respecting human life and considering and contributing to local communities. The Internal Control Unit, as an internal auditing division, verifies various risks within the Company from an independent standpoint.

Members of the Board, Corporate Auditors and Corporate Officers (As of June 28, 2007)

From left Yasuhiro Mino Isao Teshirogi, Ph.D. Sachio Tokaji
Kiyoshi Miyamoto Motozo Shiono

Members of the Board

Chairman of the Board and Representative Director
Kiyoshi Miyamoto

President and Representative Director
Motozo Shiono

Director
Isao Teshirogi, Ph.D.*

Director
Sachio Tokaji*

Director
Yasuhiro Mino*

*Serves concurrently as a corporate officer

Corporate Auditors

Standing Corporate Auditors

Mitsuaki Ohtani, Ph.D.

Satoshi Komatsu

Corporate Auditors

Toshiomi Uragami
(Advisor, Sumitomo Life Insurance Company)

Takeharu Nagata
(President, Keihanshin Real Estate Co., Ltd.)

Note: Toshiomi Uragami and Takeharu Nagata are outside corporate auditors appointed pursuant to Article 2, Paragraph 16 of the Corporation Law.

Corporate Officers

Senior Executive Officer

Isao Teshirogi, Ph.D.
Supervisor, Pharmaceutical Research Division, Pharmaceutical Development Division, Manufacturing Division and Human Health Care Division

Executive Officers

Sachio Tokaji
Corporate Business Management Executive

Yasuhiro Mino
Corporate Strategic Planning Executive

Takuo Fukuda
Executive General Manager, Human Health Care Division

Ryuichi Kume, Ph.D.
Executive General Manager, Manufacturing Division

Corporate Officers

Hirosato Kondo, Ph.D.
Executive General Manager, Pharmaceutical Research Division

Kazuyoshi Fujii
Vice Executive General Manager, Human Health Care Division; General Manager, Sales and Distribution Department

Norio Yamada
Marketing Executive; General Manager, Quality Assurance Unit

Hitoshi Maeda
General Manager, Consumer Health Care Business Division

Keiichiro Nouda
General Manager, Diagnostics Department

Takuko Sawada
Executive General Manager, Pharmaceutical Development Division

Business Report

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Research and Development

Hirosato Kondo, Ph.D.

Corporate Officer,
Executive General Manager,
Pharmaceutical Research Division

Fiscal 2007, the midway point of the second medium-term management plan, will be an important year for the Pharmaceutical Research Division. We will reach the goal of at least five new candidate compounds at Phase II or more advanced stages by the end of fiscal 2009, while improving research efficiently and upgrading a system to create compounds that meet medical needs more rapidly than other companies. In addition, we will enhance the linkage between research and development. We must consistently launch original Shionogi drugs in global markets.

Research

Enhancing the System for Accelerating Drug Discovery

Shionogi has aggressively developed not only its own research programs but also joint research programs with institutions both in Japan and overseas in the three targeted research areas of infectious diseases, pain and metabolic syndrome to achieve the research goals of the second medium-term management plan. To maximize the results of drug discovery research, the Company continuously carries out timely and flexible resource management, including the strategic use of external organizations and people, and has introduced a research portfolio management system to promote appropriate selection and concentration in the drug discovery program.

One of the goals for drug discovery research to be achieved by the end of fiscal 2009 is to consistently move two or more original candidate compounds into clinical trials every year by achieving excellent productivity that results from the highest levels of both speed and technological capabilities. In working toward this goal, the Company will build a research organization that can continuously create new world-class drugs.

Accelerating New Drug Discovery

To accelerate new drug discovery and basic research, we have decided and have started preparations to establish the Shionogi Innovation Center for Drug Discovery on the campus of Hokkaido University, where Shionogi will conduct joint research with the University. Moreover, Shionogi conducts FINDS (Pharma-Innovation Discovery Competition Shionogi), a drug discovery competition for domestic research organizations that is attracting numerous entries from outside our institutes.

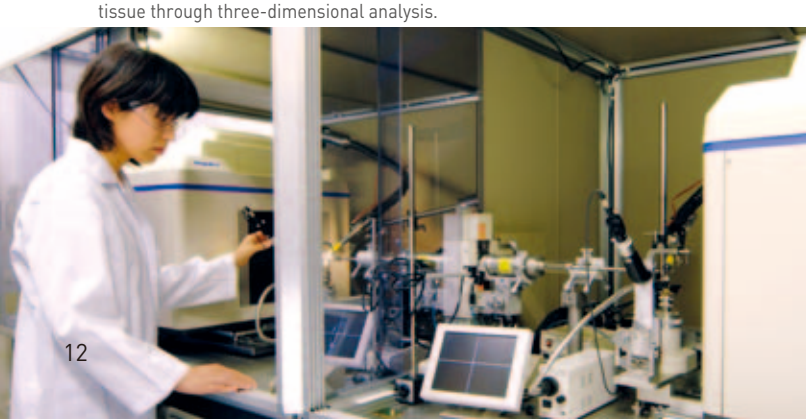
Three New Drug Candidates Selected

In fiscal 2006, Shionogi selected three new drug candidates: a prostaglandin D2 inhibitor as a backup compound for S-5751 (bronchial asthma treatment); a molecular-targeted anti-cancer drug; and a small-molecule thrombopoietin (TPO) mimetic agent.

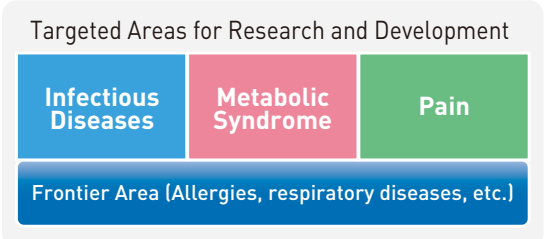
Further Selection and Concentration in Research Programs

In the area of infectious diseases, research continues on discovery of treatments for severe infectious diseases in response to the needs of on-site health providers. In the area of metabolic syndrome, Shionogi is accelerating research programs that follow Crestor. In the area of pain, the Company is making progress in both in-house research and joint research with Purdue Pharma L.P. of the United States covering novel treatments for pain. In fiscal 2007, all members of the Pharmaceutical Research Division will work together to create more than four new candidates through further selection and concentration in research programs.

● A single-crystal X-ray diffractometer is used to determine the structure of protein tissue through three-dimensional analysis.



● Targeted Areas for Research and Development in the Second Medium-Term Management Plan



Takuko Sawada
Corporate Officer,
Executive General Manager,
Pharmaceutical
Development Division

The operating environment in the pharmaceutical industry is becoming increasingly challenging on a global level, with issues including the need to differentiate new products from existing treatments on the basis of efficacy, as well as rising safety standards. In order to succeed in these conditions, we can no longer take the approach of proceeding with domestic clinical trials pending the results of overseas clinical trails. Instead, we must formulate strategies to efficiently advance development of drugs in the most appropriate regions, without limiting ourselves to Japan.

Development

Establishing a Functional Organizational Structure and Concentrating Investment in Targeted Areas

In clinical development, Shionogi is exercising maximum effort to provide society with safe, effective drugs as quickly as possible. As concrete measures to establish this objective, the Company has made consistent progress in concentrating resources on target diseases while enhancing the development management system to raise productivity.

For domestic clinical trials, Shionogi strengthened its outsourcing management system and raised its efficiency to ensure on-schedule execution. For overseas clinical trials, the Company improved its global development system in cooperation with Shionogi USA, Inc. while developing the infrastructure needed to raise the efficiency of New Drug Application (NDA) submissions and clinical trials.

As a result of these activities, the Pharmaceutical Development Division is consistently achieving its key goals of rapid development and steady progress toward product launches. At the same time, aiming to make Shionogi a company with a strong presence, all employees are totally committed to succeeding in a business environment characterized by intense competition on a global scale through steady execution of plans.

Progress in the Three Targeted Areas of Infectious Diseases, Pain and Metabolic Syndrome

In the targeted research area of infectious diseases, Shionogi advanced S-013420 (novel macrolide antibiotic) to the late Phase II clinical trial stage. Moreover, Shionogi decided to in-license S-021812 (Peramivir: anti-influenza), which is expected to be effective against the H5N1 influenza virus and serious life-threatening influenza, as well as offering single-shot efficacy against ordinary seasonal influenza. A Phase I clinical study of the compound began in July 2007. Shionogi and GlaxoSmithKline plc have discontinued joint development of S-364735 (HIV integrase inhibitor), but the companies continue to conduct joint research toward clinical development of a second-generation integrase inhibitor with a superior profile for resistant virus and pharmacokinetics.

In the area of pain, Shionogi obtained approval for OxiNorm powder (an immediate-release formulation of OxyContin) and launched it in February 2007. In addition, the Company selected a novel development candidate compound with a superior efficacy profile to relieve nausea, constipation and other side effects of opioids.

In the area of metabolic syndrome, the Company filed an NDA in December 2006 for SR47436 (Irbesartan: angiotensin II receptor antagonist). For LY248686 (Duloxetine: serotonin-norepinephrine reuptake inhibitor), Shionogi completed Phase II clinical trials of patients with diabetic peripheral neuropathic pain and is preparing to advance to the next clinical phase. For S-2367 (neuropeptide Y Y5 receptor antagonist, obesity treatment), a globally strategic compound to which Shionogi is strongly committed, Shionogi USA Inc. played a central role in conducting Phase IIa Proof of Concept (POC) clinical trials and confirmed the efficacy of the compound. S-2367 is currently in Phase IIb clinical trials in the United States. (For details, please refer to "Globalization through Shionogi USA" on page 14.)

Progress in Other Areas

In other areas, in Japan the Company filed the world's first NDA for S-7701 (Pirfenidone) as a treatment for idiopathic pulmonary fibrosis after successfully completing Phase III clinical trials in fiscal 2006. As there is no existing treatment available for this disease, the Company is working hard to respond to questions arising from the NDA review.

In fiscal 2006, Shionogi also initiated a Phase I single dose study in Japan for S-777469 (antipruritic and anti-inflammatory agent). At the beginning of fiscal 2007, the Company began Phase I repeat dose studies in Japan and the United States. In fiscal 2007, Shionogi plans to submit an NDA for duloxetine, which is currently undergoing Phase III clinical trials as an antidepressant. In an increasingly stressful society where the problem of depression has come to the fore, the Company is focusing its attention on the results of the trials, as the compound is expected to be effective in treating mental disease as well as physical pain.

Globalization through Shionogi USA

Established in 2001, Shionogi USA, Inc. has continued its important role in building overseas expertise and infrastructure to support Shionogi & Co., Ltd.'s global clinical development and commercial efforts. Shionogi USA has evolved from primarily supporting Shionogi's joint venture with GlaxoSmithKline to independently advancing a portfolio of drug candidates discovered by Shionogi. In addition to its clinical development efforts, Shionogi USA also leads the U.S. marketing and distribution of Cedax (ceftibuten), a third-generation cephalosporin antibiotic.

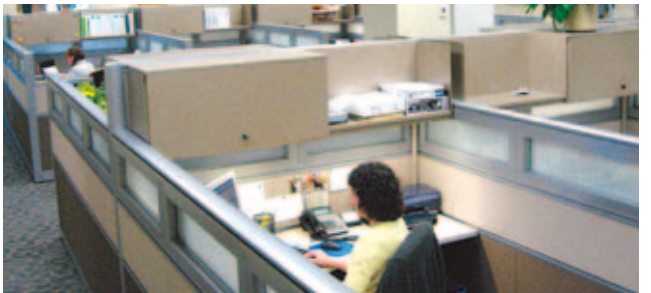
A critical component to achieving Shionogi's global aspirations is the establishment of in-house clinical development, regulatory, medical and commercial expertise in the United States and Europe. Shionogi USA was formed in 2001 as a first step in building such overseas capabilities. Launched in parallel with Shionogi-GlaxoSmithKline Pharmaceuticals, LLC ("Shionogi-GSK"), a clinical-stage U.S. and EU joint venture focused on HIV and central nervous system (CNS) disorders, Shionogi USA was established in order to assemble a core team of clinicians and project managers who could advance development programs independently or in partnership with other global companies.

Over the past six years, Shionogi USA has opened multiple investigational new drugs (INDs) and independently initiated clinical trials in areas such as oncology, asthma, obesity and dermatology. Recent activities have included supporting the advancement of Shionogi-GSK's current integrase inhibitor drug candidate for HIV, as well as completing a positive Phase IIa Proof of Concept study for Shionogi's obesity drug candidate S-2367. Shionogi USA's lead role in the successful 400-subject Phase IIa study of S-2367, as well as the two 750-subject Phase IIb studies which are under way, are primary examples of the positive contribution that Shionogi USA can make to the advancement of Shionogi's global pipeline. By advancing such global programs to the Proof of Concept stage independently, Shionogi is able to significantly enhance the value of its pipeline and secure more attractive partnerships with other global pharmaceutical companies for late-stage development and commercialization.

Since its inception, Shionogi USA has expanded its staff to meet the demands of Shionogi's global clinical development portfolio. This expansion has included key hires in the areas of clinical development, clinical operations, project management, medical and regulatory affairs. These individuals were selected based on their past experience and expertise in their respective functions within the pharmaceutical industry. As Shionogi's global pipeline matures and Shionogi USA begins to support later stage development, as for S-2367, the organization will continue to expand and add the necessary staff to manage these larger and more complex programs.

In addition to establishing overseas clinical and regulatory functions, Shionogi USA has also initiated sales, marketing and distribution of Cedax (ceftibuten), a third-generation cephalosporin antibiotic indicated for the treatment of otitis media, pharyngitis, tonsillitis, and acute exacerbations of chronic bronchitis. The sales and distribution rights to Cedax were acquired by Shionogi USA in 2004 in order to enhance U.S. sales of this product, the active pharmaceutical ingredient (API) of which is manufactured by Shionogi in Japan, as well as to serve as an initial step in building the necessary infrastructure and expertise to support the U.S. commercialization of Shionogi's future pipeline. Cedax sales, marketing and distribution is led by a core team within Shionogi USA and supported by several contract service providers.

Shionogi USA's activities over the coming year will continue to focus primarily on the advancement of global clinical development programs. In addition to S-2367, Shionogi USA plans to initiate U.S. clinical development of additional new drug candidates such as S-777469 for atopic dermatitis.



Status of Products under Development (As of July 2007)

Stage	Code No. (Generic Name)	Category (Administration)	Indication	Origin/Development
In Japan				
NDA submission (September 2004: Schering-Plough K.K.)	SCH29851 (Loratadine)	Histamine H1 receptor antagonist (Oral)	Additional indication: Pediatric use (allergic rhinitis and itch caused by various dermatitis)	Origin: Schering-Plough Corp. (U.S.) Co-development: Schering-Plough K.K.
NDA submission (December 2006)	SR47436 (Irbesartan)	Angiotensin II receptor antagonist (Oral)	Hypertension	Origin: Sanofi-Aventis SA (France) Co-development: Dainippon Sumitomo Pharma Co., Ltd.
NDA submission (March 2007)	S-7701 (Pirfenidone)	Anti-fibrosis (Oral)	Idiopathic pulmonary fibrosis	Origin: Marnac, Inc. (U.S.) & KDL, Inc. (Japan) Development: In-house
Phase III	LY248686 (Duloxetine hydrochloride)	SNRI (serotonin-norepinephrine reuptake inhibitor) (Oral)	Depression	Origin: Eli Lilly and Company (U.S.) Development: In-house
Phase III (in preparation)	LY248686 (Duloxetine hydrochloride)	SNRI (serotonin-norepinephrine reuptake inhibitor) (Oral)	Diabetic peripheral neuropathic pain	Origin: Eli Lilly and Company (U.S.) Co-development: Eli Lilly Japan K.K.
Phase III (in preparation)	S-4661 (Doripenem hydrate)	Carbapenem antibiotic (Injection)	Pediatric infection	Origin: In-house Development: In-house
Phase IIb	S-013420	Novel macrolide antibiotic (Oral)	Bacterial infection	Origin: Enanta Pharmaceuticals, Inc. (U.S.) Development: In-house
Phase IIb	NS75B (Cetrorelix pamoate)	Gonadotropin releasing hormone antagonist (Injection)	Benign prostatic hypertrophy	Origin: Zentaris AG (Germany) Development: In-house
Phase II	NS75A (Cetrorelix acetate)	Gonadotropin releasing hormone antagonist (Injection)	Uterine myoma	Origin: Zentaris AG (Germany) Co-development: Nippon Kayaku Co., Ltd.
Phase I	S-777469	Antipruritic and antiinflammatory agent (Oral)	Atopic dermatitis	Origin: In-house Development: In-house
Phase I	S-021812 (Peramivir)	Neuraminidase inhibitor (Injection)	Influenza infection	Origin: BioCryst Pharmaceuticals, Inc. (U.S.) Development: In-house
Phase I (in preparation)	S-888711	Small-molecule thrombopoietin (TPO) mimetic (Oral)	Thrombocytopenia	Origin: In-house Development: In-house
Outside Japan				
USA: Phase IIb	S-2367	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity	Origin: In-house Development: In-house
Japan: Phase IIa EU: Phase I	S-0139	Endothelin A receptor antagonist (Injection)	Cerebrovascular diseases	Origin: In-house Development: In-house
USA: Phase I	S-777469	Antipruritic and antiinflammatory agent (Oral)	Atopic dermatitis	Origin: In-house Development: In-house
Out-Licensing Activity				
USA: NDA submission (December 2006) EU: NDA submission (June 2007)	S-4661 (Doripenem hydrate)	Carbapenem antibiotic (Injection)	Bacterial infection	Origin: In-house Development: Peninsula Pharmaceuticals, Inc. (U.S.) ↓ Johnson & Johnson (U.S.)
In-Licensing Activity				
NDA submission (June 2006)	Adapalene gel	Retinoic acid nuclear receptor agonist (Topical)	Acne vulgaris	Origin: Galderma S.A. (France) Development: Galderma KK

Sales and Marketing

Takuo Fukuda
Executive Officer,
Executive General Manager,
Human Health Care Division

To establish a strong presence, Shionogi conducts sales and marketing activities from the patient's perspective, providing detailed information and performing trace-backs to confirm efficacy and safety in a swift and sure manner, returning to Shionogi's original sales and marketing policy.

In addition to providing physicians with accurate information on the efficacy and safety of the Company's prescription drugs, Shionogi's medical representatives (MRs) thoroughly confirm the efficacy and safety of those drugs by visiting doctors to check whether patient symptoms have improved and whether the drugs have facilitated treatment. Based on Shionogi's philosophy of "working for patients," MRs work to improve the quality of the information they provide by feeding more detailed information back to the relevant healthcare practitioners. In addition, Shionogi's other divisions, including Research, Development and Manufacturing, provide unified support for the Company's sales and marketing activities to enhance the quality of information. The information received from healthcare providers is also used for drug discovery and development.

Domestic Sales Results in Fiscal 2006

The domestic pharmaceutical industry faced an increasingly severe operating environment. In April 2006, National Health Insurance (NHI) drug prices were lowered by an average of 6.7 percent across the industry amid discussions on containing rising healthcare costs. Moreover, the promotion of generic drugs gained momentum, and the adoption of the Diagnosis Related Group/Prospective Payment System (DRG/PPS) for medical expenses expanded.

In particular, amid continuing shrinkage of the market for antibiotics, a core product area for Shionogi, the Company was unable to focus its efforts on the expansion of new products. As a result, domestic sales of prescription drugs were short of the fiscal 2006 target.

Sales and Marketing Strategies and Measures for Increasing New Product Sales

A major objective under the second medium-term management plan is to revitalize domestic sales and marketing in order to provide a stable source of income as a base for "preparing for a significant leap forward" in the future. To achieve this objective, Shionogi aligned its sales and marketing activities with research and development by focusing on the targeted areas of infectious diseases, pain and metabolic syndrome, and the frontier area, and concentrated resources on new products in each area to expand market share.

From fiscal 2007, we plan to enhance our efforts at advanced treatment hospitals and develop highly specialized information activities in each disease area that meet physicians' expectations. In addition, we will enhance area-based marketing and actively conduct sales and marketing that reflects the state of healthcare in each locality while concentrating resources on new products.

Infectious Diseases

Over many years, Shionogi has built a strong presence as an "anti-infective company" with a full product pipeline in the area of infectious diseases, and will continue to contribute to the treatments in this area. Reviewing the current status of the market, we will work to enhance the Company's presence in the area of severe infectious diseases, where significant needs still exist. Shionogi intends to further expand its market share by positioning Finibax and Avelox as strategic products. The Company plans to enhance the information it provides on these products by amassing more clinical and non-clinical data.

Finibax®

Launched in September 2005, this injectable carbapenem antibiotic has a profile of strong antibacterial action and high level of safety. In particular, Finibax exhibits strong antibacterial action against *Pseudomonas aeruginosa*, which is frequently a problem when treating severe infectious diseases. Overseas, the product was developed by Johnson & Johnson, which submitted it for approval to the FDA in the United States in December 2006 and to the European Medicines Agency (EMEA) in June 2007.

Avelox®

Administered as a once-daily dose, Avelox offers high clinical efficacy. In addition to demonstrating an excellent antibacterial effect on all the major bacterial causes of respiratory tract infections, it also has good pharmacokinetic (PK) characteristics.

Pain

To fulfill Shionogi's mission of improving the quality of life (QOL) of patients, the Company's MRs are working toward complete relief from pain for all cancer patients. Shionogi's core product in this area is the controlled-release oral opioid OxyContin. Launched in 2003, OxyContin Tablets continued to expand their market share and became the most-prescribed oral opioid analgesic in Japan in 2006. In February 2007, Shionogi launched OxiNorm powder, an immediate-release formulation of OxyContin. Shionogi is working to promote widespread alleviation of cancer pain through the combination of these two products. However, a deeply rooted prejudice in Japanese medical tradition against medical narcotics is interfering with the spread of pain treatments.

In April 2007, Shionogi established the Cancer Pain Management Business Development Department, and plans to strengthen efforts to educate the general public about pain.

Metabolic Syndrome

In Japan, healthcare needs have been increasing in the area of metabolic syndrome due to factors including the growing population of elderly people, changes in diet, chronic lack of exercise and rising levels of stress. To meet these needs, Shionogi intends to make metabolic syndrome a central area of focus. Shionogi develops information activities centered on the hyperlipidemia treatment Crestor combined with details on drugs such as Landel Tablets, a calcium channel blocker for treating hypertension. The Company has also filed an NDA for irbesartan, an angiotensin II receptor antagonist for treatment of hypertension, and plans to add it to the product lineup upon approval.

In this area, there is a critical need for evidence of efficacy and safety obtained through large-scale clinical studies of a large number of patients. Clinical studies for Crestor by AstraZeneca plc have been proceeding on a global scale. Completed tests have yielded considerable data supporting the drug's efficacy. In clinical studies for Landel, the final results of the Japanese Trial to Assess Optimal Systolic Blood Pressure in Elderly Hypertensive Patients (JATOS), Japan's first large-scale clinical trial for the treatment of hypertension in elderly patients, were announced at the 21st Scientific Meeting of the International Society of Hypertension in Fukuoka in 2006. JATOS provided clinically valuable research findings.

Crestor®

Crestor was originally created by Shionogi and licensed to AstraZeneca plc. It is extremely effective in lowering LDL, universally known as "bad cholesterol." In Japan, Shionogi co-markets the product with AstraZeneca Japan K.K. For 18 months following Crestor's launch, Shionogi and AstraZeneca conducted a rigorous post-marketing surveillance study designed to detect and prevent adverse drug reactions. The study confirmed the safety of the product for use by Japanese patients and as a result, Shionogi stepped up Crestor to regular promotional activities in September 2006. Looking forward, Shionogi intends to expand Crestor's market share based on evidence from around the world.

Frontier (Allergy Treatments and Others)

In the frontier area, Shionogi has been offering topical steroids and antihistamines mainly for ear, nose and skin conditions. With anti-allergic Claritin as its core product, Shionogi intends to cultivate new key disease areas by adding the acne vulgaris treatment Adapalene and other products currently under development.

Future Sales Expansion

During the period of the second medium-term management plan from April 2005 to March 2010, Shionogi plans to launch 10 new products, including new formulations for marketed products.

By working steadily to maximize the potential of these new products, Shionogi intends to build a strong domestic business base.

Manufacturing

Ryuichi Kume, Ph.D.
Executive Officer, Executive General Manager, Manufacturing Division

Based on The Company Policy of Shionogi, the Manufacturing Division has established SQDCE as its motto for daily activities. Under this motto, the division has three missions: to provide a stable supply of quality drugs; to contribute to the speedy development of new products by conducting R&D with an understanding of the entire process from the initial stages of development to post-marketing; and to implement product life cycle management through the development and addition of products with added value.

To achieve these missions, Shionogi strengthened its support organization for R&D, plants and affiliates in fiscal 2006 by establishing the CMC Development Laboratories, the Industrial Technology Laboratories, the Technology Control Department and the Business Process Improvement Unit of the Manufacturing Division.

Progress under the Second Medium-Term Management Plan

The Manufacturing Division is "preparing for a significant leap forward" under the second medium-term management plan by upgrading its infrastructure through aggressive capital investment.

At the Kanegasaki Plant, Shionogi enhanced its quality assurance system by establishing a facility solely for quality assurance and quality control (QA/QC) in fiscal 2006. To prepare for domestic sales growth of Finibax and global sales of the drug by Johnson & Johnson, work is progressing on the expansion of the packaging and storage areas of the existing manufacturing facility, and construction of a large-scale facility for sterile active pharmaceutical ingredients (APIs) was completed in June 2007. With the resulting expansion of capacity to support increased sales volume, the Company anticipates improvements in quality and productivity (lower costs). In addition, plans are proceeding to expand the facility for cancer pain drugs and to transfer the manufacturing of cancer pain drug injections from the Settsu Plant to the Kanegasaki Plant. Manufacturing cancer pain drugs at a single location will strengthen the manufacturing control system and reduce distribution and management costs. With production progressing smoothly for OxiNorm powder, an immediate-release cancer pain drug launched in February 2007, the Kanegasaki Plant is making significant strides as a domestic supply base for cancer pain drugs and a global supply base for antibiotics.

At the Kuise Site, construction is progressing on a facility to manufacture APIs for clinical trials in line with Shionogi's efforts to stimulate drug discovery research. After completion of the facility, scheduled for fall 2007, Shionogi will have all the facilities needed for small- to commercial-scale manufacturing of non-hormone and non-antibiotic drug products and APIs, except for very hazardous products. This will further increase development speed and quality.

At the Settsu Plant, Shionogi will leverage its expertise in pharmaceutical development and manufacturing accumulated over many years to construct a facility for solid dosage forms. Including clinical supplies, the total cost of the facility, which is scheduled for completion in fall 2008, will be approximately ¥6.0 billion.

In addition to manufacturing new products such as duloxetine, a treatment for depression (with an additional indication for diabetic peripheral neuropathic pain) scheduled for launch in the near future, this facility will enable the Company to manufacture products ranging from clinical supplies of diverse new drug candidate compounds to commercial products. By conducting such manufacturing in a single facility, Shionogi expects to improve quality of development and accelerate the launch of new products.

In addition to duloxetine, the Settsu Plant plans to begin production of the anti-allergic Claritin Dry Syrup during

● Equipment for manufacturing APIs for clinical trials at the Kuise Site is scheduled for completion in fall 2007.

● A packaging line in Building 301 at the Settsu Plant

● Facility for solid dosage forms at the Settsu Plant, scheduled for completion in fall 2008

The Manufacturing Division Motto (Standards of Conduct)

S (Safety): Secure the safety of people, materials and equipment,
Q (Quality): Manufacture quality products with a sophisticated quality management system,
D (Delivery): Bring new products to market on the expected launch day without delay, while maintaining a stable supply of existing products,
C (Cost): Cut costs through reduction of raw material costs and process improvements, and
E (Environment): Reduce waste pursuant to ISO 14001.

fiscal 2007. Preparations are also under way toward the start of commercial production of new products for which Shionogi has already submitted NDAs, such as the antihypertensive irbesartan and pirfenidone, a treatment for idiopathic interstitial pulmonary fibrosis.

Ongoing Development and Utilization of Manufacturing Technology Capabilities as a Core Competency

Under the second medium-term management plan, Shionogi conducts contract manufacturing to "attain a high level of quality and manufacturing technology capabilities," "maintain and improve its manufacturing technologies" and "establish a system that enables plants to operate as self-sustaining enterprises." In this way, the Company is working to improve its capacity utilization rate and manufacturing technology capabilities while further reducing costs.

In contract manufacturing, Shionogi works with its consolidated subsidiaries Bushu Pharmaceuticals Ltd. and Nichia Pharmaceutical Industries Ltd. to offer comprehensive packaged services using the Company's high-level manufacturing technology capabilities.

Shionogi believes that it can contribute to healthcare by providing its manufacturing technologies to other companies, and that direct external contact creates a stimulus that helps raise the Manufacturing Division's competitiveness. For example, Shionogi has developed an orally disintegrating tablet (ODT) that is harder than ODTs manufactured by other companies but disintegrates more rapidly. In addition to this advantage, Shionogi's ODT can be manufactured using a simple, low-cost process. Shionogi has also developed a chocolate-based chewable soft capsule that can be taken without water, which helps improve quality of life and patient compliance. Shionogi's coating technology, which uses polyvinyl acetate (PVA) copolymer with unequalled oxygen impermeability, stabilizes product quality. By making its original technologies available for use by other companies, Shionogi is building awareness of its technological competitiveness, which is expected to lead to creative initiatives that further technological development.

Cultivating such manufacturing technologies as a core competency will contribute to the Company's continuing growth.

A Manufacturing System That Supports Overseas Business

Finibax has been available in Japan since its launch in September 2005. Efforts are also progressing to introduce this drug in overseas markets through licensee Johnson & Johnson, which submitted an NDA to the FDA in the United States in December 2006, and submitted a Market Authorization Application (MAA) to the European Medicines Agency (EMEA) in the EU in June 2007. To support the sales increase in overseas markets, the Manufacturing Division is continuing preparations for additional overseas product supply, centered on the Kanegasaki Plant.

Completed in June 2007, a large-scale facility for sterile APIs at the Kanegasaki Plant will increase global manufacturing capacity for Finibax.

Shionogi takes overseas business into account in all its manufacturing activities. The facility for APIs used in clinical trials currently under construction at the Kuise Site and the facility for solid dosage forms that will be constructed at the Settsu Plant will each have the functions needed to comply with global Good Manufacturing Practice (GMP) and various other regulations.

The Company is also working to reduce the cost of developing new drugs and manufacturing current commercial products by establishing a system for procuring inexpensive, quality raw materials and intermediates from overseas.

Orally disintegrating tablets (ODTs) and chocolate-based chewable soft capsules

Licensing and Intellectual Property

Licensing Focused on Medium-to-Long-Term Growth

Shionogi is working to strengthen its product pipeline under its second medium-term management plan. The License Department energetically conducts in-licensing to supplement the Company's R&D pipeline in targeted areas. Shionogi also actively promotes out-licensing and joint research and development to raise R&D efficiency and probability of success. Moreover, by enhancing its alliance management functions, Shionogi is creating new opportunities for partnerships to maximize product potential.

In June 2006, Shionogi executed a sales and marketing alliance with Galderma S.A. of France for Adapalene Gel 0.1%, a topical product for treating acne vulgaris (common acne). The aim of the alliance is to strengthen Shionogi's presence in the area of dermatology, in which it currently has a strong topical steroids franchise and markets anti-allergy drugs. In February 2007, to strengthen its pipeline in the targeted area of infectious diseases, the Company acquired rights to develop and market the novel anti-influenza drug peramivir from U.S. company BioCryst Pharmaceuticals, Inc.

In July 2006, Shionogi out-licensed its phospholipase A2 program to Anthera Pharmaceuticals, Inc. of the United States. Aggressive out-licensing activities are also under way for S-0373, which Shionogi originated and developed as a drug for spinocerebellar ataxia and Parkinson's disease. Shionogi is also actively working to create new drug candidates through joint discovery research with academia and bio-ventures. Since 2003, the Company has been conducting research in glyco-engineering with Hokkaido University. In 2006, Shionogi executed an agreement with U.S. company Purdue Pharma L.P. to conduct collaborative research, development and commercialization of novel compounds for treating pain.

In collaborative business, Shionogi has been developing duloxetine hydrochloride, a serotonin-norepinephrine reuptake inhibitor licensed from Eli Lilly and Company, for the indication of depression in Japan. In January 2007, Shionogi and Eli Lilly concluded an additional agreement to collaborate in developing the drug in Japan for diabetic peripheral neuropathic pain. Both companies will co-market the drug in Japan.

Intellectual Property Strategy

In fiscal 2006, Shionogi won the Japan Patent Office Commissioner's "Intellectual Property Award of Distinction." In fiscal 2007, Shionogi ranked first in the Japan Patent Office's Patent Strategy Indices for the pharmaceutical industry.

Patent Filing Strategy

In line with the concentration of resources in targeted areas as set out in the second medium-term management plan, Shionogi is reorganizing the Intellectual Property Department by disease area and strengthening collaboration between intellectual property staff and researchers in corresponding areas. The disease area-based system allows intellectual property staff to develop in-depth knowledge about the technologies of other companies and the progress of Shionogi's own research, which facilitates such activities as patent searches to avoid duplicating other companies' research, optimal scheduling of the Company's patent applications, and drafting strategic patent claims. This in turn leads to more efficient discovery research and patent filing. Shionogi filed approximately 100 patent applications in fiscal 2006, about 40 percent of which were filed overseas.

Patent Portfolio Management

Taking cost into account, Shionogi reviews its patent portfolio periodically to determine whether or not unused patents should be maintained. As of the end of fiscal 2006, Shionogi held approximately 230 patents in Japan and approximately 160 patent families (subject matter claimed, patents registered) overseas.

Patent Licenses

Income from licensing patents during fiscal 2006 totaled approximately ¥21.3 billion, an increase of about 117 percent compared with income of approximately ¥9.8 billion in fiscal 2005.

Social Report

Shionogi's Social Activities

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Shionogi's CSR Activities

The basis of Shionogi's corporate conduct and the core of its CSR activities is the Company Policy of Shionogi, established in 1957. To implement this policy, in November 2004 Shionogi established Action Guidelines to govern all its corporate activities.

All Shionogi employees understand and sincerely reflect the Company Policy of Shionogi and the Action Guidelines in their daily interactions with various stakeholders.

In other words, Shionogi believes its CSR activities lie in continuously developing and supplying highly effective and safe medicines while maintaining transparent and sound management, high ethical standards and thorough compliance.

The Company Policy of Shionogi (Corporate Philosophy):

A statement of the Company's aims, and its enduring philosophy and values

Shionogi's Action Guidelines:

An easy-to-understand framework for implementing the Company Policy of Shionogi through daily activities, comprising the Company's purpose (mission), goals (vision) and standards of conduct (values)

Mission
(Purpose)

Shionogi's mission and value to society

Vision
(Goals)

What the Company must be and achieve in order to accomplish its mission

Values
(Standards of Conduct)

How employees must conduct themselves in order to realize the Company vision

5 Values

Trust

- Shionogi understands that the only way to gain the trust of society is to steadily provide original medicines in a proper manner to the maximum number of people.
- To do this, employees must build relationships of mutual trust both inside and outside the Company.

Customer Focus

- Shionogi understands that the greatest joy comes from bringing joy to patients, their families and healthcare professionals by relieving their suffering and concerns.
- For this reason, the Company places the highest priority on relationships with these people, and takes meticulous care to meet their demands.

On-Site Orientation

- Shionogi understands that its laboratories, plants and the places where it sells are a focus of expertise and fact, and that the Company's activities at these sites reflect whether the Company's efforts are benefiting patients, their families and healthcare professionals.
- For these reasons, Shionogi places a priority on information from these sites, and uses such information as a basis for action.

Professionalism

- Shionogi understands that maintaining the highest level of professionalism in attitude and conduct is crucial for ensuring that it provides the best medicines to patients and healthcare professionals.
- For this reason, Shionogi's employees work steadily, overcoming major challenges with a positive mindset and accomplishing the goals they have set in order to achieve the highest level of competence in every field.

Respect for the Individual

- Shionogi understands that respect for individuals and the recognition of diversity result in a higher level of creative value, and that this allows the Company to provide patients, their families and healthcare workers with greater value.
- For this reason, Shionogi's employees maintain maximum respect for each other and everyone they deal with.

Medicines That Truly Help (I)

Shionogi & Co., Ltd. has continuously supplied superior pharmaceuticals to people everywhere, based on its company policy, "Shionogi strives constantly to provide medicine of the best possible kind essential for protection of the health of the people." Based on achievements built by a high level of ethics and reliability, the Company will continue to step up efforts in the twenty-first century to ensure proper use of those pharmaceuticals by the people who need them.

April 2005 Implementation of Revision to the Pharmaceutical Affairs Law Sets Clear Post-Marketing Responsibilities for Prescription Drugs

The Pharmaceutical Affairs Law of Japan was revised in July 2002 to reflect changing social and economic conditions including international harmonization, technological advances and diversifying corporate activities. The revision came into full effect in April 2005.

The key point of the revision was the change from a manufacturing approval system to a marketing approval system that requires applicants for marketing approval to appoint three supervisors, in charge of comprehensive control of post-marketing, safety management and quality assurance, respectively, as a condition for granting the approval. This change resulted in greater demand for post-marketing safety measures and made it clear that the quality, efficacy and safety of drugs on the market are the responsibility of the marketing approval holder. In other words, the revision increased and emphasized corporate responsibility for safety measures on pharmaceuticals and related products.

Safety Information That Complies with International Standards

In April 1990, six bodies including regulatory authorities and pharmaceutical company associations from Japan, the United States and the European Union launched the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH). Aimed at providing effective, safe new medicines more quickly to the patients who need them, the ICH began studying how to rationalize and standardize the new drug review procedures and regulatory criteria of each member region.

Based on ICH guidelines, participating countries quickly established legislation and guidelines and have been working step by step to establish a reporting and evaluation system centered on methods for evaluating the quality, efficacy and safety of drugs. ICH members have agreed on more than 50 guidelines and are currently implementing them in their respective regions. In addition to the technological guidelines, the scope of agreement has recently expanded to include matters such as the format of application dossiers and the post-marketing pharmacovigilance system. Interchange and information sharing with non-ICH regions are also proceeding. In line with the ICH agreements and domestic regulations based on those agreements, Shionogi established and has begun implementing a pharmacovigilance system compliant with international standards, as required of a company that markets new drugs.

ICH-E2E-Compliant Study Confirms the Safety of Crestor

In November 2004, ICH members reached a final agreement on E2E, the ICH Guideline for pharmacovigilance planning, which addresses matters such as post-marketing pharmacovigilance and safety measures. In Japan, the Guideline was adopted in new regulations entitled "Enhancing the Basic Plan for Post-Marketing Surveys" announced by the Ministry of Health, Labour and Welfare (MHLW) in September 2005.

Complying with the ICH-E2E Guideline, Shionogi and AstraZeneca K.K. jointly planned and implemented pharmacovigilance for Crestor. Crestor is currently being sold in Japan as a statin alongside similar products following marketing approval based on favorable safety results of overseas studies involving over 10,000 subjects as well as post-marketing safety data. Placing top priority on confirming the drug's safety for Japanese patients, however, the two companies were the first in Japan to formulate and implement an ICH-E2E-compliant pharmacovigilance plan based on identification of risks and prevention of adverse drug reactions (ADRs). As a result, there have so far been no cases reported with any unexpected ADRs (ADRs not described in the "precautions for use" on the package insert), thus confirming the drug's safety for Japanese patients.

Initiatives to Increase Safety

Looking ahead, Shionogi will continue to apply ADR identification and prevention-based pharmacovigilance plans such as the one developed for Crestor to numerous products. In order to acquire additional evidence of efficacy as well as to confirm product profiles, the Company will also conduct high-quality post-marketing studies and surveys based on the MHLW Ordinance Related to Standards for Post-marketing Studies and Surveys Performed by Manufacturers and Distributors (the "GPSP Standards"), which specifies study and survey standards. Shionogi will provide the results of these studies and surveys to healthcare providers as appropriate. Through ongoing, organized implementation of such activities, Shionogi intends to nurture its products as medicines that truly help patients.

Medicines That Truly Help (II)

Committed to Eliminating Pain

Relieving Cancer Pain

As part of its mission to improve the quality of life for patients, Shionogi is committed to helping patients suffering from cancer pain. The Company offers a broad lineup of medical narcotics (opioids), and has been working since the 1989 launch of MS Contin to provide pain relief for all cancer patients.

Pain is the main factor in cancer patient distress. Although countermeasures are being established, surveys indicate that many cancer patients are not receiving appropriate pain therapy. It is a major medical issue yet to be resolved. Particularly in Japan, a deeply rooted misunderstanding of and prejudice against medical narcotics prevents the fulfillment of their primary role in treating cancer pain, and there is a philosophy of enduring pain. The use of medical narcotics in Japan is one-tenth the level of countries such as the United States and Canada, where such drugs are proactively prescribed.

Newspaper advertisement published March 4, 2007

Shionogi's newspaper advertisement received an honorable mention in the sponsor category at the 2006 Kobe Shimbun Advertising Awards.

Amid these conditions, the government of Japan bolstered efforts to ensure equal access to appropriate treatment for all cancer patients with the enforcement of the Basic Law Concerning Cancer Countermeasures in April 2007. Promoting the spread of cancer pain treatment is one of the main components of the law and related initiatives. The need for such treatment is a popular topic in the media, and awareness of the importance of relieving cancer pain from the early stages is broad and growing, even among the general population. In conjunction with the enforcement of the Basic Law Concerning Cancer Countermeasures, Shionogi established the Cancer Pain Management Business Development Department and began promoting the proper use of medical narcotics to treat cancer pain. To reach a large number of patients and the general public, Shionogi placed an advertorial in numerous newspapers to raise awareness about the importance of controlling pain. Over 80 percent of readers surveyed indicated their support for the content and the Company's stance. In April 2007, Shionogi introduced a television commercial declaring its commitment to addressing cancer pain.

Currently, Shionogi's primary focus is on the oral analgesic OxyContin Tablets, which is the most-prescribed medical narcotic in Japan. Offering a full day of relief from pain with a twice-daily dose, the controlled-release formulation is central to the three-step ladder approach for cancer pain relief recommended by the World Health Organization (WHO). In February 2007, Shionogi also launched OxiNorm powder an immediate-release formulation of OxyContin. The combination of OxiNorm powder with controlled-release OxyContin Tablets has made cancer pain management steadier, safer and more convenient. As public concern over cancer pain grows, Shionogi will continue working energetically to provide treatments.

Relations with Stakeholders

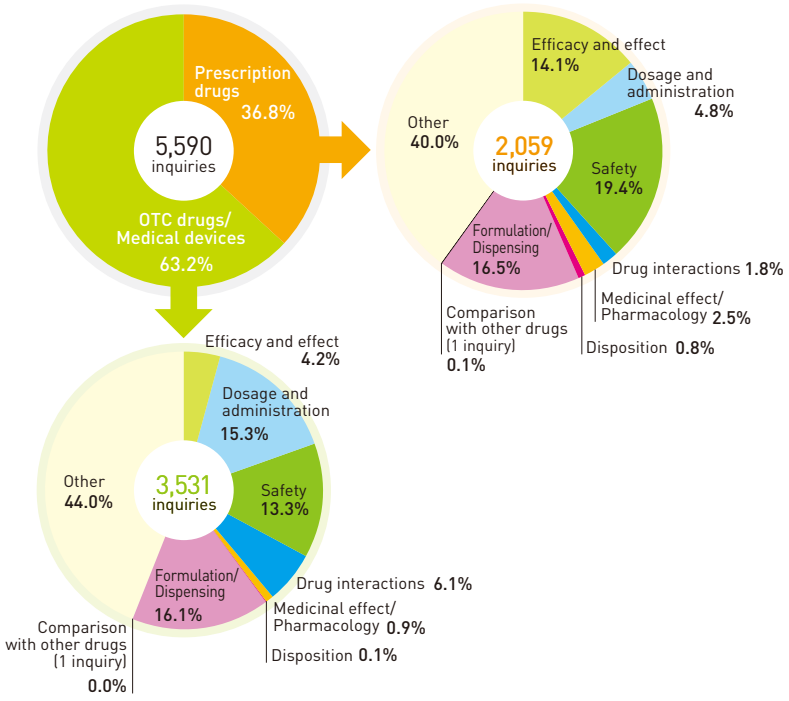
Relations with Patients

Drug Consultation

Shionogi's Drug Information Center handles product-related inquiries from consumers as well as doctors, pharmacists and other healthcare professionals. The role of the Center is to provide prompt, appropriate information on the use of Shionogi's products. By promoting proper use and raising customer satisfaction, it aims to increase trust in Shionogi and maximize the value of Shionogi pharmaceutical products.

Of the 5,590 inquiries from consumers in fiscal 2006, 36.8 percent concerned prescription drugs and 63.2 percent concerned OTC drugs and medical devices. The Center relays the details of inquiries to related divisions for reference in areas such as product improvement and sales activities.

Number of Inquiries from Consumers in Fiscal 2006



Relations with Suppliers

Shionogi's procurement activities take place globally, and encompass not only the pharmaceuticals produced by drug manufacturers in Japan and overseas, but also items used at every stage of our business up to the point when pharmaceuticals created through dedicated research and development are delivered to patients.

The scope of procurement is very wide, ranging from devices, equipment and reagents used in research to the manufacturing equipment in factories, sales materials needed in sales and marketing activities, and supplies used in daily business operations.

Procurement requires dedication to consistency, as well as policies and rules to reflect such consistency in operations. Therefore, Shionogi has set a Purchasing Mission for handling the items that serve as important business resources. Based on this Purchasing Mission, the Company will place high priority on building strong partnerships with many suppliers throughout the world.

☐ Shionogi's Purchasing Mission

To contribute to the delivery of pharmaceuticals that offer an even higher level of satisfaction to patients, their families and healthcare professionals through stable, economic procurement of high-quality items.

☐ Basic Philosophy on Transactions

1. Select and purchase goods and services based on rational economics in accordance with the prescribed specifications and standards.
2. Shionogi conducts sale and purchase transactions freely in Japan and overseas using fair, transparent and clear procedures. Shionogi does not conduct irrational transactions through specific individuals or organizations.
3. Shionogi considers not only its own interests, but also protection of social and public resources and environmental preservation.
4. Shionogi works to ensure that the day-to-day conduct of those involved in purchasing is fair, rational and honest from the perspective of society as well as the supplier.

Relations with Shareholders and Investors

Disclosure of Appropriate and Useful Information

Shionogi's fundamental policy is to make timely disclosure of appropriate, useful and easy-to-understand information to domestic and overseas shareholders and investors.

The Company works to publicly disclose useful information in a timely manner through its investor relations website. In addition to announcements of financial results, information on the IR site includes materials for regularly held information meetings for investors and analysts, materials for R&D meetings, annual reports and other important materials.

In September 2006, Shionogi renewed its website to ensure that stakeholders can quickly access the information they want, and to make it easier for individual investors to understand. The Company will continue working to improve the information disclosed by reflecting the opinions and requests of stakeholders.

Annual reports (2002-2006)

Communication with Institutional Investors and Analysts

Shionogi works to enhance communication with shareholders and investors in various ways. For domestic institutional investors and analysts, top management hold regular information meetings twice a year (for the half-year period and full fiscal year), and information meetings are held twice a year (for the first and third-quarter periods) by conference call. Regarding research and development, which is critical to pharmaceutical manufacturers, Shionogi also holds R&D information meetings annually to discuss progress of activities, new compounds and other topics. In addition, the Company handles information-gathering visits from domestic and overseas institutional investors and analysts, sends top management on road shows to domestic and overseas institutional investors, and actively participates in events such as conferences sponsored by securities companies.

IR website
http://www.shionogi.co.jp/ir_en/highlight/index.html

Relations with Society

Shionogi established the Shionogi Social Contribution Support Association "Socie" in 1997. The company, its employees and the employee labor union cooperate in supporting social contribution activities based on the voluntary efforts of members. Management and employees work together in carrying out social contribution activities, using funds provided by Shionogi and the labor union at the time Socie was established, and through monthly contributions from employees and the Company.

Socie provides assistance to areas affected by earthquakes, storms, volcanic eruptions and other disasters designated by Japan's Disaster Relief Act, as well as surrounding regions. It also makes annual donations to groups that contribute to society, such as the Japanese Red Cross Society and the Japan Guide Dog Association.

In addition, Shionogi supports the voluntary social contribution activities of employees by allowing time off or leaves of absence for volunteer activities or bone marrow donation. Taking advantage of these options, employees are actively engaged in social contribution.

Relations with Employees

Human Resource Development

People are Shionogi's most important resource. The Company provides numerous opportunities for employees to improve their skills, and a workplace in which they can proactively exercise those skills.

The Company is enhancing its carefully targeted human resource development programs to match each employee's situation. Examples include training for junior employees, newly promoted employees and management to "support steady advancement;" optional training, succession plans and career design seminars to "help motivated employees upgrade their abilities and skills;" an interview program and a new employee trainer system designed to conduct "detailed development by matching work to employee growth;" job requests and study programs to "help employees pursue opportunities;" and education for MRs and researchers to "enhance job-specific abilities and skills" of those with specialized jobs.

Human Resource Development Programs

Employee training

Benefits

Shionogi has adopted a "cafeteria plan" that allows employees to select programs from an array of options to match their own life plans and needs.

This plan supports employees' lifestyles with a wide range of more than 30 programs, including support for health, child care and education, nursing care, self-improvement, lifestyle, and asset building. A tie-up with a benefit management company also enables employees to take advantage of discounts and other privileges.

Support for Balancing Work and Home

A full range of programs at Shionogi helps employees balance work and child-rearing, promotes an employee-friendly workplace and enables all employees to make full use of their abilities.

No-Overtime Day
One day a month is set on which all employees leave at the regular time, with no overtime.

Consecutive Holiday System
Employees can use three paid vacation days a year and combine them with weekends for five consecutive days off.

Child Care Leave
Available until the child is two years of age.

Reduced Work Hours for Child Care
Employees with preschool children can reduce their daily working hours by up to two hours.

Staggered Hours
Employees with preschool children can stagger their working hours. (Five patterns available)

Child-Care Time System
Employees with children up to the age of 18 months can take up to one hour of paid time per day for child care.

Nursing Care Leave
Employees with family members in need of care can take partially paid leave for up to two years.

Reduced Work Hours for Nursing Care
Employees with family members in need of care can reduce their daily working hours by three hours for up to two years.

Nursing Leave
Employees with preschool children can take up to five paid days off a year to care for a sick child.

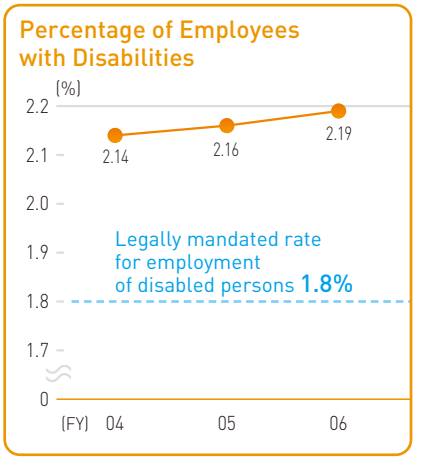
Health Management and Mental Health

As a pharmaceutical manufacturer, Shionogi places the utmost importance on health. The Company is therefore stepping up efforts to promote health maintenance and improvement in partnership with a health insurance union. In addition to enhancing gynecological, dental, lifestyle disease and other exams, on-site health staff (industrial physicians, nurses and health nurses) conduct personalized follow-up on employees with diagnosed conditions or who require treatment based on the results of the regular annual health checkup.

To address mental health, Shionogi also has a specialized industrial physician and has established a counseling system that includes a counseling room and outside services. In this way, the Company provides comprehensive measures in line with the "four care policy" of the Ministry of Health, Labour and Welfare (self-care, care by the manager, care by on-site industrial health staff and care by external resources).

Employment of Persons with Disabilities

Shionogi has been making ongoing efforts to hire persons with disabilities, and exceeds the legally mandated hiring rate of 1.8 percent by a wide margin. In 2003, Shionogi received recognition from the Osaka Employment Development Association as a distinguished employer, and every year presents a disabled employee with a longtime service award.



Environmental Report

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Environmental Management

In carrying out its business activities, Shionogi is aware that as a company, it has an important social responsibility to maintain and improve the global and local environments. To lessen its environmental load in each of its business activities, Shionogi established the Shionogi Group's Basic Environmental Policy and the Shionogi Group Environmental Protection Plan, and conducts environmental preservation activities in line with this policy and plan. We are constantly working through these measures to reduce our environmental load, including waste generated and greenhouse gas emissions.

The Shionogi Group's Basic Environmental Philosophy

Under Shionogi's company policy to "strive constantly to provide medicine of the best possible kind essential for protection of the health of the people," the Shionogi Group is keenly aware that a company is also a member of society. As such, the Group will contribute to building a richer society by placing priority on environmental protection, pollution prevention and human safety in its pharmaceutical-related business activities.

1. Environmental Management System
The Shionogi Group will promote high-quality environmental protection activities by assigning the Director in charge of the environment to the post of Chief Environmental Supervisor and clarifying organizational responsibilities and authority for environmental management.

2. Compliance with Laws and Regulations
The Shionogi Group will work to protect the environment by complying with environmental regulations as well as setting voluntary management standards.

3. Reduction of Environmental Impact
In its research and development, manufacturing, distribution, marketing and other business activities, the Shionogi Group will set and periodically revise targets in areas such as energy and resource conservation, waste reduction and strengthening management of chemical substances, striving for continual improvement.

4. Education and Training
The Shionogi Group will raise the awareness of all employees toward environmental protection by conducting environmental education and training and providing environment-related information.

5. Coexistence with Society
From its standpoint as a corporate citizen, the Shionogi Group will cooperate in environmental protection activities of regional communities. In addition, we will disclose our environmental information to promote mutual understanding with society.

6. Disclosure of Our Basic Environmental Policy
The Shionogi Group's Basic Environmental Policy will be disclosed both inside and outside the Group.

Established on December 1, 2005
Motozo Shiono, President
Shionogi & Co., Ltd.

Environmental Management Organization

The Shionogi Group promotes environmental preservation activities under the direction of the Chief Environmental Supervisor and the Chief Environmental Management Supervisor, whose authority extends over the whole Shionogi Group.

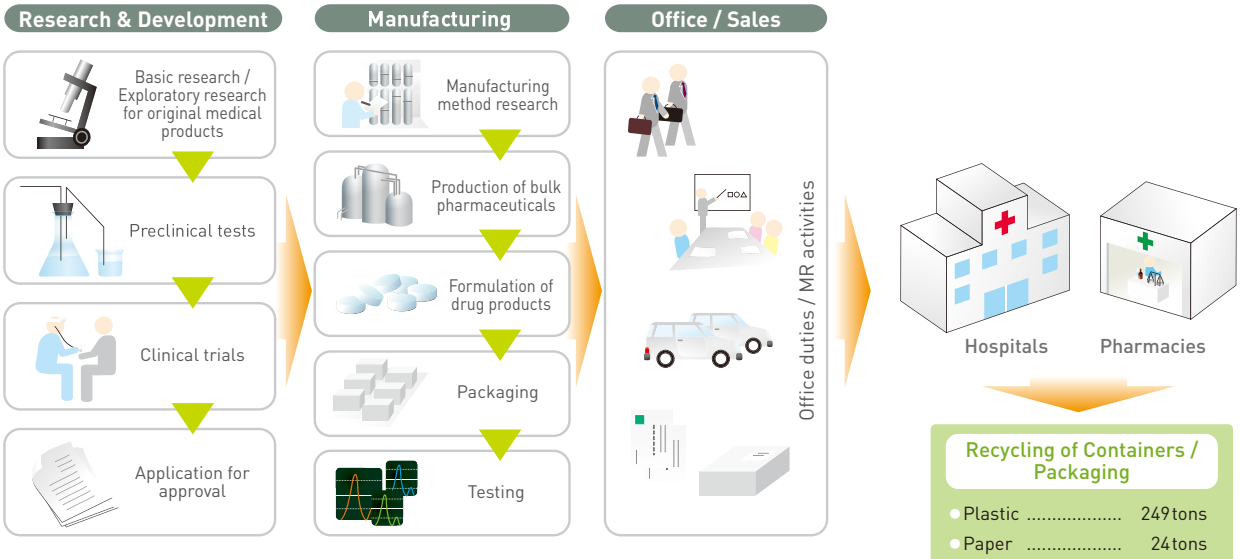
All major business sites have environmental committees chaired by an Environmental Supervisor and composed of the Environmental Management Supervisor, environmental supervisors from each department and others. The committees deliberate on and approve the operations of the environmental management system.

Shionogi and the Environment

Shionogi ascertains the energy input and waste output that accompany its business activities, and uses this information to reduce environmental load.

INPUT

Item	Shionogi: Amount Used	Shionogi: Calorific Value (MJ)	Subsidiaries: Amount Used	Subsidiaries: Calorific Value (MJ)	Shionogi Group: Amount Used	Shionogi Group: Calorific Value (MJ)
• Electricity (purchased)	96,010 MWh	943,775,331	8,518 MWh	83,728,893	104,527 MWh	1,027,504,224
• Kerosene	8 kl	306,372	0.2 kl	7,927	9 kl	314,299
• Fuel oil A	11,077 kl	433,128,295	5,201 kl	203,347,761	16,278 kl	636,476,056
• Propane	16 tons	792,658	1 ton	65,260	17 tons	857,918
• City gas	8,661,000 m³	337,413,929	7,000 m³	286,736	8,668,000 m³	337,700,665
• Gasoline (in-house)	3,357 kl	116,145,280	125 kl	4,310,814	3,481 kl	120,456,094
• Diesel oil (in-house)	3 kl	101,345	0 kl	3,285	3 kl	104,630
• Water intake	1,700,000 m³		506,000 m³		2,206,000 m³	



OUTPUT

Item	Shionogi: Amount Released	Subsidiaries: Amount Released	Shionogi Group: Amount Released
• Greenhouse gas emissions	91,903 tons-CO_2	17,379 tons-CO_2	109,282 tons-CO_2
• Environmental emissions of PRTR Class 1 chemical substances	108 tons	3 tons	111 tons
• Waste generated	5,498 tons	1,444 tons	6,942 tons
• Waste sent directly to landfills	0 tons	0 tons	0 tons
• Public sewerage	595,000 m³	41,000 m³	637,000 m³
• Natural waterways	968,000 m³	403,000 m³	1,371,000 m³
• NOx	131 tons	56 tons	186 tons
• SOx	23 tons	12 tons	35 tons
• BOD	12 tons	2 tons	13 tons
• COD	8 tons	4 tons	12 tons

Environmental Management System

Shionogi promotes ongoing environmental activities, and has obtained ISO 14001 certification of the environmental management system in its manufacturing and R&D operations, which have a large environmental impact, and at domestic manufacturing subsidiaries. At offices and overseas subsidiaries, the Shionogi Group sets medium-term and annual targets and conducts its activities in line with the Phase 3 Shionogi Group Environmental Protection Plan.

ISO 14001

In March 2002, six Shionogi sites and two on-site subsidiaries involved in R&D and manufacturing obtained ISO 14001 certification, an international environmental management standard. The Company's domestic manufacturing subsidiaries also obtained certification at about the same time. These sites are audited by an external organization each year to verify the effectiveness of their management systems. In fiscal 2006, Shionogi was audited from February 7-9, 2007, Nichia Pharmaceutical Industries Ltd. was audited from November 1-2, 2006, and Bushu Pharmaceuticals Ltd. was audited from December 5-6, 2006. All were recertified.

ISO 14001 certification

• **External Audits** (all conducted by Japan Chemical Quality Assurance Ltd. (JCQA))

	Minor deficiencies	Comments
Shionogi group certification (6 sites and 2 subsidiaries)	1	3
Nichia Pharmaceutical Industries Ltd.	2	3
Bushu Pharmaceuticals Ltd.	1	3

Serious deficiencies: Major nonconformance, unable to recommend registration
Medium deficiencies: Nonconformance of a medium degree, recommend registration after correction is confirmed
Minor deficiencies: Deficiencies of a minor degree, will confirm correction in next audit
Comments: Items observed to be effective in improvement of environmental management system

• **Internal Audits**

ISO 14001 requires internal audits to ensure that the environmental management system is operating soundly. Shionogi, Bushu Pharmaceuticals and Nichia Pharmaceutical Industries conduct annual internal audits, which have been useful in making system improvements.

Environmental Audits

Shionogi conducts environmental audits of business sites and Group companies to verify that they are complying with environmental laws and regulations, properly managing environmental risks and making continual improvements to their management systems. In fiscal 2006, Shionogi conducted environmental audits of three business sites – the Settsu Plant, Shionogi Research Laboratories and Aburahi Laboratories – and corrective measures were taken for a total of 15 inadequacies.

Environmental Education and Training

Shionogi conducts environmental education to raise environmental awareness among employees and provides training on subjects such as managing facilities to prevent environmental pollution. The Kanegasaki Plant invited an outside instructor to give a lecture on "Trends in Laws on Environmental Waste."

Other activities include training internal auditors to audit operation of environmental management systems and education to raise their skill level.

Shionogi sets procedures and conducts annual drills for responding to events such as natural disasters, fires, chemical leaks and other emergencies. As a result of the drills, we are revising emergency procedures, equipment and materials.


Emergency drill (Kuise Site)

Information Disclosure

Shionogi has issued an environmental report, both in printed form and on the Web, from 2000 to 2006 to meet its social responsibility to explain its activities and to provide information to stakeholders. We have issued an English version since 2002, and have obtained a third-party evaluation since 2003 to enhance the reliability and transparency of the environmental report. The environmental reports are available on Shionogi's website.

Environmental Reports (2000-2006)

Compliance, Accidents and Complaints

Environment-related laws and regulations cover a wide range of issues, including atmospheric pollution prevention, water pollution prevention and chemical substance control. Shionogi has established the necessary procedures for complying with each regulation, and uses a compliance evaluation sheet once a year to confirm that standards, notifications and controls are being carried out properly. In addition, Shionogi operates according to voluntarily established standards for wastewater and other emissions that are stricter than the legal requirements.

- Shionogi has had no environment-related fines or lawsuits for more than five consecutive years. Although Shionogi's operations continued to be accident-free, abnormal heating of laboratory equipment at the Shionogi Research Laboratories resulted in a small fire in fiscal 2006. The fire was localized with no spreading of flames outside the laboratory room, and no one was injured.
- In fiscal 2006, with regard to emissions of hazardous substances into the air or water, there were two instances in which suspended matter and lead were above the legal limit. In both cases, the emissions were temporary, with no sustained abnormal values.
- In fiscal 2006, noise and vibrations from demolition, clogged air filters and other causes generated three complaints, and Shionogi took countermeasures and preventive measures.

Emissions Exceeding Standard Limits (Incidents)

Fiscal year	2002	2003	2004	2005	2006
Shionogi	4	0	1	0	2
Subsidiaries	0	0	0	0	0
Group total	4	0	1	0	2

Complaints Regarding the Environment (Incidents)

Fiscal year	2002	2003	2004	2005	2006
Shionogi	8	9	0	1	2
Subsidiaries	1	2	0	0	1
Group total	9	11	0	1	3

Interaction with Local Communities

Shionogi maintains communication with local communities through participation in cleanup activities around sites, observation tours and environment-related associations.

In a worksite learning program for middle-school students at the Aburahi Laboratories, students learned by experiencing environment-related work such as wastewater analysis.

Cleanup campaign (Kuise Site)

Cleanup campaign (Kanegasaki Plant)

Green Purchasing

Shionogi promotes green purchasing through measures such as purchasing raw materials that have a low environmental impact and doing business with other companies that are making environmental preservation efforts. Specifically, Shionogi uses a Product Evaluation List for purchases and an Environmental Management Evaluation List to assess the environmental load of the products we purchase and the environmental preservation efforts of suppliers.

Awards

The Kanegasaki Plant received the Environmentally Friendly Business Site award from the Iwate Prefecture Environmental Preservation Council. This award recognizes business sites that take proactive measures for reduction of greenhouse gas emissions to prevent global warming.

The Phase 3 Shionogi Group Environmental Protection Plan

Shionogi established its company-wide Phase 1 (for fiscal years 1995 to 2000) and Phase 2 (for fiscal years 2000 to 2004) Environmental Protection Plans, and worked to reduce its environmental load.

In fiscal 2005, Shionogi established and began carrying out the Phase 3 Shionogi Group Environmental Protection Plan (for fiscal years 2005 to 2010) to strengthen environmental activities by including Shionogi Group companies as well as the parent company.

Targets and Results of Phase 3 Shionogi Group Environmental Protection Plan

Phase 3 Shionogi Group Environmental Protection Plan Targets	Fiscal 2006 Targets
1. Strengthen conservation of resources and waste disposal measures ● Reduce amount of waste generated by 38% (4,990 tons <reduction of 42% or 4,460 tons>) ● Reduce waste 40% by fiscal 2015 (4,830 tons <reduction of 44% or 4,350 tons>)	▶ **26% reduction** (5,956 tons <27% reduction or 5,630 tons>) ● Improve environmental efficiency of waste in manufacturing. (Kanegasaki Plant)
● Promote zero emissions	▶ **Amount of waste sent directly to landfills: 38 tons** <0 tons> ● Recycle bottles as a roadbed material. (Bushu Pharmaceuticals Ltd.)
● Reduce use of copy paper and printing paper by 5% (36,500,000 sheets <reduction of 7% or 34,300,000 sheets>) ● Reduce 8% in fiscal 2015 (35,300,000 sheets <reduction of 10% or 33,100,000 sheets>)	▶ **1.7% reduction** (37,790,000 sheets <2.7% reduction or 35,817,000 sheets>) ● Recommend reduced size, double-sided copies and reuse of paper when printing; promote paperless faxing.
2. Implement measures to counter global warming ● Maintain greenhouse gas emissions at level of benchmark year (102,500 tons-CO_2 <reduction of 8% or 84,000 tons-CO_2>) ● Reduce 1% in fiscal 2015 (101,500 tons-CO_2 <reduction of 8% or 84,000 tons-CO_2>) ● Promote energy conservation	▶ **Limit increase to 5.2%** (107,882 tons-CO_2 <1.4% increase or 93,069 tons-CO_2>) ● Improve environmental efficiency of manufacturing. (Kanegasaki Plant) ● Strictly control air conditioning temperature settings. (Aburahi Laboratories) ● Eliminate idling and engine revving; improve fuel efficiency through regular measurement of tire pressure. (Tokyo Branch Office)
3. Strengthen management of chemical substances ● Understand and reduce use, emissions and transfer of hazardous chemicals	● Maintain an understanding of use, emissions and transfer of hazardous chemicals. ● Reduce atmospheric emissions of dichloromethane. (Kanegasaki Plant) ● Reduce amount of chemicals used, etc. (Kuise Site, Kanegasaki Plant) ● Promote shared use of chemicals. (Developmental Research Laboratories)
● Completely eliminate specified CFCs (applies to equipment holding more than 20kg)	● Renew holding equipment for specified CFCs. (Kuise Site, Settsu Plant)
● Set and manage voluntary control levels for atmosphere, wastewater, soil and underground water	● Continue regular measurement and evaluation of air and wastewater. ● Continue measuring soil levels. (Kanegasaki Plant)
4. Enhance system for evaluating safety of chemical processes	● Implement revised environmental impact procedures used in the development of methods for manufacturing drugs for clinical trials. (Kuise Site)
5. Promote Product Life Cycle Assessment	● Conduct environmental impact evaluations of containers and packaging for 10 products (cumulative total of 130 products) and consider selection of packaging and other materials based on results. (Kuise Site)
6. Implement environmental accounting	● Follow environmental accounting guidelines.
7. Expand green purchasing ● Raise rate of green purchasing of office supplies to 75% <75%> ● Raise rate to 80% in fiscal 2015 <80%>	▶ **72% purchasing rate** ● Increase range of green products. ● Promote purchases of green products and use of idle supplies. (Aburahi Laboratories)
8. Contribute to society	● Foster communication with local community.
9. Disclose environmental information	● Make reports available to the public. ● Continue implementing "Eco-Up Declaration" environmental load reduction plan. (Bushu Pharmaceuticals Ltd.)

Scope of application: Shionogi Group companies (domestic and overseas)
Benchmark year: Fiscal 1990 (or fiscal 2004) (Figures in < > in the table show non-consolidated targets or results for Shionogi.)
Evaluation (○: achieved; △: achievement rate of 80-99%; ×: achievement rate of less than 80%)

Fiscal 2006 Results	Evaluation	Fiscal 2007 Targets
▶ **14% reduction** (6,942 tons <29% reduction or 5,498 tons>) ● Reduction of moisture content of sludge with renewal of sludge dehydrator and change in method of treating waste generated in the production process improved environmental efficiency indicators for waste. (Kanegasaki Plant) ● Volume of waste increased substantially in fiscal 2006 due to a significant increase in production volume, an increase in research and development and other factors.	×	▶ **27% reduction** (5,906 tons <38% reduction 4,784 tons>) ● Raise environmental efficiency of amount of waste generated. (Kanegasaki Plant) ● Increase recycling rate. (Kuise Site, Kanegasaki Plant, Nichia Pharmaceutical Industries Ltd.)
▶ **Amount of waste sent directly to landfills: 0 tons** <0 tons> ● Began recycling bottles as roadbed materials. (Bushu Pharmaceuticals Ltd.) ● Taiwan Shionogi & Co., Ltd. switched from landfill disposal to incineration for waste treatment. ● Achieved zero waste sent directly to landfills for the entire Shionogi Group.	○	▶ **Amount of waste sent directly to landfills: 0 tons** <0 tons> ● Maintain waste sent directly to landfills at zero.
▶ **5.8% reduction** (36,205,000 sheets <7.2% reduction or 34,188,000 sheets>) ● Promoted paperless faxing using multifunctional machines, use of shared folders, etc. ● Reduced paper use by introducing multifunctional machines throughout the company.	○	▶ **9.8% reduction** (34,659,000 sheets <10.6% reduction to 32,934,000 sheets>) ● Continue to promote paperless work through use of multifunctional machines and other measures.
▶ **6.6% increase** (109,282 tons-CO_2 <0.1% increase or 91,903 tons-CO_2>) ● Improved environmental efficiency indicators through renewal of equipment and operating adjustments. (Kanegasaki Plant) ● Strictly controlled temperature settings through the Environmental Committee and raised awareness with attachment of labels. (Aburahi Laboratories) ● Conducted education to reduce fuel consumption by eliminating engine idling and revving and through regular measurement of tire pressure. (Tokyo Branch Office) ● CO_2 emissions increased because an annex of the Tokyo Branch Office was added to the scope of calculation. (Tokyo Branch Office) ● Consolidated rooms and renewed energy-saving lighting equipment. (Aburahi Laboratories) ● Increased due to increase in production and R&D and expansion of the scope of calculation.	×	▶ **Limit increase to 1.6%** (104,198 tons-CO_2 <2.7% reduction to 89,299 tons CO_2>) ● Improve environmental efficiency indicators for electricity consumption. (Kanegasaki Plant) ● Renew energy-saving equipment.
● Continued to monitor use, emissions and transfer of hazardous chemicals. ● Atmospheric emissions increased due to increase in production, despite change in exhaust method during production, increased recovery volume due to adjustment of operating methods of wastewater treatment before discharge, and installation of thermostatic valves in outdoor tanks. (Kanegasaki Plant) ● Amount of chemicals used increased due to increase in production. (Kuise Site, Kanegasaki Plant) ● Promoted shared use of reagents by continuing to survey amount stored and posting on the Web. (Developmental Research Laboratories)	×	● Continue to monitor use, emissions and transfer of hazardous chemicals. ● Limit amount of chemicals used. (Kuise Site, Kanegasaki Plant) ● Limit atmospheric emissions of dichloromethane to 78 tons or less. (Kanegasaki Plant) ● Practice environment-friendly experiment methods. (Shionogi Research Laboratories).
● Renewed one unit of target equipment (holding 0.2 tons). (Settsu Plant) ● Postponed renewal of facilities that use CFCs until overhaul in fiscal 2008. (Kuise Site)	×	● Renew one unit (0.12 tons) using specified CFCs. (Settsu Plant)
● Carried out regular measurement and evaluation of air and water. ● Measured soil levels and verified that no problems existed. (Kanegasaki Plant)	○	● Continue regular measurement and evaluation of air, water and soil.
● Reviewed and revised environmental impact evaluation procedures used in development of methods for manufacturing drugs for clinical trials. (Kuise Site) ● Conducted safety assessments of drugs in development. (Kuise Site) ● Introduced reaction calorimeter and differential scanning calorimeter, etc., to collect basic reaction data. (Kuise Site)	○	● Conduct environmental evaluations based on development, design and management rules and equipment safety evaluation rules. (Kuise Site) ● Prepare new thermal analysis equipment, etc., for operation. (Kuise Site)
● Completed environmental impact surveys of product containers and packaging of 389 products. (Kuise Site)	△	● Consider selection of packaging materials, etc., and setting of packaging methods from results of environmental load surveys. (Kuise Site)
● Collected environmental accounting data at Shionogi and Shionogi Group companies in line with environmental accounting guidelines.	○	● Continue to collect data following environmental accounting guidelines.
▶ **74% purchasing rate** <72%> ● Added 367 green products for a total of 1,224. ● Shared information on idle supplies to promote effective use in each department. (Aburahi Laboratories)	○	▶ **75% purchasing rate** <73%> ● Promote green purchasing.
● Participated in cleanup campaigns and environmental activities around sites.	○	● Foster communication with local community.
● Made Environment Report available in printed form and on the Web. ● Continued implementing "Eco Up Declaration" environmental load reduction plan. (Bushu Pharmaceuticals Ltd.)	○	● Publish environmental information as a section of the Annual Report.

Results of Activities

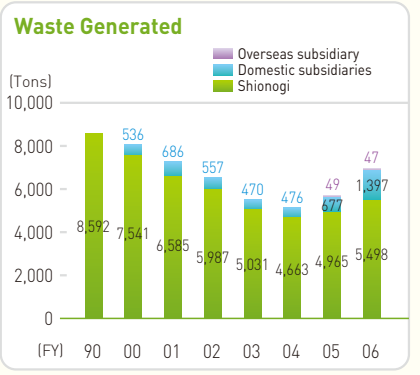
Measures for Resource Conservation and Wastes

Limiting generation of waste and promoting reuse and recycling are essential in creating a recycling-oriented society. In Japan, the landfill crunch and the increase in illegal dumping of waste have become issues of concern.

The Shionogi Group has also set targets for waste reduction in the Phase 3 Shionogi Group Environmental Protection Plan. Aware of its responsibilities as a waste generator, Shionogi works to proactively prevent illegal dumping by managing contracts, licenses and manifests, and selecting and conducting on-site verification of the contractors to which it consigns the transport and treatment of waste.

Amount of Waste Generated

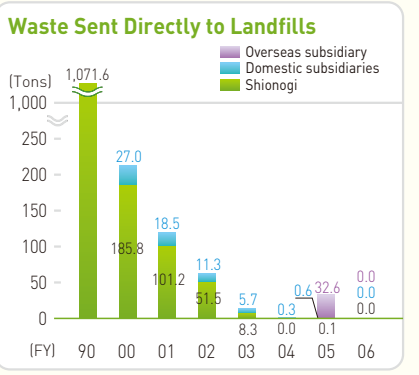
The main wastes included waste oil generated in the manufacturing process, sludge generated in wastewater treatment and plastics used in product containers. The amount of waste generated in fiscal 2006 increased substantially due to a large increase in production volume, an increase in research and development activities and other factors. However, we promoted reduction of waste treatment volume by expanding recycling and reduction of waste generated per unit of production.



Zero Emissions

We are working to reduce waste sent directly to landfills, total elimination of which we define as zero emissions.

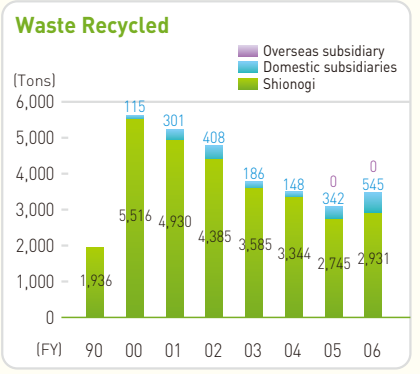
In fiscal 2006, waste materials that were previously sent to landfills were incinerated or recycled as roadbed materials. As a result, the entire Shionogi Group, including subsidiaries, achieved zero emissions.



Recycling

As much as possible, Shionogi recovers, purifies and reuses organic solvents, and consigns outside companies to carry out heat recovery and recycling of waste solvents that cannot be reused by the company itself. We also separate and collect metals and paper for recycling.

In 2005, Shionogi and its domestic Group companies adopted the Akari Anshin Service, a fluorescent light rental service devised by Matsushita Electric Industrial Co., Ltd., to promote recycling of fluorescent lights.



Effective Use of Resources

The Developmental Research Laboratories substantially reduced new purchases of cool boxes used in storage and delivery of samples by promoting their reuse.

The Aburahi Laboratories chipped the cuttings and wood generated in greenery maintenance, and buried them in weed control areas, which significantly reduced weeding work.

At distribution centers, Shionogi promoted reuse with measures including using old newspapers as cushioning materials and repeatedly reusing packaging boxes for product transport. The Kanegasaki Plant achieved cost reductions and higher productivity by improving processes based on knowledge of Material Flow Cost Accounting.

● Waste storage facility (Kanegasaki Plant)

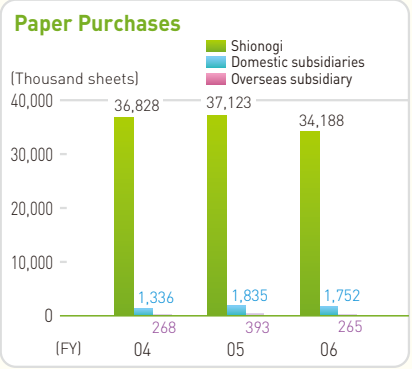
At the Kanegasaki Plant, Shionogi set up a dedicated waste storage facility, where it thoroughly separates and collects waste.

Copy Paper and Printing Paper

For copy paper and printing paper, Shionogi purchases environment-friendly products that contain a high percentage of recycled paper. We also promote recycling by properly separating paper for disposal. In addition, reducing use of copy paper and printing paper is included as a target in the Phase 3 Shionogi Group Environmental Protection Plan to reduce the actual use of paper.

In April 2006, Shionogi made simultaneous renewals of personal computers and multifunctional printers throughout the Company. As a result, we are reducing the amount of copy paper and printing paper used by printing double-sided or multiple pages per sheet, shifting to paperless sending and receiving of faxes, increasing the use of LCD projectors by carrying personal computers to meetings, and recommending document management in electronic media using scanners.

In fiscal 2006, the amount of paper used at research laboratories increased temporarily for a GLP* compliance survey. For the Shionogi Group overall, however, paper use decreased substantially.

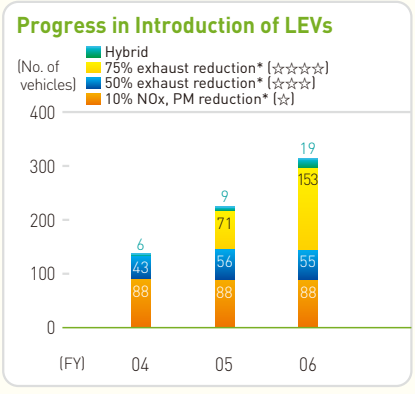


*GLP: Good Laboratory Practice

Low-Emission Vehicles (LEVs)

Shionogi is introducing low-emission vehicles for use by its Medical Representatives (MRs). We are also working to eliminate engine idling and revving.

In fiscal 2006, low-emission vehicles (LEVs) made up 315 of our 382 company cars after we introduced ten hybrid vehicles as well as LEVs and vehicles that meet our fuel economy standards. We will continue to promote the introduction of LEVs and vehicles with a high level of fuel performance.



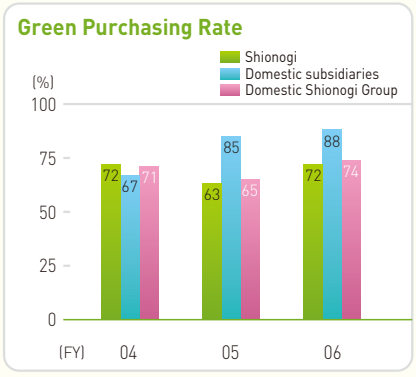
*Compared with 2005 standards.

Green Purchasing

In purchasing supplies, Shionogi promotes the purchase and use of products with as little environmental load as possible. For office supplies, we make efforts to purchase environment-friendly products bearing the Eco Mark, Green Mark or similar labels.

Shionogi has created an intranet-based purchasing system that makes green purchasing easier by displaying a mark that allows users to identify eco-friendly products when ordering.

In fiscal 2006, the Shionogi Group's green purchasing rate increased to 74 percent according to the purchase amount of office supplies, partly because the number of products registered as environment-friendly increased.



Prevention of Illegal Dumping

When selecting contractors for waste treatment and transport, Shionogi uses an evaluation sheet to verify that they have a current business license and to check the condition of their treatment facilities and operations, document management and other matters, and considers the results in making the contracting decision. For waste treatment contractors, we do on-site verifications at least once a year to decide whether or not to continue the contract.

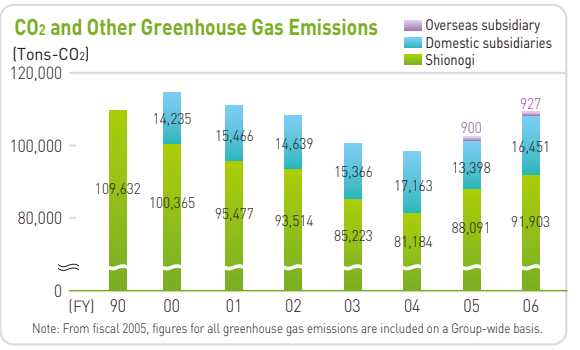
Cafeterias

The residue that is removed when rice is washed contains phosphorus and nitrogen, which cause red tide, water bloom and other problems. Shionogi and its domestic Group companies use *musenmai*, a type of rice that requires no washing, at all business sites and dormitories with facilities for providing meals, so that we do not release rice-rinsing water, which is linked to pollution of water environments. In addition, not using water for washing rice reduces our water consumption by 1,700 cubic meters per year.

Prevention of Global Warming

Global warming is an international environmental issue, and the Law Concerning the Promotion of Measures to Cope with Global Warming, the Revised Law Concerning the Rational Use of Energy and other regulations concerning greenhouse gases have been strengthened.

In 1993, Shionogi instituted an energy conservation promotion committee in its Manufacturing Division, which uses a large amount of energy. In 1995, energy-saving activities began on a company-wide basis. We consider global warming to be an important issue for Group companies as well, and are working to curb greenhouse gas emissions.



Note: From fiscal 2005, figures for all greenhouse gas emissions are included on a Group-wide basis.

Shionogi has taken measures including reducing the size of boilers and installing cogeneration systems, as well as renewing and changing the operating methods of lighting equipment, air conditioning systems and manufacturing equipment.

In fiscal 2006, in addition to updating dehydrating equipment and limiting the number of vacuum pumps in operation, we continued to conduct proper control of air conditioning and conserve electricity. However, the increase in production and R&D activities resulted in an upward trend in the volume of greenhouse gas emissions.

We will continue to review equipment operating methods and running times, and will work to curb output of greenhouse gases and improve our environmental efficiency by renewing equipment with high energy efficiency specifications, such as electrical substation equipment, refrigerators and electric motors for pumps.

Cogeneration Systems

A cogeneration system is a system in which two or more types of energy are obtained simultaneously from a single fuel source. Such systems, which use engines or turbines to generate electricity while recovering waste heat from the generation process for air conditioning and water heating (combined heat and power supply), are installed at the Settsu Plant and Kanegasaki Plant. Cogeneration allows efficient use of input energy – as much as 65-80 percent – thus achieving significant energy savings.


Cogeneration system (Kanegasaki Plant)

"Cool Biz"

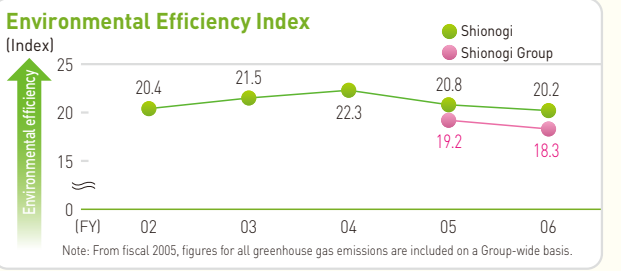
The "Cool Biz" program is a way to comfortably limit greenhouse gas emissions by encouraging employees to work without neckties and business jackets, allowing adjustment of office air conditioning temperatures. Subsequent to fiscal 2005, Shionogi instituted this program throughout the Company from July 1 to September 19, 2006.

"CO2 Reduction/Light Down Campaign"

The Ministry of the Environment has promoted the "CO2 Reduction/ Light Down Campaign," which calls for lighting facilities and household electricity to be turned off as a measure to prevent global warming. Shionogi has switched off advertising lights at the Settsu Plant, Shionogi Research Laboratories and Developmental Research Laboratories. After participating in this campaign in fiscal 2005, Bushu Pharmaceuticals Ltd. continues to keep facility lights off at night.

Environmental Efficiency

Environmental efficiency, measured using greenhouse gas emissions and net sales (net sales/greenhouse gas emissions), currently shows little change. Shionogi will work to improve environmental efficiency through efficient business activities.



Note: From fiscal 2005, figures for all greenhouse gas emissions are included on a Group-wide basis.

Chemical Substance Control

Some chemical substances have an impact on human health, ecosystems and the global environment. Proper management of chemical substances is carried out internationally, and the pharmaceutical industry is also implementing voluntary measures such as surveying the amount of chemical substances used and reducing atmospheric emissions. The Shionogi Group properly manages PCBs (polychlorinated biphenyls) and other hazardous substances, including controlling emissions of chemical substances into the atmosphere and water. In research divisions, we are promoting shared use of reagents and reducing the release of volatile compounds into the atmosphere from distillation equipment.

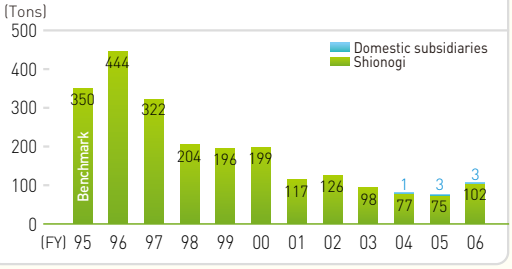
Control of Atmospheric Emissions

Since 1996, Shionogi has controlled its emissions of dichloromethane and chloroform as a measure to reduce toxic air pollutants. At the Kanegasaki Plant, we have installed two recovery units and substantially reduced atmospheric emissions of dichloromethane. We subsequently formed a project team to consider measures for continuing reductions. We have dramatically reduced emissions of chloroform since fiscal 2000 by discontinuing the manufacture of products that used it.

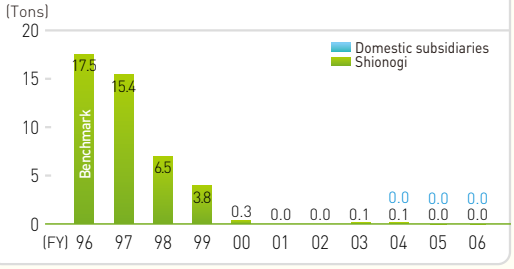
Shionogi is also participating in the Phase 3 Voluntary Management Plan for Harmful Air Pollutants* of the Japan Pharmaceutical Manufacturers Association to reduce emissions of toxic air pollutants.

***Phase 3 Voluntary Management Plan for Harmful Air Pollutants** (Japan Pharmaceutical Manufacturers Association):
The targets of this plan are to reduce the volume of atmospheric emissions of dichloromethane, 1,2-dichloroethane and chloroform by 20 percent each by fiscal 2007, compared to the volumes released in fiscal 2003.

Atmospheric Emissions of Dichloromethane



Atmospheric Emissions of Chloroform



Environmental Emission Volume

Shionogi files reports under the PRTR (Pollutant Release and Transfer Register) Law, a regulation that requires companies to measure, compile and announce data on their source of hazardous chemicals and how much of these chemicals were released into the environment.

Substances Reported under the PRTR Law
(kg, mg-TEQ for dioxins)

Site name	Chemical substance		Amount released into environment			Amount transferred	
		Amount used	Atmosphere	Natural waterways	Soil	Sewerage	Off-site
Kuise Site	Acetonitrile	7,704	40	0	0	0	7,665
	Toluene	10,118	75	0	0	0	10,043
Settsu Plant	Dichloromethane (methylene chloride)	1,957	1,591	0	0	0	366
Kanegasaki Plant	Acetonitrile	40,336	4,377	0	0	0	28,469
	Dichloromethane (methylene chloride)	274,114	100,560	1	0	0	100,906
	N,N-dimethylformamide	37,979	212	0	0	0	146
	Pyridine	19,491	363	0	0	0	10,504
	Benzene	1,500	0	0	0	0	221
Shionogi Research Laboratories	Acetonitrile	5,291	2	0	0	7	5,282
	Chloroform	6,616	43	0	0	0	6,573
	Dichloromethane (methylene chloride)	1,201	14	0	0	0	1,186
Developmental Research Laboratories	Acetonitrile	1,431	0	0	0	0	1,431
	Dioxins	—	0	0	0	0	0
Bushu Pharmaceuticals Ltd.	Acetonitrile	1,664	0	0	0	0	1,664
	Dichloromethane (methylene chloride)	1,319	1,231	0	0	0	88
Nichia Pharmaceutical Industries Ltd.	Acetonitrile	1,240	68	0	0	0	1,172
	Ethylene glycol	1,635	0	0	0	0	0
	Dichloromethane (methylene chloride)	45,121	1,873	0	0	0	43,248
	N,N-dimethylformamide	1,643	0	0	0	0	1,643
	Toluene	11,237	52	0	0	0	11,185

Control of Atmospheric, Wastewater and Soil Pollutants

- Shionogi is reducing its emissions of exhaust gases containing nitrogen oxides (NOx) and sulfur oxides (SOx), which cause photochemical smog and acid rain. Measures include managing the daily operation of boilers and diesel engines and selecting sulfur-free fuels. Shionogi complies with related regulations and agreements for these substances.

- Shionogi has set voluntary benchmark levels for water pollutants that are stricter than the regulations and takes regular measurements to prevent water pollutants from flowing into the sewage system and rivers. At the Kanegasaki Plant and Aburahi Laboratories, wastewater is purified in treatment facilities before being discharged into natural waterways.

Wastewater treatment facility (Kanegasaki Plant)

- The Kanegasaki Plant, which handles large quantities of chemical substances, sets voluntary standards for soil and conducts periodic measurements. All measurement results were below the environmental standards.

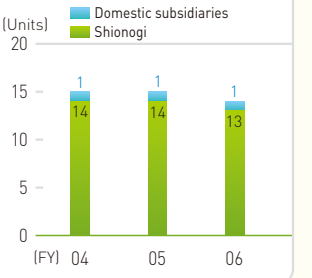
Asbestos

Shionogi examined the use of asbestos at all buildings it owns, and in fiscal 2006 we completed remedial measures at the affected locations, including removal of asbestos and containment to prevent its dispersal.

Specified Chlorofluorocarbons (CFCs)

Specified CFCs are restricted internationally as substances harmful to the ozone layer. Shionogi established a committee for energy conservation and CFC countermeasures in 1994. The committee set a long-term renewal plan for specified CFC facilities, and has promoted specified CFC reduction measures at large-scale facilities. In fiscal 2006, the Settsu Plant upgraded large-scale equipment and reduced the amount of specified CFCs used by 200 kilograms. We plan to reduce the amount to zero at large-scale facilities by 2010. In addition, subsidiary Shionogi Engineering Service Co., Ltd. is registered as a CFC recovery specialist, and properly treats and disposes of CFCs.

Equipment Using Specified CFCs
(Applies to equipment holding 20kg or more)



Dioxins

The Shionogi Group operates one incinerator. The incinerator is properly managed and the level of dioxins is periodically measured and reported to the government. All measured values are below the regulation levels.

PCBs

PCB (polychlorinated biphenyl) is easily concentrated in organisms in the food chain, and is a pollution threat on a global scale because it does not readily break down in the environment. In the past, PCB was used in items such as capacitors, transistors and fluorescent light ballasts, and regulations have been established for proper storage and treatment of these items when they are discarded. Shionogi assigns administrators to properly manage the volume of PCB waste, keeps it in locked storage and periodically reports to the government.

Product Life Cycle Assessment

Shionogi also must consider the environmental load of the products it manufactures after they are sold. We consider the material quality and form of the containers and packaging used for our products, and take measures for improvement.

Measures for Product Containers and Packaging

Change of Material Quality
- From PVC to polypropylene
- From plastic trays to paper trays

Change of Form
- From polyethylene bottles to aluminum pouches
- From boxes to bundling with bands

ID Marks

Labels providing information regarding separation and disposal were added to all packaging based on Regulations Concerning the Promotion of Effective Resource Utilization.

Some of the containers and packaging used for the products that Shionogi sells are recycled in accordance with the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging.

Chemical Process Safety Assessment

Giving consideration to the environment and safety in chemical processes, Shionogi conducts prior assessments of factors including the safety of chemical substances as well as reactions and mixing hazards during disposal. These assessments are performed during the development of manufacturing and testing methods for pharmaceuticals and products under development, and at the equipment design stage. In addition, to design environmentally friendly experimental methods, Shionogi holds lectures to raise awareness of Green Chemistry.

Environmental Accounting

Shionogi has been conducting environmental accounting since 2000 based on guidelines from the Ministry of the Environment. The purpose of environmental accounting is to quantitatively manage environmental activities by recognizing their cost and the effect they achieve.

The main investments related to environmental preservation costs in fiscal 2006 were demolition of a boiler chimney at the Kuise Site and replacement of lighting equipment at the Kuise Site, Shionogi Research Laboratories and Aburahi Laboratories, while expenses related to environmental preservation costs consisted primarily of maintenance of greenery, wastewater management and proper waste disposal.

Actual economic benefits included revenue from the sale of waste fluid, drums and metals and reduction of solvents through changes in the manufacturing process at the Kanegasaki Plant. In addition, the introduction of energy-saving equipment at all sites resulted in cost savings.

As for the effects of environmental preservation, the amount of electricity and gasoline used increased because of an increase in production volume at the Kanegasaki Plant and Bushu Pharmaceuticals Ltd. and expansion of the scope of compilation by the Tokyo Branch Office.

Scope of Compilation

- Compiled in compliance with Environmental Accounting Guidelines (Fiscal 2005 Edition) issued by the Ministry of the Environment in February 2005.
- Period covered: April 1, 2006 to March 31, 2007
  Scope of compilation: Shionogi and its domestic subsidiaries
- Environmental cost is determined by proportionally dividing the amount used for the purpose of environmental preservation.
- Environmental preservation benefits are shown as the difference compared with the previous fiscal year.
- Only results that are calculated based on verifiable grounds (actual results) are presented as the economic benefits of environmental preservation measures.

Environmental Preservation Costs

Type of cost		Investments (thousand yen)	Expenses (thousand yen)
(1) Cost within business area		66,469	867,561
Details	① Pollution prevention	54,608	553,594
	② Global environmental preservation	11,861	64,891
	③ Resource recycling	0	249,076
(2) Upstream & downstream		0	18,580
(3) Management activities		0	539,787
(4) Research & development		0	0
(5) Social contribution activities		0	3,156
(6) Environmental damage		0	30
(7) Others		0	207
Total		66,469	1,429,114

Economic Benefits from Environmental Preservation Measures (Actual Effect)

Description of economic benefit		Amount (thousand yen)
Revenue	Business revenue from recycling waste	5,612
Expense reduction	Reduction of energy and water costs, etc.	18,519
Total		24,131

Energy and Other Resource Input (Amount used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	85,976	102,656	16,680
Kerosene	kl	10	9	-1
Fuel oil A	kl	16,118	16,200	82
Propane	Tons	15	16	1
City gas	Thousand m³	9,683	8,668	- 1,014
Gasoline (in-house)	kl	2,335	3,357	1,022
Diesel oil (in-house)	kl	3	3	0
Water intake	Thousand m³	2,065	2,178	114
Plastic containers and packaging	Tons	966	987	21
Paper containers and packaging	Tons	595	621	26

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	101,488	108,355	6,866
Environmental emissions of PRTR Class 1 chemical substances	Tons	89	111	23
Waste generated	Tons	5,641	6,895	1,254
Waste sent directly to landfills	Tons	1	0	-1
Public sewerage	Thousand m³	624	616	- 8
Natural waterways	Thousand m³	1,266	1,371	105
NOx	Tons	197	185	-12
SOx	Tons	34	34	0
BOD	Tons	16	12	- 4
COD	Tons	12	9	- 3

Site Reports

Kuise Site

Primarily a base for developing new drugs and manufacturing drugs for clinical trials, the Kuise Site conducts environmental activities mainly to reduce waste generated, control hazardous chemicals and assess the safety of chemical processes. In addition, because it is located next to a residential area, the Kuise Site considers the environment of local residents.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	12,833	12,385	-448
Kerosene	kl	0	0	0
Fuel oil A	kl	0	0	0
Propane	Tons	0	0	0
City gas	Thousand m^3	1,717	1,652	-65
Gasoline (in-house)	kl	1.5	0.4	-1.1
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m^3	186	210	24

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	8,286	7,984	-302
Waste generated	Tons	215	209	-6
Waste sent directly to landfills	Tons	0	0	0
Public sewerage	Thousand m^3	197	210	13
Natural waterways	Thousand m^3	0.0	0.4	0.4
Soot and dust	Tons	0.1	0.1	0
NOx	Tons	1	1	0
SOx	Tons	—	—	—
BOD	Tons	0.9	1.1	0.2
COD	Tons	1.2	1.3	0.1

Settsu Plant

The Settsu Plant is a factory that handles formulation and packaging of core Shionogi products. With numerous updated structures and equipment planned for the future, it properly conducts prior assessments to reduce its environmental load.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	23,619	27,670	4,051
Kerosene	kl	0	0	0
Fuel oil A	kl	0	0	0
Propane	Tons	0	0	0
City gas	Thousand m^3	5,853	5,002	-851
Gasoline (in-house)	kl	2.3	2.3	0
Diesel oil (in-house)	kl	0.2	0.4	0.2
Water intake	Thousand m^3	251	245	-6

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	20,781	20,552	-229
Waste generated	Tons	457	509	52
Waste sent directly to landfills	Tons	0	0	0
Public sewerage	Thousand m^3	208	201	-8
Natural waterways	Thousand m^3	—	—	—
Soot and dust	Tons	0.1	0.1	0
NOx	Tons	5	4	-1
SOx	Tons	—	—	—
BOD	Tons	8.7	3.3	-5.4
COD	Tons	7.3	3.6	-3.7

Kanegasaki Plant

This is Shionogi's main factory. Although the amount of chemical substances it handles and energy it consumes are large, it focuses on preservation of the environment, and is working toward further environmental improvement with measures to ensure legal compliance, reduction of waste, energy savings and chemical substance control.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	17,510	26,131	8,622
Kerosene	kl	1.2	0.8	-0.3
Fuel oil A	kl	10,294	9,923	-372
Propane	Tons	9.4	10.5	-1
City gas	Thousand m^3	0	0	0
Gasoline (in-house)	kl	2.2	2.4	0.2
Diesel oil (in-house)	kl	1.8	1.8	-0.1
Water intake	Thousand m^3	920	992	72

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	34,619	36,850	2,232
Waste generated	Tons	3,478	3,922	444
Waste sent directly to landfills	Tons	0	0	0
Public sewerage	Thousand m^3	—	—	—
Natural waterways	Thousand m^3	884	946	62
Soot and dust	Tons	2.3	2.8	0.5
NOx	Tons	170	120	-50
SOx	Tons	21	22	0
BOD	Tons	2.8	3.7	0.9
COD	Tons	—	—	—

Shionogi Research Laboratories

Shionogi Research Laboratories adopt and use leading-edge technologies to efficiently create original pharmaceuticals. In doing so, it is promoting environmental activities with a focus on design of environment-friendly experiment methods and control of chemical substances.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	9,314	10,138	824
Kerosene	kl	1.5	1.7	0.3
Fuel oil A	kl	0.8	0.5	-0.3
Propane	Tons	0	0	0
City gas	Thousand m^3	1,278	1,198	-80
Gasoline (in-house)	kl	0	0	0
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m^3	82	75	-7

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	6,081	6,232	151
Waste generated	Tons	272	270	-2
Waste sent directly to landfills	Tons	0	0	0
Public sewerage	Thousand m^3	82	75	-7
Natural waterways	Thousand m^3	—	—	—
Soot and dust	Tons	—	—	—
NOx	Tons	1	1	0
SOx	Tons	—	—	—
BOD	Tons	—	—	—
COD	Tons	—	—	—

Developmental Research Laboratories

As an R&D-driven company, Shionogi aims to develop safe, original new drugs that are competitive in the global market. Work at the Developmental Research Laboratories is increasing, and consequently, so is its environmental load, but the facility is aware of environmental issues and is continually working to lessen its environmental load.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	11,238	10,864	-374
Kerosene	kl	0	0	0
Fuel oil A	kl	2.9	0.5	-2.5
Propane	Tons	0	0	0
City gas	Thousand m^3	816	795	-21
Gasoline (in-house)	kl	0	0	0
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m^3	96	90	-6

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	5,889	5,697	-193
Waste generated	Tons	207	210	3
Waste sent directly to landfills	Tons	0	0	0
Public sewerage	Thousand m^3	96	90	-6
Natural waterways	Thousand m^3	—	—	—
Soot and dust	Tons	0.02	0.01	0
NOx	Tons	1	1	0
SOx	Tons	—	—	—
BOD	Tons	3.7	3.7	0
COD	Tons	3.0	3.2	0.2

Aburahi Laboratories

The Aburahi Laboratories conduct exploratory research for new drugs, focusing on search and pharmacological evaluation of prescription drugs. It aims for quick development of new drugs while showing concern for the environment in ways such as waste management and chemical substance control.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	5,143	4,790	-354
Kerosene	kl	7.1	5.8	-1.3
Fuel oil A	kl	1,271	1,154	-117
Propane	Tons	5.5	5.3	-0.2
City gas	Thousand m^3	0	0	0
Gasoline (in-house)	kl	11.4	9.8	-1.6
Diesel oil (in-house)	kl	1.0	0.5	-0.5
Water intake	Thousand m^3	85	68	-17

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	5,452	4,993	-459
Waste generated	Tons	161	176	15
Waste sent directly to landfills	Tons	0	0	0
Public sewerage	Thousand m^3	—	—	—
Natural waterways	Thousand m^3	26	22	-4
Soot and dust	Tons	0.2	0.1	-0.1
NOx	Tons	4	4	-1
SOx	Tons	2	1	-1
BOD	Tons	0.0	0.0	0
COD	Tons	0.1	0.1	0

Head Office/Branch Offices

The Head Office works to raise the environmental awareness of employees and promotes separation of trash and conservation of energy. In addition, it is continually introducing low-emission vehicles that emit little atmospheric pollution such as nitrogen oxide (NOx) and particulate matter (PM) and have superior fuel performance.

(FY2006)	Unit	Head Office	Tokyo	Nagoya	Fukuoka	Sapporo
Waste generated	Tons	84	63	40	8	8
Waste recycled	Tons	69	46	0	6	5
Waste sent directly to landfills	Tons	0	0	0	0	0
Greenhouse gas emissions	Tons-CO_2	3,633	3,559	1,115	893	396
Copy and printing paper consumption	thousand sheets	8,483	5,755	1,250	1,231	439
Green purchasing rate	%	63	78	76	82	93
Gasoline consumption	kl	1,069	1,339	415	360	159

Bushu Pharmaceuticals Ltd.

The environmental load of this contract pharmaceutical manufacturer is increasing along with a substantial expansion of business activities. Bushu Pharmaceuticals is focusing on reducing waste pharmaceuticals due to operational errors. To minimize the effect of new manufacturing work on the surrounding area, the company's measures consider safety and sanitation as well as the environment.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	1,155	4,995	3,840
Kerosene	kl	0	0	0
Fuel oil A	kl	4,437	4,971	534
Propane	Tons	0	0	0
City gas	Thousand m^3	5	7	3
Gasoline (in-house)	kl	0.5	0.4	-0.1
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m^3	102	117	15

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	12,520	15,416	2,895
Waste generated	Tons	350	1,089	739
Waste sent directly to landfills	Tons	1	0	-1
Public sewerage	Thousand m^3	21	21	0
Natural waterways	Thousand m^3	33	42	8
Soot and dust	Tons	2	1	0
NOx	Tons	15	54	40
SOx	Tons	8	7	-1
BOD	Tons	0.1	0.1	0
COD	Tons	0.2	0.3	0.2

Nichia Pharmaceutical Industries Ltd.

A contract manufacturer of bulk drug substances, this company's waste generation and energy consumption fluctuate considerably with the volume of consigned production, but the company is raising the environmental awareness of its employees and promoting reduction of its environmental load.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	1,405	1,549	144
Kerosene	kl	0.3	0.2	-0.1
Fuel oil A	kl	112	152	39
Propane	Tons	0	0	0
City gas	Thousand m^3	0	0	0
Gasoline (in-house)	kl	0.1	0.1	0
Diesel oil (in-house)	kl	0.0	0.1	0.1
Water intake	Thousand m^3	322	361	39

Load from Emissions (Amount Generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	836	997	161
Waste generated	Tons	317	293	-25
Waste sent directly to landfills	Tons	0	0	0
Public sewerage	Thousand m^3	—	—	—
Natural waterways	Thousand m^3	322	361	39
Soot and dust	Tons	0.05	0.01	-0.04
NOx	Tons	1	1	0
SOx	Tons	2	5	2
BOD	Tons	0.2	0.3	0
COD	Tons	0.3	0.3	0

Shionogi General Service Co., Ltd.

	Unit	FY 2005	FY 2006	YoY change
Waste generated	Tons	4	4	0
Greenhouse gas emissions	Tons-CO_2	35	32	-3
Copy and printing paper consumption	Thousand sheets	307	315	8
Green purchasing rate	%	59	82	23

Saishin Igaku Co., Ltd.

	Unit	FY 2005	FY 2006	YoY change
Waste generated	Tons	5	11	6
Greenhouse gas emissions	Tons-CO_2	7	7	0
Copy and printing paper consumption	Thousand sheets	85	75	-10
Green purchasing rate	%	46	46	0

Taiwan Shionogi & Co., Ltd.

This company manufactures and sells pharmaceuticals in Taiwan. Concern for the environment is increasing in Taiwan, and this company works to reduce its environmental load in its business activities in areas including wastewater, emissions and separation and collection of waste.

Energy and Other Resource Input (Amount Used)

Input type	Unit	FY 2005	FY 2006	YoY change
Electricity (purchased)	MWh	1,816	1,871	55
Kerosene	kl	0	0	0
Fuel oil A	kl	76	78	2
Propane	Tons	1.3	1.3	0
City gas	Thousand m^3	0	0	0
Gasoline (in-house)	kl	118	124	6
Diesel oil (in-house)	kl	0	0	0
Water intake	Thousand m^3	28	27	0

Load from emissions (Amount generated)

Output type	Unit	FY 2005	FY 2006	YoY change
Greenhouse gas emissions	Tons-CO_2	900	927	27
Waste generated	Tons	49	47	-2
Waste sent directly to landfills	Tons	33	0	-33
Public sewerage	Thousand m^3	26	20	-6
Natural waterways	Thousand m^3	—	—	—
Soot and dust	Tons	—	—	—
NOx	Tons	1	1	0
SOx	Tons	1	1	0
BOD	Tons	1.0	1.2	0.2
COD	Tons	2.4	3.3	0.9

Environmental Management Evaluation Report

Shionogi has requested the opinion of experts at the Institute for Environmental Management Accounting* to improve the reliability and transparency of its environmental reporting and to receive advice on the status of our environmental preservation and management and on our future activities.

* Institute for Environmental Management Accounting (IEMA):
A university-launched venture company that supports corporate environmental management. Participants include academics and certified public accountants who are experts in this field, with a focus on researchers in the fields of environmental accounting and environmental management accounting.

On-site audit

Environmental Management Evaluation Report

IEMA

To: Shionogi & Co., Ltd.

June 27, 2007
Institute for Environmental Management Accounting (IEMA)

Katsuhiko Kokubu

Professor Katsuhiko Kokubu
(Graduate School of Administration, Kobe University and Director of IEMA)

Eriko Nashioka

Eriko Nashioka
(Director of IEMA and Certified Public Accountant/Certified Tax Accountant)

1. Purpose of the Evaluation Report

As a third party unrelated to Shionogi's business operations, we hereby offer our evaluation of the environmental management activities described in the Annual Report prepared by Shionogi for the purpose of increasing the credibility of the part of its environmental reporting.

2. Procedures Followed

We interviewed managers at Shionogi's head office to establish how environmental performance data was planned, executed and calculated at Shionogi, and how that data is evaluated and used internally, in order to perform our evaluation of the contents of the environmental section of this report. With regard to supporting materials for the disclosed figures, we performed sampling checks based on financial audit methods as necessary to determine whether or not the actual work was conducted according to the prescribed system. We visited the head office and the Kanegasaki Plant.

3. Evaluation

Although the environmental load increased in fiscal 2006 together with an increase in production, we recognize a commitment to environmental preservation, with activities such as the introduction of basic unit management adjusted to actual conditions, amid a basic policy of reducing total volume. In order to fulfill its long-term plan, Shionogi has broken down each item to set numerical targets, and is working to achieve those targets. Particularly in its head office, Shionogi has created a highly precise system for collection and management of environmental data. In the future, we expect Shionogi to create a system for analyzing its data on a monthly or quarterly basis and rapidly incorporating the results as feedback in its plans.

We found no serious errors in the calculation of environmental performance data within the scope of our sampling checks.

Kanegasaki Plant

This plant has a large environmental load, but it has a high awareness of environmental management. By creating its own indicators for the site and taking other measures, it is showing results toward its objective of reducing environmental load. With the introduction of Material Flow Cost Accounting (MFCA) and the strict standards of Good Manufacturing Practice (GMP) for its pharmaceutical manufacturing, the plant is working toward environmental preservation.

In the future, we expect greater use of data, with a revised format for the purpose of data use.

Financial Section

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Six-Year Summary of Selected Financial Data

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

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2002	2007
For the year ended March 31:							
Net sales	¥199,759	¥196,389	¥199,365	¥200,485	¥285,232	¥420,188	$1,691,583
Cost of sales	67,542	68,708	74,069	79,856	153,402	273,692	571,954
Selling, general and administrative expenses	103,354	98,455	96,567	100,337	112,564	130,312	875,214
Operating income	28,863	29,226	28,729	20,292	19,266	16,184	244,415
Income before income taxes and minority interests	31,723	38,798	31,655	5,178	9,139	18,755	268,634
Net income	18,595	22,735	18,942	2,204	5,904	8,456	157,465
Research and development expenses	37,456	32,257	29,409	29,808	31,284	30,602	317,182
Capital investments	11,411	5,386	5,424	4,404	9,012	8,810	96,630
As of March 31:							
Property, plant and equipment, net	¥ 67,815	¥ 64,251	¥ 68,191	¥ 71,993	¥ 75,585	¥ 86,387	$ 574,265
Total assets	429,569	427,683	396,999	376,161	371,704	480,668	3,637,641
Total long-term liabilities	36,282	38,371	27,783	49,005	49,145	58,971	307,240
Total net assets (Note 2)	345,752	337,434	300,065	292,387	274,996	281,123	2,927,869
Working capital	161,355	156,449	152,914	179,382	162,926	155,239	1,366,373
Number of shares of common stock issued (in thousands)	351,136	351,136	351,136	351,136	351,136	351,136	
Per share amounts (in yen and U.S. dollars):							
Net income	¥ 54.61	¥ 66.55	¥ 54.64	¥ 6.06	¥ 16.66	¥ 24.28	$ 0.46
Net assets	1,014.73	989.76	879.79	844.53	789.91	806.02	8.59
Cash dividends applicable to the year	16.00	16.00	12.00	8.50	8.50	8.50	0.14

Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥118.09 = US$1.00, the approximate rate of exchange on March 31, 2007.

2. 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. Total net assets for prior years has been calculated in conformity with the new standard.

Management's Discussion and Analysis

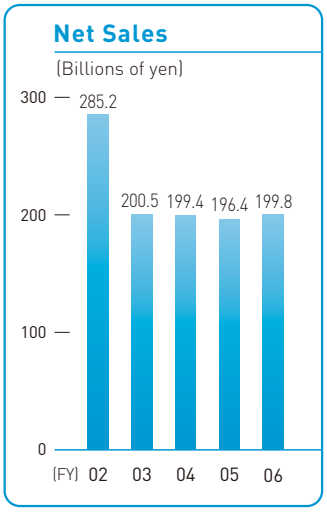
Financial Strategy

Shionogi constantly works to increase its corporate value by developing, manufacturing and selling superior medicines that serve people's health needs and provide an even higher level of satisfaction to patients, their families and healthcare providers. The Shionogi Group emphasizes profitability and cash flow in managing its businesses in order to generate the capital resources required to fund research and development and expand internationally. Shionogi & Co., Ltd. and other Shionogi Group companies make capital investments according to clearly defined guidelines and objectives.

While Shionogi follows a policy of distributing dividends in proportion to results for each fiscal term, it aims to make stable increases. Internal capital reserves are mainly earmarked for capital demands for future business development, including investment in research and development of new products. Shionogi has set a target of raising its payout ratio to 35 percent by the fiscal year ending March 31, 2010.

Sales, Operating Expenses and Operating Income

Factors decreasing sales of mainstay prescription drugs included the revision of National Health Insurance (NHI) drug prices, the effect of a shrinking market for antibiotics, and sales of new products below sales expansion plan targets, although royalty income from industrial property rights increased substantially. Net sales totaled ¥199,759 million (US$1,692 million), an increase of 1.7 percent compared with the previous fiscal year, when Shionogi sold its capsule business in October 2005.



Sales of the Pharmaceuticals segment increased 2.5 percent compared with the previous fiscal year to ¥191,914 million (US$1,625 million). Regarding prescription drugs, sales increased of Crestor, an antihyperlipidemia treatment; Finibax, a carbapenem antibiotic; and Avelox, a new quinolone antibiotic. However, for existing products, particularly antibiotics, the impact of NHI drug price revisions, the shrinking market and other factors decreased sales, and overall sales of prescription drugs declined. In addition, sales of over-the-counter products and diagnostics decreased as market competition intensified. On the other hand, contract manufacturing sales increased due to an increase in manufacturing contracts received from outside the Shionogi Group, and royalty income from industrial property rights increased substantially.

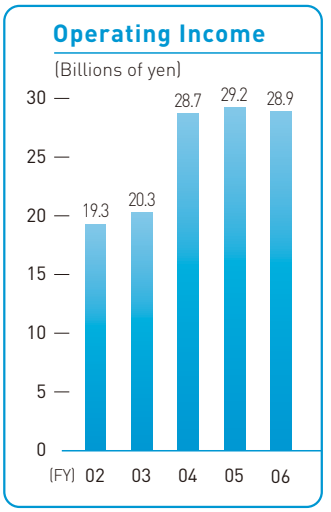
Sales of the Other segment increased 153.6 percent compared with the previous fiscal year to ¥7,845 million (US$66 million) due to the increase in contract construction at Shionogi Engineering Service Co., Ltd.

In addition to the increase in royalty income from industrial property rights, an improved cost of sales ratio due to efforts to cut manufacturing costs reduced the negative impact on gross profit from the NHI drug price revisions.

Gross profit increased 3.6 percent to ¥132,217 million (US$1,120 million), and increased as a percentage of net

Costs, Expenses and Income as Percentages of Net Sales

(Years ended March 31)	2007	2006	2005
Cost of sales	33.8%	35.0%	37.2%
Gross profit	66.2	65.0	62.8
SG&A expenses	51.7	50.1	48.4
R&D expenses	18.8	16.4	14.8
Operating income	14.4	14.9	14.4
Income before income taxes and minority interests	15.9	19.8	15.9
Net income	9.3	11.6	9.5



sales to 66.2 percent from 65.0 percent for the previous fiscal year.

Selling, general and administrative (SG&A) expenses increased 5.0 percent to ¥103,354 million (US$875 million), and represented 51.7 percent of net sales, compared to 50.1 percent for the previous fiscal year. The increase was due largely to higher research and development expenses, which are included in SG&A expenses. Research and development expenses increased 16.1 percent to ¥37,456 million (US$317 million), and accounted for 18.8 percent of net sales, compared to 16.4 percent for the previous fiscal year.

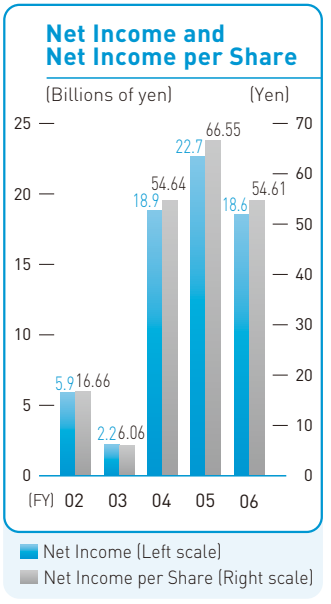
Operating income decreased 1.2 percent year-on-year to ¥28,863 million (US$244 million) because research and development expenses increased in tandem with steady progress in R&D activities. On the other hand, production costs decreased and royalty income increased. The ratio of operating income to net sales was 14.4 percent, compared to 14.9 percent for the previous fiscal year.

Other Income (Expenses)

Net other income totaled ¥2,860 million (US$24 million), compared to net other income of ¥9,572 million for the previous fiscal year, when the Company recorded an extraordinary gain from the sale of the capsule business totaling ¥7,452 million.

Income before Income Taxes and Minority Interests and Net Income

Due to the year-on-year decreases in operating income and net other income discussed above, income before income taxes and minority interests decreased 18.2 percent year-on-year to ¥31,723 million (US$269 million). Income taxes net of deferrals decreased 18.3 percent to ¥13,089 million (US$111 million), and the effective tax rate was 41.3 percent, unchanged from the previous fiscal year. As a result, net income decreased 18.2 percent year-on-year to ¥18,595 million (US$157 million), and represented 9.3 percent of net sales, compared to 11.6 percent for the previous fiscal year. Net income per share was ¥54.61 (US$0.46), compared to ¥66.55 for the previous fiscal year. Cash dividends per share of common stock totaled ¥16.00 (US$0.14) for the fiscal year, unchanged from the previous fiscal year, and the payout ratio was 29.3 percent, compared to 24.0 percent for the previous fiscal year.



Liquidity and Cash Flows

Net cash provided by operating activities decreased ¥2,769 million to ¥14,116 million (US$120 million). Factors included the decrease in income before income taxes and minority interests and an increase in inventories. Depreciation and amortization increased 1.7 percent to ¥8,798 million (US$75 million).

Net cash used in investing activities totaled ¥8,418 million (US$71 million), compared to ¥12,048 million for the previous fiscal year. Primary factors in the year-on-year change included an increase in purchases of property, plant and equipment centered on manufacturing facilities, which was offset by net proceeds from sales of short-term investments. Free cash flow, calculated as the total of net cash provided by operating activities and net cash used in investing activities, was ¥5,698 million (US$48 million), compared to ¥4,837 million for the previous fiscal year.

Net cash used in financing activities totaled ¥7,181 million (US$61 million),

compared to ¥24,796 million for the previous fiscal year, when Shionogi deployed cash totaling ¥20,000 million for redemption of bonds. Cash dividends paid increased to ¥6,123 million (US$52 million) from ¥4,675 million for the previous fiscal year.

As a result of the above, cash and cash equivalents at the end of the year decreased ¥1,596 million to ¥74,546 million (US$631 million).

Statements of Cash Flows Highlights

(Millions of yen)

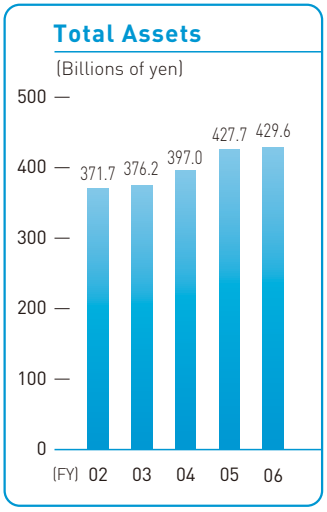
(Years ended March 31)	2007	2006	2005
Net cash provided by operating activities	**¥14,116**	¥ 16,885	¥ 28,549
Net cash (used in) provided by investing activities	**(8,418)**	(12,048)	9,786
Net cash used in financing activities	**(7,181)**	(24,796)	(11,209)
Cash and cash equivalents at end of year	**74,546**	76,142	95,719

Assets, Liabilities and Net Assets

Total assets increased 0.4 percent, or ¥1,886 million, to ¥429,569 million, (US$3,638 million). Current assets totaled ¥208,890 million (US$1,769 million), essentially unchanged from a year earlier. Inventories increased, but cash and cash equivalents and trade notes and accounts receivable decreased. Property, plant and equipment increased 5.5 percent, or ¥3,564 million, to ¥67,815 million (US$574 million) because Shionogi invested aggressively to expand manufacturing facilities and improve research and development facilities. Investments and other assets decreased primarily because of a decrease in the market value of investments in securities during the fiscal year.

Total liabilities decreased 7.1 percent, or ¥6,432 million, to ¥83,817 million (US$710 million), primarily because accrued income taxes and long-term accounts payable – other decreased.

Net assets increased 2.5 percent, or ¥8,318 million, to ¥345,752 million (US$2,928 million). Retained earnings increased ¥12,401 million from a year earlier, reflecting the addition of net income after payment of cash dividends. Total shareholders' equity therefore increased to ¥311,290 million (US$2,636 million). Total valuation and translation adjustments decreased ¥3,781 million from a year earlier to ¥34,179 million (US$289 million) due to a decrease in net unrealized holding gain on securities. Moreover, minority interests decreased ¥35 million from a year earlier to ¥283 million (US$2 million). Net assets represented 80.5 percent of total assets, compared to 78.9 percent a year earlier. The return on average total shareholders' equity was 5.4 percent, compared to 7.1 percent for the previous fiscal year.



Balance Sheet Highlights

(Millions of yen)

(As of March 31)	2007	2006	% change 2007/2006
Current assets	**¥208,890**	¥208,327	0.3
Property, plant and equipment	**67,815**	64,251	5.5
Investments and other assets	**152,864**	155,105	(1.4)
Current liabilities	**47,535**	51,878	(8.4)
Long-term liabilities	**36,282**	38,371	(5.4)
Net assets	**345,752**	337,434	2.5

Consolidated Balance Sheets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Current assets:			
Cash and cash equivalents (Note 10)	¥ 74,546	¥ 76,142	$ 631,264
Short-term investments (Note 5)	16,355	18,541	138,496
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	2,974	3,316	25,184
Trade	67,432	69,534	571,022
Allowance for doubtful accounts	(13)	(13)	(110)
	70,393	72,837	596,096
Inventories (Note 6)	32,395	27,184	274,325
Deferred income taxes (Note 12)	5,326	6,321	45,101
Other current assets	9,875	7,302	83,623
Total current assets	208,890	208,327	1,768,905
Property, plant and equipment:			
Land	14,812	14,806	125,430
Buildings and structures	97,222	95,700	823,287
Machinery and equipment	80,918	78,901	685,223
Furniture and fixtures	31,149	29,757	263,773
Construction in progress	5,173	3,601	43,806
Accumulated depreciation	(161,459)	(158,514)	(1,367,254)
Property, plant and equipment, net	67,815	64,251	574,265
Investments and other assets:			
Investments in securities (Note 5)	120,230	126,553	1,018,122
Investments in and advances to unconsolidated subsidiaries and affiliates	3,432	2,778	29,063
Prepaid pension costs (Note 14)	20,168	15,361	170,785
Intangible assets	6,135	7,132	51,952
Long-term prepaid expenses	2,074	2,451	17,563
Deferred income taxes (Note 12)	50	50	423
Other assets	775	780	6,563
Total investments and other assets	152,864	155,105	1,294,471
Total assets	¥ 429,569	¥ 427,683	$ 3,637,641

LIABILITIES AND NET ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2007
Current liabilities:			
Notes and accounts payable (Note 7):			
Trade	¥ 12,190	¥ 10,227	$ 103,226
Construction	2,526	2,277	21,390
Accrued expenses	11,644	12,796	98,603
Accrued income taxes (Note 12)	7,352	11,735	62,258
Other current liabilities (Notes 9, 10 and 14)	13,823	14,843	117,055
Total current liabilities	47,535	51,878	402,532
Long-term liabilities:			
Accrued retirement benefits for employees (Note 14)	8,353	8,319	70,734
Accrued retirement benefits for directors and corporate auditors	186	241	1,575
Deferred income taxes (Note 12)	24,698	23,276	209,146
Long-term accounts payable — other (Notes 9 and 14)	2,066	5,569	17,495
Other long-term liabilities	979	966	8,290
Total long-term liabilities	36,282	38,371	307,240
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2007 and 2006	21,280	21,280	180,202
Capital surplus	20,227	20,227	171,285
Retained earnings	278,871	266,470	2,361,512
Less treasury stock, at cost	(9,088)	(8,751)	(76,958)
Total shareholders' equity	311,290	299,226	2,636,041
Valuation and translation adjustments:			
Net unrealized holding gain on securities	34,263	38,116	290,143
Translation adjustments	(84)	(156)	(711)
Total valuation and translation adjustments	34,179	37,960	289,432
Minority interests	283	248	2,396
Total net assets	345,752	337,434	2,927,869
Total liabilities and net assets	¥ 429,569	¥ 427,683	$ 3,637,641

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Net sales (Note 20)	¥199,759	¥196,389	$1,691,583
Cost of sales	67,542	68,708	571,954
Gross profit	132,217	127,681	1,119,629
Selling, general and administrative expenses (Note 15)	103,354	98,455	875,214
Operating income (Note 20)	28,863	29,226	244,415
Other income (expenses):			
Interest and dividend income	1,803	1,255	15,268
Interest expense	(96)	(128)	(813)
Loss on disposal of property, plant and equipment	(558)	(956)	(4,725)
Loss on disposal of inventories	(1,058)	(536)	(8,959)
Gain on sales of investments in securities	186	3,054	1,575
Gain on exchange of investment securities	2,766	—	23,423
Gain on compensation of development cost incurred in the previous year	658	—	5,572
Gain on sale of capsule business	—	7,452	—
Loss on impairment of fixed assets	—	(937)	—
Other, net	(841)	368	(7,122)
	2,860	9,572	24,219
Income before income taxes and minority interests	31,723	38,798	268,634
Income taxes (Note 12):			
Current	8,702	16,890	73,689
Deferred	4,387	(861)	37,150
	13,089	16,029	110,839
Income before minority interests	18,634	22,769	157,795
Minority interests	(39)	(34)	(330)
Net income (Note 19)	¥ 18,595	¥ 22,735	$ 157,465

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2005	¥21,280	¥20,227	¥248,486	¥(8,574)	¥19,964	¥(1,536)	¥218	¥300,065
Net income for the year	—	—	22,735	—	—	—	—	22,735
Increase in retained earnings resulting from merger of an unconsolidated subsidiary with a consolidated subsidiary	—	—	16	—	—	—	—	16
Dividends	—	—	(4,685)	—	—	—	—	(4,685)
Bonuses to directors and corporate auditors	—	—	(82)	—	—	—	—	(82)
Purchases of treasury stock	—	—	—	(177)	—	—	—	(177)
Other changes	—	—	—	—	18,152	1,380	30	19,562
Balance at March 31, 2006	21,280	20,227	266,470	(8,751)	38,116	(156)	248	337,434
Net income for the year	—	—	18,595	—	—	—	—	18,595
Dividends	—	—	(6,130)	—	—	—	—	(6,130)
Bonuses to directors and corporate auditors	—	—	(64)	—	—	—	—	(64)
Purchases of treasury stock	—	—	—	(337)	—	—	—	(337)
Other changes	—	—	—	—	(3,853)	72	35	(3,746)
Balance at March 31, 2007	¥21,280	¥20,227	¥278,871	¥(9,088)	¥34,263	¥ (84)	¥283	¥345,752

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	$180,202	$171,285	$2,256,499	$(74,105)	$322,771	$(1,321)	$2,100	$2,857,431
Net income for the year	—	—	157,465	—	—	—	—	157,465
Dividends	—	—	(51,910)	—	—	—	—	(51,910)
Bonuses to directors and corporate auditors	—	—	(542)	—	—	—	—	(542)
Purchases of treasury stock	—	—	—	(2,853)	—	—	—	(2,853)
Other changes	—	—	—	—	(32,628)	610	296	(31,722)
Balance at March 31, 2007	$180,202	$171,285	$2,361,512	$(76,958)	$290,143	$ (711)	$2,396	$2,927,869

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Operating activities			
Income before income taxes and minority interests	¥ 31,723	¥ 38,798	$ 268,634
Adjustments for:			
Depreciation and amortization	8,798	8,653	74,502
Loss on impairment of fixed assets	—	937	—
Gain on sale of capsule business	—	(7,452)	—
Gain on sales of investments in securities	(186)	(3,054)	(1,575)
Reversal of retirement benefits, net of payments	(4,829)	(1,720)	(40,893)
Bonuses to directors and corporate auditors	(64)	(83)	(542)
Interest and dividend income	(1,803)	(1,255)	(15,268)
Interest expense	96	128	813
Other	(657)	4,510	(5,563)
Changes in operating assets and liabilities:			
Notes and accounts receivable	2,331	(90)	19,739
Inventories	(5,198)	(167)	(44,017)
Other current assets	(3,265)	(7,642)	(27,648)
Notes and accounts payable	1,957	2,657	16,572
Accrued expenses	586	(32)	4,962
Other current liabilities	(3,859)	(4,836)	(32,678)
Subtotal	25,630	29,352	217,038
Interest and dividends received	1,972	1,471	16,699
Interest paid	(63)	(234)	(533)
Income taxes paid	(13,423)	(13,704)	(113,668)
Net cash provided by operating activities	14,116	16,885	119,536
Investing activities			
Increase in short-term investments	(31,427)	(24,562)	(266,128)
Proceeds from sales of short-term investments	37,669	19,911	318,986
Increase in investments in securities	(4,316)	(21,182)	(36,548)
Purchases of property, plant and equipment	(11,411)	(5,386)	(96,630)
Proceeds from sales of investments in securities	862	3,562	7,300
Increase in investment in an affiliate	(1,693)	—	(14,337)
Proceeds from sale of investment in an affiliate	129	1,016	1,092
Proceeds from sale of subsidiaries' stock resulting in change in scope of consolidation (Note 18)	—	18,723	—
Proceeds from exchange of investment securities	3,159	—	26,751
Other	(1,390)	(4,130)	(11,771)
Net cash used in investing activities	(8,418)	(12,048)	(71,285)
Financing activities			
Increase in short-term bank loans, net	—	276	—
Repayment of long-term debt	—	(0)	—
Purchases of treasury stock	(338)	(176)	(2,862)
Redemption of bonds	—	(20,000)	—
Repayment of installment accounts payable	(718)	(218)	(6,080)
Cash dividends paid	(6,123)	(4,675)	(51,850)
Other	(2)	(3)	(17)
Net cash used in financing activities	(7,181)	(24,796)	(60,809)
Effect of exchange rate changes on cash and cash equivalents	(113)	359	(957)
Net decrease in cash and cash equivalents	(1,596)	(19,600)	(13,515)
Cash and cash equivalents at beginning of year	76,142	95,719	644,779
Increase in cash and cash equivalents resulting from merger of an unconsolidated subsidiary with a consolidated subsidiary	—	23	—
Cash and cash equivalents at end of year	¥ 74,546	¥ 76,142	$ 631,264

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2007

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 Securities and Exchange Law of Japan.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying consolidated financial statements include the accounts of the Company and of all significant 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 an affiliate for the years ended March 31, 2007 and 2006.

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

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

The overseas consolidated subsidiaries have a December 31 year end which differs from that of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these subsidiaries and the year end of the Company.

(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 have been reported as "Translation adjustments" and "minority interests" 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 have been 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 stated at cost determined principally by the period average method.

(f) Property, plant and equipment

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 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 and equipment	2 to 17 years

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

(g) Leases

Non-cancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(h) Research and development costs and computer software

Research and development costs 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 useful lives, generally a period of 5 years.

(i) 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.

(j) 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 which has been allocated to the current fiscal year.

(k) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables 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.

(l) Accrued bonuses to directors and corporate auditors

Accrued bonuses for directors and corporate auditors are provided at an estimate of the amount to be paid in the following year which has been allocated to the current fiscal year.

(m) Retirement benefits

The Company has adopted 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 adopted lump-sum payment plans and defined contribution pension plans. In addition, certain consolidated subsidiaries have adopted 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.

(n) Derivatives

Derivative financial instruments are utilized by the Company principally to reduce the risk arising from fluctuation in foreign exchange rates. 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. The Company is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency contracts; however, the Company does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high credit ratings.

(o) Appropriation of retained earnings

Under the Corporation Law of Japan, the appropriation 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 appropriations (see Note 22).

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 ¥118.09 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2007. 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. CHANGES IN ACCOUNTING POLICIES

(a) Accounting standard for presentation of net assets in the balance sheet

Effective April 1, 2006, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 issued on December 9, 2005). Total shareholders' equity prior to the adoption of this accounting standard amounted to ¥345,469 million ($2,925,473 thousand). "Net assets" in the balance sheet at March 31, 2007 has been presented in accordance with the revised "Regulations

Concerning the Terminology, Form and Preparation Methods of Consolidated Financial Statements" dated April 25, 2006.

(b) Accounting standard for directors' bonuses

Effective April 1, 2006, the Company has adopted "Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4, issued on November 29, 2005). As a result of the adoption of this accounting standard, operating income, and income before income taxes and minority interests decreased by ¥44 million ($373 thousand) from the amounts which would have been recorded under the method applied in the previous year.

(c) Accounting standard for business combinations and accounting standard for business divestitures

Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Business Combinations," (issued on October 31, 2003 by the Business Accounting Council of Japan), and "Accounting Standard for Business Divestitures" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 and ASBJ Guidance No. 10, respectively, both of which were issued on December 27, 2005).

(d) Accounting standard for the impairment of fixed assets

Effective the year ended March 31, 2006, the Company and consolidated subsidiaries adopted an accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and consolidated subsidiaries would be required to recognize a loss on impairment of fixed assets in their statement of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that loss on impairment of fixed assets should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of its disposition costs, and (2) the present value of future cash flows arising from the ongoing utilization of the asset and from its disposal after use. The standard covers land, buildings, other forms of property, plant and equipment as well as intangible assets.

As a result of the adoption of this accounting standard, a loss on impairment of fixed assets in the amount of ¥937 million was recognized in the consolidated statement of income for the year ended March 31, 2006, and income before income taxes and minority interests decreased by the same amount from the corresponding amount which would have been recorded under the previous method.

5. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Held-to-maturity debt securities and other securities at March 31, 2007 and 2006 were as follows:

(1) Held-to-maturity debt securities

	Millions of yen			
	2007			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures.....	¥40,137	¥108	¥(138)	¥40,107

	Millions of yen			
	2006			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures.....	¥40,193	¥22	¥(499)	¥39,716

	Thousands of U.S. dollars			
	2007			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds and debentures.....	$339,885	$915	$(1,169)	$339,631

(2) Other securities

	Millions of yen			
	2007			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities.....	¥17,054	¥56,656	¥(10)	¥73,700
Bonds and debentures	1,811	915	—	2,726
Other securities.....	5,005	121	(0)	5,126
	¥23,870	¥57,692	¥(10)	¥81,552

	Millions of yen			
	2006			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities.....	¥15,745	¥62,603	¥ —	¥78,348
Bonds and debentures	1,847	885	—	2,732
Other securities.....	5,005	78	(0)	5,083
	¥22,597	¥63,566	¥ (0)	¥86,163

	Thousands of U.S. dollars			
	2007			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities.....	$144,415	$479,770	$(85)	$624,100
Bonds and debentures ..	15,336	7,748	—	23,084
Other securities.....	42,383	1,025	(0)	43,408
	$202,134	$488,543	$(85)	$690,592

(3) The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Proceeds from sales	¥76	¥4,242	$644
Gross realized gain	66	2,590	559

(4) The carrying value of investments in nonmarketable securities at March 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Other securities:			
Unlisted equity securities	¥2,567	¥4,189	$21,738

(5) The redemption schedule of held-to-maturity debt securities and debt securities classified as other securities with maturities at March 31, 2007 and 2006 is summarized as follows:

	Millions of yen	
	2007	
	Bonds and debentures	Other
Due within one year	¥ 4,023	¥ 20
Due after one year through five years	16,087	726
Due after five years through ten years	20,007	610
Due after ten years	—	1,390

	Millions of yen	
	2006	
	Bonds and debentures	Other
Due within one year	¥ 4,005	¥ 20
Due after one year through five years	16,112	723
Due after five years through ten years	20,056	637
Due after ten years	—	1,372

	Thousands of U.S. dollars	
	2007	
	Bonds and debentures	Other
Due within one year	$ 34,067	$ 169
Due after one year through five years	136,227	6,148
Due after five years through ten years	169,422	5,166
Due after ten years	—	11,771

6. INVENTORIES

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Merchandise	¥ 5,070	¥ 3,601	$ 42,933
Finished goods	9,365	8,603	79,304
Semifinished goods and work in process	12,876	9,968	109,036
Raw materials and supplies	5,084	5,012	43,052
	¥32,395	¥27,184	$274,325

7. NOTES PAYABLE

The balance sheet date for the year ended March 31, 2007 fell on a bank holiday. Consequently, notes payable-trade of ¥7 million ($59 thousand) with due dates of March 31, 2007 were included in the balance of notes payable-trade and were settled on the next business day.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

At March 31, 2007, the Company had unused line-of-credit commitments for short-term financing arrangements totaling ¥24,000 million ($203,235 thousand). These lines of credit have commitment fee requirements.

9. INSTALLMENT ACCOUNTS PAYABLE

Installment accounts payable included in 'other current liabilities' and 'long-term accounts payable — other' at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current portion	¥ 800	¥ 711	$ 6,775
Long-term portion	2,066	2,700	17,495
	¥2,866	¥3,411	$24,270

The annual maturities of installment accounts payable subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 800	$ 6,775
2009	745	6,309
2010	748	6,334
2011	573	4,852
	¥2,866	$24,270

10. PLEDGED ASSETS

At March 31, 2007 and 2006, the assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and cash equivalents	¥5	¥5	$42

The corresponding liabilities secured by such collateral at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deposits received from employees which have been included in other liabilities	¥6	¥5	$51

11. SHAREHOLDERS' EQUITY

The new Companies Act of Japan (the "Act"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Act 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, 2007 amounted to ¥5,388 million ($45,626 thousand).

Under the Act, upon the issuance and sale of new shares of capital stock, the entire amount of the proceeds is required to be accounted for as capital 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.

Movements in issued shares of common stock and treasury stock during the year ended March 31, 2007 are summarized as follows:

	Number of shares			
	2007			
	March 31, 2006	Increase	Decrease	March 31, 2007
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	10,526,605	157,154	—	10,683,759

12. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2007 and 2006.

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

The effective tax rate for the years ended March 31, 2007 and 2006 differs from the above statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	4.8	2.9
Dividends not taxable for income tax purposes	(0.4)	(0.1)
Amortization of excess of cost over net assets acquired	—	0.2
Inhabitants' per capita taxes	0.4	0.3
Tax credits	(3.9)	(6.5)
Tax loss carryforwards of a consolidated subsidiary	0.4	1.1
Difference in statutory tax rates of overseas subsidiaries	(0.2)	(0.1)
Adjustment to surplus resulting from sale of capsule business	—	3.4
Other	(0.4)	(0.5)
Effective tax rate	41.3%	41.3%

The tax effects of temporary differences at March 31, 2007 and 2006 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued expenses	¥ 2,420	¥ 3,037	$ 20,493
Retirement benefits	75	145	635
Accrued enterprise tax	705	1,082	5,970
Research and development expenses	2,182	2,029	18,477
Reserve for sales rebates	364	385	3,082
Loss on revaluation of investments in securities	448	443	3,794
Tax loss carryforwards of a consolidated subsidiary	321	412	2,718
Other	2,354	2,170	19,934
Valuation allowance	(776)	(412)	(6,571)
Total deferred tax assets	8,093	9,291	68,532
Deferred tax liabilities:			
Unrealized gain on other securities	(23,419)	(25,388)	(198,315)
Specially recognized depreciation reserve fund	(393)	(576)	(3,328)
Prepaid pension costs	(3,333)	—	(28,224)
Other	(270)	(232)	(2,287)
Total deferred tax liabilities	(27,415)	(26,196)	(232,154)
Net deferred tax liabilities	¥(19,322)	¥(16,905)	$(163,622)

13. LEASES

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, 2007 and 2006, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) had been capitalized:

	Millions of yen		
	2007		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥ 735	¥405	¥ 330
Other	1,260	332	928
Total	¥1,995	¥737	¥1,258

	Millions of yen		
	2006		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥729	¥261	¥468
Other	113	55	58
Total	¥842	¥316	¥526

	Thousands of U.S. dollars		
	2007		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	$ 6,224	$3,430	$ 2,794
Other	10,670	2,811	7,858
Total	$16,894	$6,241	$10,652

Finance lease payments of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease payments	¥456	¥184	$3,861

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 under finance leases other than those which 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	¥ 456	$ 3,861
Due after one year	801	6,783
Total	¥1,257	$10,644

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, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation at end of year	¥(91,839)	¥(93,509)	$(777,703)
Fair value of plan assets at end of year	126,512	122,604	1,071,318
Plan assets in excess of retirement benefit obligation	34,673	29,095	293,615
Unrecognized prior service cost	(16,304)	(18,978)	(138,064)
Unrecognized actuarial gain	(6,554)	(3,075)	(55,500)
Net retirement benefit obligation	11,815	7,042	100,051
Prepaid pension costs	(20,168)	(15,361)	(170,785)
Accrued retirement benefits for employees	¥ (8,353)	¥ (8,319)	$ (70,734)

The Company and a certain domestic consolidated subsidiary transferred a portion of their retirement benefit plans to defined contribution pension plans in April 2004 and March 2005, respectively.

The related pension assets are scheduled to be transferred to the defined contribution pension plans as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year (presented as "other current liabilities")	¥2,886	¥3,522	$24,439
Due after one year (presented as "long-term accounts payable – other")	—	2,869	—
	¥2,886	¥6,391	$24,439

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥1,908	¥1,980	$16,157
Interest cost	1,869	1,874	15,827
Expected return on plan assets	(2,710)	(2,265)	(22,949)
Amortization of actuarial loss	1,348	3,717	11,415
Amortization of prior service cost	(2,674)	(2,674)	(22,643)
Other	831	878	7,037
Retirement benefit expenses	¥ 572	¥3,510	$ 4,844

"Other" represents contributions to the defined contribution retirement benefit plans.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rate	2.0%	2.0%
Expected rates of return on plan assets	2.2%	2.3%

15. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2007 and 2006 amounted to ¥37,456 million ($317,182 thousand) and ¥32,257 million, respectively.

16. IMPAIRMENT OF FIXED ASSETS

The Company and its consolidated subsidiaries group their fixed assets for business purposes by management control unit (by product group), and idle assets and leased assets are grouped individually.

For the year ended March 31, 2006, the carrying value of leased assets whose market value had decreased significantly from their carrying value was reduced to their respective recoverable amounts and a loss on impairment of fixed assets was recognized in the accompanying consolidated financial statements. The net recoverable amounts of the leased assets are measured based on the estimated selling value which is principally equivalent to the official published prices.

The carrying amount of the excess of cost over the amount of the underlying equity in the net assets of a certain domestic subsidiary in the amount of ¥163 million has been reduced since its carrying amount is deemed not to be recoverable. In addition, an overseas consolidated subsidiary performed impairment tests for goodwill and other assets in accordance with Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." As a result, the overseas consolidated subsidiary recognized a loss on impairment based on the amounts determined by third-party appraisers.

Loss on impairment of fixed assets for the year ended March 31, 2006 is summarized as follows:

Place	Classification	Millions of yen
		2006
Wakabayashi-ku, Sendai and other	Land (leased assets)	¥278
U.S.A.	Goodwill and other assets	¥496
	Excess of cost over the amount of the underlying equity in the net assets	¥163

17. CONTINGENT LIABILITIES

The Company had the following contingent liabilities at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Guarantees of housing loans to employees	¥94	¥117	$796

18. SUPPLEMENTARY CASH FLOW INFORMATION

In October 2005, the assets and liabilities of Shionogi Qualicaps Co., Ltd., Shionogi Europe B.V., Shionogi Qualicaps Inc. and Shionogi Qualicaps S.A. were excluded from consolidation following the sale of the capsule business. The following summarizes the assets and liabilities excluded from consolidation for the year ended March 31, 2006:

	Millions of yen
	2006
Current assets	¥11,496
Non-current assets	6,366
Total assets	¥17,862
Current liabilities	¥ 5,335
Non-current liabilities	603
Total liabilities	¥ 5,938

19. AMOUNTS PER SHARE

Amounts per share as of and for the years ended March 31, 2007 and 2006 were as follows:

	Yen		U.S. dollars
	2007	2006	2007
Net income	¥ 54.61	¥ 66.55	$0.46
Net assets	1,014.73	989.76	8.59
Cash dividends applicable to the year	16.00	16.00	0.14

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 net assets available for distribution to the shareholders of common stock and 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 for the computation of basic net income per share for the years ended March 31, 2007 and 2006 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Information on basic net income per share:			
Net income	¥18,595	¥22,735	$157,465
Deduction from net income:			
Bonuses to directors and corporate auditors	—	(63)	—
Adjusted net income allocated to common stock	¥18,595	¥22,672	$157,465

	Thousands of shares	
	2007	2006
Weighted-average number of shares of common stock outstanding	340,519	340,667

The financial data for the computation of net assets per share at March 31, 2007 and 2006 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Total net assets	¥345,752	¥337,434	$2,927,869
Amounts deducted from total net assets:	283	311	2,396
(Amounts attributed to minority interests in total net assets)	(283)	(248)	(2,396)
(Amounts related to bonuses to directors and corporate auditors)	—	(63)	—
Net assets used in the calculation of net assets per share	¥345,469	¥337,123	$2,925,473

	Thousands of shares	
	2007	2006
Number of shares used in the calculation of net assets per share	340,452	340,610

20. 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 business of the pharmaceuticals segment is conducted principally by the Company and that of the capsules segment was conducted principally by consolidated subsidiaries. The Company sold the capsule business in October 2005. Consequently, information on the capsule business subsequent to October 2005 has been excluded from the business segment information presented below for the year ended March 31, 2006.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is outlined as follows:

	Millions of yen				
	Year ended March 31, 2007				
	Pharmaceuticals	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income					
Sales to third parties	¥191,914	¥ 7,845	¥199,759	¥ —	¥199,759
Intergroup sales and transfers	—	4,883	4,883	(4,883)	—
Net sales	191,914	12,728	204,642	(4,883)	199,759
Operating expenses	164,757	11,022	175,779	(4,883)	170,896
Operating income	¥ 27,157	¥ 1,706	¥ 28,863	¥ 0	¥ 28,863
II. Total assets, depreciation and capital expenditures					
Total assets	¥247,236	¥11,332	¥258,568	¥171,001	¥429,569
Depreciation	9,633	12	9,645	—	9,645
Capital expenditures	12,361	4	12,365	—	12,365

	Millions of yen					
	Year ended March 31, 2006					
	Pharmaceuticals	Capsules	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	¥187,235	¥6,061	¥ 3,093	¥196,389	¥ —	¥196,389
Intergroup sales and transfers	—	116	8,571	8,687	(8,687)	—
Net sales	187,235	6,177	11,664	205,076	(8,687)	196,389
Operating expenses	160,476	5,490	9,934	175,900	(8,737)	167,163
Operating income	¥ 26,759	¥ 687	¥ 1,730	¥ 29,176	¥ 50	¥ 29,226
II. Total assets, depreciation and capital expenditures						
Total assets	¥240,914	¥ —	¥10,677	¥251,591	¥176,092	¥427,683
Depreciation	9,001	414	16	9,431	—	9,431
Capital expenditures	12,228	979	33	13,240	—	13,240

	Thousands of U.S. dollars				
	Year ended March 31, 2007				
	Pharmaceuticals	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income					
Sales to third parties	$1,625,151	$ 66,432	$1,691,583	$ —	$1,691,583
Intergroup sales and transfers	—	41,350	41,350	(41,350)	—
Net sales	1,625,151	107,782	1,732,933	(41,350)	1,691,583
Operating expenses	1,395,182	93,336	1,488,518	(41,350)	1,447,168
Operating income	$ 229,969	$ 14,446	$ 244,415	$ 0	$ 244,415
II. Total assets, depreciation and capital expenditures					
Total assets	$2,093,624	$ 95,961	$2,189,584	$1,448,057	$3,637,641
Depreciation	81,573	102	81,675	—	81,675
Capital expenditures	104,674	34	104,708	—	104,708

As more than 90% of consolidated net sales for the years ended March 31, 2007 and 2006 were made in Japan, the disclosure of geographical segment information has been omitted.

As overseas sales accounted for less than 10% of consolidated net sales for the year ended March 31, 2006, the disclosure of overseas sales information has been omitted. Overseas sales for the year ended March, 2007 are outlined as follows:

	Millions of yen		
	Year ended March 31, 2007		
	Europe	Other	Total
I. Overseas sales	¥20,404	¥5,659	¥ 26,063
II. Consolidated net sales	—	—	199,759
III. Overseas sales as a percentage of consolidated net sales	10.2%	2.8%	13.0%

	Thousands of U.S. dollars		
	Year ended March 31, 2007		
	Europe	Other	Total
I. Overseas sales	$172,784	$47,921	$ 220,705
II. Consolidated net sales	—	—	1,691,583
III. Overseas sales as a percentage of consolidated net sales	10.2%	2.8%	13.0%

Overseas sales represent those of the Company and consolidated subsidiaries outside Japan and include royalty revenue. Geographical segments are divided into countries and regions based on geographic proximity. Main countries and regions included in each segment were as follows:
(1) Europe: United Kingdom, Switzerland, Germany and other
(2) Others: North America, Asia and other

21. BUSINESS COMBINATIONS

On April 1, 2006, Ohmori Group Central Office Co., Ltd., (Ohmori) was merged into the Company as a result of restructuring of the Shionogi Group, and Ohmori was liquidated.

Prior to the merger, Ohmori was a holding company and had five subsidiaries engaged in the pharmaceutical wholesale business.

During 2002, these subsidiaries merged with other companies and the main business focus of Ohmori turned to managing assets such as securities issued by the other companies as a result of these mergers.

The Company has accounted for this business combination as a merger under common control which has been eliminated as an internal transaction. Consequently, there was no effect on the consolidated financial statements.

22. SUBSEQUENT EVENT

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at a shareholders' meeting held on June 28, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥8.00 = U.S.$0.07 per share)	¥2,723	$23,059

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

The Board of Directors
Shionogi & Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shionogi & Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shionogi & Co., Ltd. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 4(d), effective the year ended March 31, 2006, Shionogi & Co., Ltd. and consolidated subsidiaries adopted an accounting standard for the impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 28, 2007

Ernst & Young ShinNihon

Corporate Data (As of March 31, 2007)

Company Name Shionogi & Co., Ltd.

Established March 17, 1878

Incorporated June 5, 1919

Paid-in Capital ¥21,279,742,717

Website http://www.shionogi.co.jp/

Head Office 1-8, Doshomachi 3-chome,
Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6202-2161
Fax: +81-6-6229-9596

Number of Employees Consolidated: 4,958
Non-consolidated: 4,300

Type of Business Manufacture and sale of pharmaceutical products, diagnostics, and other related products

Fiscal Year-End March 31

Net Sales Consolidated: ¥199,759 million,
Non-consolidated: ¥185,686 million
(Year ended March 31, 2007)

Stock (Securities) Listings Osaka, Tokyo (#4507)

Common Stock Authorized: 1,000,000,000 shares
Issued: 351,136,165 shares
Number of shareholders: 21,516

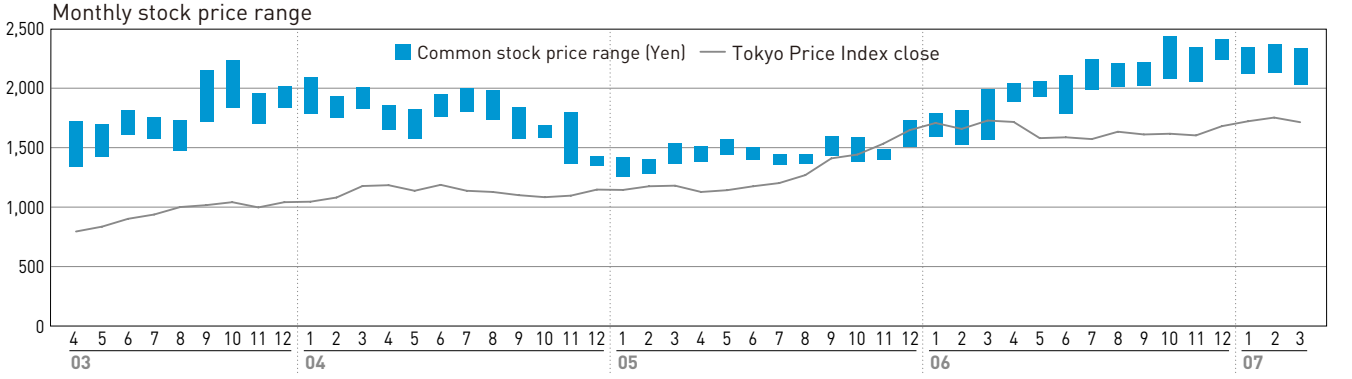
Transfer Agent The Sumitomo Trust & Banking Co., Ltd.
Stock Transfer Agency Department,
5-33, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan

Major Shareholders

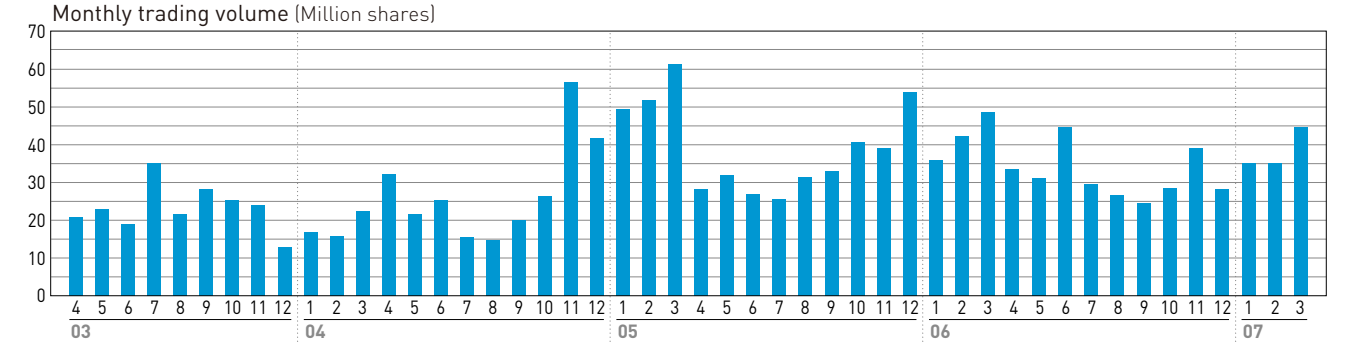
	Number of shares (Thousands)	Percentage of total shares
Sumitomo Life Insurance Company	18,604	5.30%
The Master Trust Bank of Japan, Ltd. (trust account)	15,916	4.53
State Street Trust and Banking Company, Limited	13,578	3.87
Nippon Life Insurance Company	13,138	3.74
Japan Trustee Services Bank, Ltd. (trust account)	12,357	3.52
The Chase Manhattan Bank, NA London	12,222	3.48
The Chase Manhattan Bank NA, London SL Omnibus Account	12,160	3.46
Shionogi & Co., Ltd.	10,683	3.04
Japan Trustee Services Bank, Ltd. (Trust Account Re-entrusted by The Sumitomo Trust & Banking Co., Ltd., The Sumitomo Mitsui Banking Corporation Retirement Trust Account)	9,485	2.70
JP Morgan Chase Oppenheimer Funds JASDEC Account	8,216	2.34

Stock Price Range and Trading Volume (Tokyo Stock Exchange)

Monthly stock price range



Monthly trading volume (Million shares)



Offices / Consolidated Subsidiaries (As of March 31, 2007)

Corporate Directory

Head Office/Branch Office

Head Office
1-8, Doshomachi 3-chome,
Chuo-ku, Osaka 541-0045, Japan
Tel: +81-6-6202-2161
Fax: +81-6-6229-9596

Tokyo Branch Office
Shionogi Shibuya Bldg., 17-5, Shibuya 2-chome,
Shibuya-ku, Tokyo 150-0002, Japan
Tel: +81-3-3406-8111

Nagoya Branch Office
SKY OASIS SAKAE, 9, Shinsakaemachi 2-chome,
Naka-ku, Nagoya, Aichi 460-0004, Japan
Tel: +81-52-957-8271

Fukuoka Branch Office
Shin KBC Bldg.,
1-35, Nagahama 1-chome, Chuo-ku,
Fukuoka City, Fukuoka 810-0072, Japan
Tel: +81-92-737-7750

Sapporo Branch Office
Daisan Kouan Bldg.,
13, Minami Nanajo Nishi 1-chome,
Chuo-ku, Sapporo, Hokkaido 064-0807, Japan
Tel: +81-11-530-0360

Laboratories

Shionogi Research Laboratories
12-4, Sagisu 5-chome,
Fukushima-ku, Osaka 553-0002, Japan
Tel: +81-6-6458-5861

Developmental Research Laboratories
1-1, Futaba-cho 3-chome,
Toyonaka, Osaka 561-0825, Japan
Tel: +81-6-6331-8081

Shionogi Institute for Medical Science
5-1, Mishima 2-chome,
Settsu, Osaka 566-0022, Japan
Tel: +81-6-6382-2612

Aburahi Laboratories
1405, Gotanda, Koka-cho,
Koka, Shiga 520-3423, Japan
Tel: +81-748-88-3281

Plants

Settsu Plant
5-1, Mishima 2-chome, Settsu,
Osaka 566-0022, Japan
Tel: +81-6-6381-7341

Kanegasaki Plant
7, Moriyama, Nishine, Kanegasaki-cho,
Isawa-gun, Iwate 029-4503, Japan
Tel: +81-197-44-5121

Site

Kuise Site
1-3, Kuise Terajima 2-chome,
Amagasaki, Hyogo 660-0813, Japan
Tel: +81-6-6401-1221

Distribution Centers

Shionogi Distribution Center
5-1, Mishima 2-chome,
Settsu, Osaka 566-0022, Japan
Tel: +81-6-6381-7342

Shionogi Tokyo Distribution Center
1513, Funagata-Azaueharaichi,
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2. **Nichia Pharmaceutical Industries Ltd.**
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3. **Saishin Igaku Co., Ltd.**
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4. **Shionogi Engineering Service Co., Ltd.**
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5. **Shionogi Buturyuu Service & Co., Ltd.**
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6. **Shionogi General Service Co., Ltd.**
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7. **Aburahi AgroResearch Co., Ltd.**
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8. **Taiwan Shionogi & Co., Ltd.**
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9. **Shionogi USA, Inc.**
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10. **SG Holding, Inc.**
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Shionogi will work to further improve its corporate image and brand by conveying its sincere commitment to improving QOL by freeing patients from the suffering of pain.

SHIONOGI & CO., LTD.

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