Annual Report 2009

Year ended March 31, 2009

Shionogi:
Global Perspective. Global Reach.

SHIONOGI & CO., LTD.

Shionogi: Global Reach.

The Company Policy of Shionogi

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.

(Established in 1957)

Contents

Forward-Looking Statements

This report contains forward-looking statements. These statements are based on expectations in light of the information currently available, assumptions that are subject to risks, and uncertainties which could cause actual results to differ materially from these statements.

Risks and uncertainties include general domestic and international economic conditions, such as general industry and market conditions, and changes of interest rates and currency exchange rates.

These risks and uncertainties particularly apply to forward-looking statements concerning existing products and those under development. Product risks and uncertainties include, but are not limited to, completion and discontinuation of clinical trials; obtaining regulatory approvals; claims and concerns about product safety and efficacy; technological advances; adverse outcome of important litigation; domestic and foreign healthcare reforms; and changes of laws and regulations.

For existing products, there are also manufacturing and marketing risks, which include, but are not limited to, inability to build production capacity to meet demand, unavailability of raw materials, and competition with other companies' products.

The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, or otherwise.

This report contains information on pharmaceuticals (including compounds under development), but this information is not intended to make any representations or advertisements regarding the efficacy or effectiveness of these pharmaceuticals nor provide medical advice of any kind.

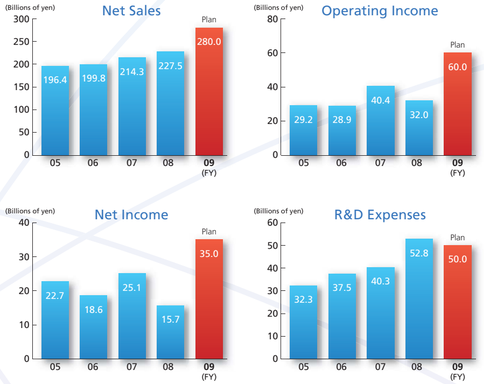
Shifting from Laying the Foundation to Making Significant Strides

(April 2005–March 2010)

Considering the period of its second medium-term management plan to be a period for making significant strides over the long term, the Shionogi Group is progressively creating the global R&D and marketing systems needed to support its continuous growth in the future.

Increasing Growth Tracks

Shionogi will concentrate on achieving its second medium-term management plan targets, and undertake full-scale globalization measures in order to sustain its growth over the long term.



Generating In-house Products with Global Competitive Power

Shionogi has been focusing on the three targeted therapeutic areas of infectious diseases, pain, and metabolic syndrome as well as on such frontier areas as allergy treatments. In fiscal 2009, the Company expects to move five globally competitive in-house drug candidates to Phase II or further.

Concentrating Resources on Strategic Products

Shionogi plans to maximize its market share by continuing to concentrate resources on three products—Crestor®, Irbetan®, and duloxetine—as the Company's medium-to-long term growth drivers with an eye towards fiscal 2010 or further.

Crestor®
Anti-hypercholesterolemia. Used to treat hyperlipidemia, and prevent atherosclerosis.

Irbetan®
A long-acting angiotensin Ⅱ receptor blocker (ARB) for treating hypertension with an outstanding hypotensive effect.

Duloxetine
NDA filing has been submitted in Japan as an antidepressant, and it is expected to be approved during fiscal 2009.

Aiming to simultaneously develop in-house products in the three regions of Japan, the United States, and Europe

In-house products being developed globally

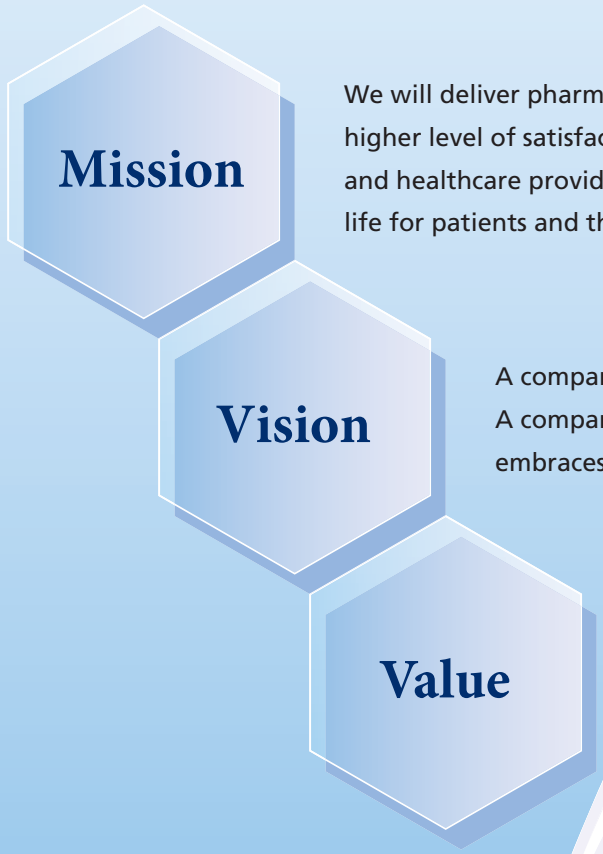
- Infectious diseases: S-349572/S-265744/S-247303
- Pain: S-297995
- Metabolic syndrome: S-2367
- Frontier areas: S-555739, S-444823, S-888711, S-222611

(For further information, please see the table on pages 18–19.)

Perspective.

Shionogi's Action Guidelines

To help realize the Company Policy, we have created Shionogi's Action Guidelines, which all people working at Shionogi share and which describe the ideal nature of all our 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

By acting in accordance with the Company Policy and the Action Guidelines, we can contribute to patients, physicians, and other healthcare professionals as well as to shareholders and society as a whole. We are confident that this will promote the Company's development and the personal development of Shionogi employees.

Editorial Policy

Period under Review

Fiscal 2008 (April 1, 2008 - March 31, 2009)
Certain activities continuing into fiscal 2009 and thereafter are also included.

Scope and Organization

The Annual Report encompasses the activities of Shionogi & Co., Ltd., and its 24 Group companies (18 consolidated subsidiaries and 6 affiliates).

The section entitled Shionogi's Environmental Activities covers all business facilities of Shionogi & Co., Ltd., and nine 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 nonmanufacturing 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 numerical values are rounded to the nearest unit, as applicable. Totals may not match due to rounding.

To Our Stakeholders

In line with its second medium-term management plan, which covers the period from April 2005 through March 2010, the Shionogi Group has moved ahead with the creation of systems for sustaining long-term growth in operations centered on the prescription drug business. During fiscal 2008, ended March 31, 2009, the Group took various initiatives based on its new management structure, giving particular emphasis to the objectives of augmenting the development pipeline; maximizing the value of Crestor®, our key hyperlipidemia treatment product; strengthening domestic marketing systems; and preparing a strong foundation for the expansion of our global operations. As a result, besides further expanding our development pipeline, we successfully undertook overseas business initiatives, including the acquisition of a U.S. pharmaceutical company, and thereby built a solid platform for the acceleration of our global business development.

Fiscal 2009 is the final year of Shionogi's second medium-term management plan. We are particularly intent on further strengthening our domestic marketing systems, which represent a principal management base, and the entire Group is concertedly working to attain the final targets of the plan.

For pharmaceutical companies seeking to expand their overseas operations, it is crucial to continuously undertake the global launch of in-house products. In the case of Shionogi, our R&D programs have been quite productive during recent years, providing us with additional innovative in-house products that are expected to expand globally. Moreover, we have, on our own, completed the late Phase II (Phase IIb) clinical trials for S-2367 (anti-obesity drug) in the United States, and we are making smooth progress in other ways in our independent efforts to expand our global development operations.

In view of the positive trends in our R&D programs, we undertook the October 2008 acquisition of U.S. pharmaceutical company Sciele Pharma, Inc., as a means of moving ahead even more proactively with our overseas business expansion strategies. A collaboration between Sciele Pharma and Shionogi USA, Inc., have also been making a smooth flight, and Sciele Pharma is expected to play a central role in the development of Shionogi Group business in the United States.

Concerning our development programs in Japan, we were able to complete the domestic market launch of the antihypertensive Irbetan® and two other products during fiscal 2008. In this way, while we have the goal of launching 10 new products during our second medium-term management plan, we have already launched nine such products during the term of the plan.

With respect to the domestic marketing operations that provide our profit base, we are seeking to sustain our growth momentum by concentrating resources on such high-potential products as Crestor® and newly launched Irbetan®.

Looking at Shionogi's consolidated performance in fiscal 2008, our net sales increased 6.2% from the fiscal 2007 level, to ¥227.5 billion, reflecting such factors as growth in royalty income associated with sales of Crestor® by AstraZeneca and the conversion of Sciele Pharma into a consolidated subsidiary. Regarding profitability, the application of business combination accounting associated with the acquisition of Sciele Pharma and other one-time expenses caused a 20.8% drop in operating income, to ¥32.0 billion, and a 37.5% fall in net income, to ¥15.7 billion. Because of the temporary nature of the factors that depressed fiscal 2008 profitability, however, we are anticipating a large increase in profitability during fiscal 2009.

Total dividends applicable to fiscal 2008 amounted to ¥28.00 per share, up ¥6 per share from the level for fiscal 2007. Shionogi will maintain its basic policy of seeking to steadily increase dividends in line with growth in its performance figures.

We are confident that the diverse strategic initiatives Shionogi undertook overseas and in Japan during fiscal 2008 will make a great contribution to the Shionogi Group's capabilities for sustaining its development over the medium-to-long term.

We look forward to the continuing support and guidance of all our shareholders and all other stakeholders.

August 2009

Motozo Shiono
Chairman and Representative Director

Isao Teshirogi, Ph.D.
President and Representative Director

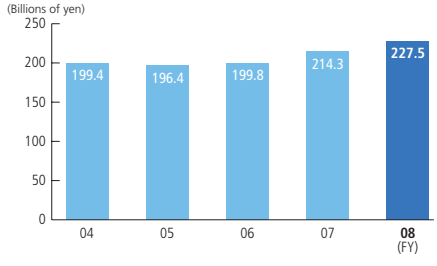
Financial Highlights

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

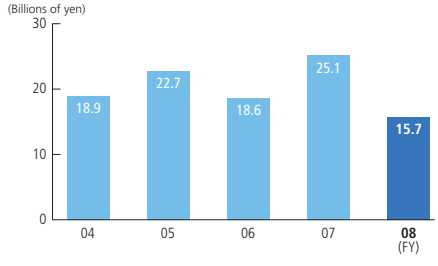
	2009	2008	2007	2009/2008	2009
	Millions of yen			% change	Thousands of U.S. dollars
For the year ended March 31:					
Net sales	**¥227,512**	¥ 214,268	¥199,759	6.2%	**$2,316,115**
Operating income	**32,015**	40,399	28,863	(20.8)	**325,918**
Income before income taxes and minority interests	**30,786**	39,963	31,723	(23.0)	**313,407**
Net income	**15,661**	25,064	18,595	(37.5)	**159,432**
Research and development expenses	**52,822**	40,290	37,456	31.1	**537,738**
Capital investments	**10,875**	11,661	11,411	(6.7)	**109,946**
Depreciation and amortization	**13,468**	10,666	8,798	26.3	**137,107**
As of March 31:					
Total assets	**¥501,853**	¥ 413,704	¥429,569	21.3%	**$5,108,959**
Net assets	**310,094**	342,236	345,752	(9.4)	**3,156,816**
	Yen			% change	U.S. dollars
Per share amounts:					
Net income	**¥ 46.75**	¥ 74.21	¥ 54.61	(37.0)%	**$ 0.48**
Net assets	**924.43**	1,020.31	1,014.73	(9.4)	**9.41**
Cash dividends applicable to the year	**28.00**	22.00	16.00	27.3	**0.29**
Number of employees	**6,010**	4,982	4,958		

* U.S. dollar figures have been calculated, for convenience only, at the rate of ¥98.23 = US$1.00, the approximate rate of exchange on March 31, 2009.
* From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former shareholders' equity, valuation and translation adjustments, and minority interests as total net assets.

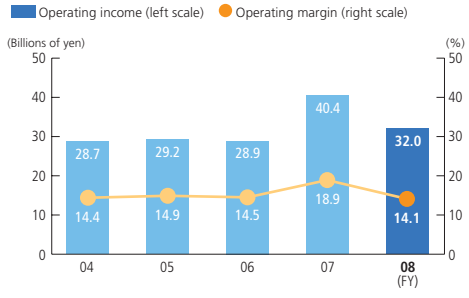
Net Sales



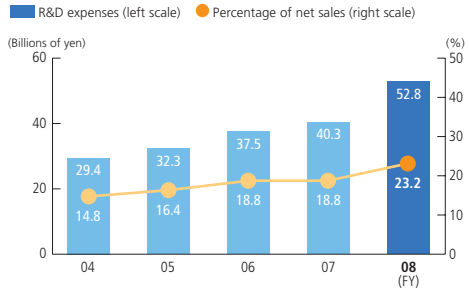
Net Income



Operating Income/Operating Margin



R&D Expenses/Percentage of Net Sales



Interview with President Isao Teshirogi, Ph.D.

Isao Teshirogi, Ph.D.
President and
Representative Director

Isao Teshirogi, who has been Shionogi's president since April 2008, explains the results of business measures implemented during fiscal 2008, as well as the management strategies the Company will be implementing in fiscal 2009, which is the final year of the second medium-term management plan.

How would you characterize the operating environment and Shionogi's performance in fiscal 2008?

Fiscal 2008 was a very noteworthy year regarding Shionogi's overseas expansion. We had already for some time considered building a marketing network in the United States to be an important objective. Now, having also augmented our global R&D pipeline of drug candidates that meet global standards as a result of our concerted, Company-wide efforts to implement the second medium-term management plan, we have successfully acquired U.S. pharmaceutical company Sciele Pharma, Inc.

Concerning net sales, because of challenges stemming from continued difficult conditions in the Japanese pharmaceuticals market, we did not meet our domestic sales target and were disappointed to have to revise down our performance forecast. Ultimately, however, we were able to increase our net sales, reflecting such factors as the contribution of Sciele Pharma to consolidated performance and a rise in royalty income associated with Crestor®. However, our profitability decreased due to business combination accounting associated with the Sciele Pharma acquisition, particularly our one-time booking of in-process R&D expenses, as well as our amortization of intangible fixed assets and goodwill. If we calculate just the consolidated performance of previously existing Shionogi Group units and exclude the impact of our Sciele Pharma acquisition, however, then we find that we realized increases in both net sales and profit.

There are still many challenges that Shionogi has to overcome, but the year was highly memorable, due to the huge stride we made in global business development. We expect our global business development to be a key factor enabling our sustained viability and independence going forward.

What are the main management strategies you will be implementing in fiscal 2009, the final year of Shionogi's second medium-term management plan?

The most important tasks that we must accomplish to achieve the targets of the second medium-term management plan are further strengthening our domestic marketing systems, sustaining the augmentation of our R&D pipeline, and building global development and marketing systems.

Regarding domestic marketing, we plan to further expand sales of our hyperlipidemia treatment Crestor®, on which we have already concentrated considerable resources, and intensify our promotional activities for the hypertension treatment Irbetan®. At the same time, we will step up our marketing of new products, such as Differin® Gel, a topical treatment for acne vulgaris, and the idiopathic pulmonary fibrosis treatment Pirespa®. In the therapeutic areas of infectious diseases and pain, we are striving to increase our sales while efficiently arranging related lecture programs for medical professionals and carrying out activities aimed at increasing patient awareness.

With respect to our development pipeline, we have the objective of launching 10 new products during the period of our second medium-term management plan, and we need only one more product to reach our target, for which we have an application pending for the indication of depression. We are confident that we will realize our development pipeline goals.

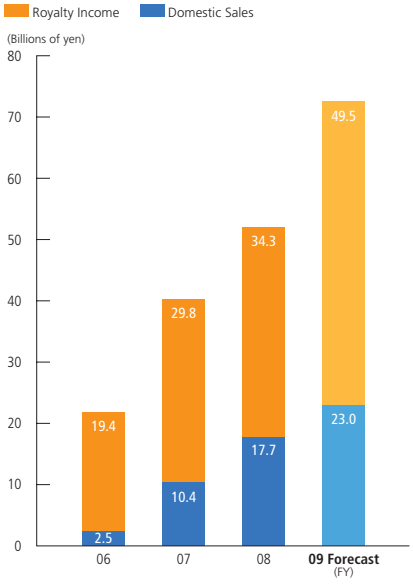
In overseas operations, we have already begun the smooth flight for the combination with Sciele Pharma, and we intend to provide support for expanding Sciele Pharma's operations in the United States during fiscal 2009. Looking at the development network, we will continue focusing our overseas development systems on our U.S. development subsidiary, Shionogi USA, Inc., while expanding capabilities in Europe.

Please explain the most important tasks you must handle in domestic operations to support Shionogi's globalization process going forward.

Aiming to maintain the momentum of our globalization, we consider it very important to realize steady sales growth in the Japanese market, which is our primary revenue base. To strengthen our domestic marketing operations, we have to shift emphasis from acute diseases to chronic diseases, and we have to expand our presence in the hospital market. However, our marketing organization was unable to fully attain these objectives in fiscal 2008, and this was a major factor behind our inability to reach our marketing targets for the year.

To take our place among the pharmaceutical industry's top companies with respect to productivity, the first thing we must do is successfully shift our marketing focus away from acute diseases and toward chronic diseases. Next, because we have been centering our marketing efforts on general practitioners and weakened our presence in the hospital market, we must reinforce our marketing programs focused on hospitals. Further, we must move ahead with efforts to develop stronger demand for our products, particularly new products, by providing appropriate product information. In particular, we must find ways to more proactively use scientific evidence from such long-term studies as JUPITER (Justification for the Use of statins in Primary prevention: an Intervention Trial Evaluating Rosuvastatin) or COSMOS (COronary atherosclerosis Study Measuring effects Of rosuvastatin using intravascular ultrasound in Japanese Subjects) to promote Crestor®. And then, the long-term prescription of Irbetan® has already begun from July 2009, and we seek a full-scale expansion in Irbetan®. In April 2009, we established the Sales Resources Management Department, which is responsible for the strategic training and posting of Medical Representatives (MRs). We want to maximize our human resource productivity by changing our methods for evaluating MRs, as well as placing and training personnel.

Growth in Crestor® Revenues: Domestic Sales and Royalty Income in Fiscal 2009



Could you describe the management vision you have regarding the shape of Shionogi 5 or 10 years from now?

Currently, our royalty income associated with Crestor® is steadily increasing, and we anticipate that it will rise to approximately ¥50 billion in fiscal 2009. We project that the peak level of annual royalty income associated with Crestor® will be even higher, but our patents on the product will be expiring in the period through 2016 and 2017. Accordingly, it is crucial that we develop a principal management base to sustain our growth over the next seven to eight years before the Crestor® patents expire. I will explain our management vision for the future with respect to domestic marketing, R&D, overseas business development, and programs to find the drug discovery seeds that will support Shionogi over the long term.

Looking at marketing, we are bolstering our presence in our emphasized targeted therapeutic areas with particular focus on strategic products and drug candidates that are expected to be launched in the near future. Specifically, we are preparing three products—Crestor®; Irbetan®, which has been available for long-term prescription since July 2009; and duloxetine hydrochloride, which is expected to be approved for the indication of depression during fiscal 2009—to be principal drivers of Shionogi's corporate growth over the medium-to-long term. We are also intent on maximizing the marketing shares of such mainstay products as Finibax® carbapenem antibiotic, Avelox® new quinolone antibiotic, the anti-allergic Claritin®, and the cancer pain analgesic OxyContin®.

With regard to R&D, in addition to making sure we maintain progress in domestic development programs, we believe it is crucial to discover and develop a continual flow of globally competitive drug candidates and then launch the approved drugs in the United States and Europe. We are anticipating the marketing of the anti-obesity drug S-2367 and the anti-HIV drug S-349572 in the period from 2013 to 2014, and we will be emphasizing these global strategic products as we work to expand our sales through Sciele Pharma in the U.S. market.

Of these, the top priorities are placed on S-2367 and another R&D program of neuropeptide Y Y5 receptor antagonists. The results of Phase IIb trials have confirmed that S-2367 is safe and has great potential for therapeutic applications related to obesity and metabolic syndrome. We are expecting S-2367 or its follow-up compounds to become the first-in-class therapeutic drug for obesity. Currently, we are in the process of selecting partners for collaborative overseas development and marketing, and bringing Sciele Pharma into the Shionogi Group has given us systems that enable us to market S-2367 in the important U.S. market ourselves. It has expanded the range of our options.

Besides the previously mentioned S-2367 and S-349572, we are now proceeding with the overseas development of such drug candidates as S-555739, a treatment for allergic diseases, and S-888711, a treatment for thrombocytopenia.

We plan to continue to proactively enter into strategic alliances, such as our cooperative research programs with U.S.-based Purdue Pharma L.P., Hokkaido University, Osaka University, and others as well as our cooperation with OncoTherapy Science, Inc., for our in-licensing of cancer vaccines. By searching for drug discovery seeds and strengthening these alliances, we intend to realize a sustained expansion of our development pipeline.

Major Strides in Fiscal 2008

2008	April	President Motozo Shiono became Chairman and was succeeded as president by Isao Teshirogi, Ph.D.
	May	The Shionogi Innovation Center for Drug Discovery was established (on the campus of Hokkaido University).
	July	Irbetan® 50mg and 100mg tablets were launched.
	October	Sciele Pharma, Inc., was converted into a consolidated subsidiary. Differin® Gel 0.1% was launched.
	November	A new solid formulation manufacturing and packaging facility was completed at the Settsu Plant.
	December	Pirespa® tablets 200mg were launched.
2009	February	A licensing agreement on peptide vaccines for cancer treatment was concluded with OncoTherapy Science, Inc. A preliminary report on Phase IIb clinical trials of velneperit (S-2367) was announced.
	March	Ezose Sciences, Inc., was established. A basic agreement was reached on the establishment of a Medicinal Molecular Imaging Center (tentative name).

In light of the various points I have just explained, it should be clear that if Shionogi launches its in-house developed products over the next 5-to-10 years as planned and expands its overseas sales while concurrently achieving steady growth in domestic sales, then the Company will be able to completely offset the drop in operating income associated with the expiry of Crestor® patents in the period from 2016 through 2017. In this way, I believe we can also get Shionogi on track for growth over the medium-to-long term.

Having acquired Sciele Pharma last year as a means of building marketing capabilities in the U.S. market, what other measures is Shionogi planning to make to expand its overseas presence?

For Shionogi, Sciele Pharma is not just a means of building U.S. marketing systems and fostering the development of human resources able to meet needs associated with globalization; it is also an ideal partner with which Shionogi can share long-term growth plans.

In 2008, we created a new governance system for operations in the United States by establishing Shionogi USA Holdings, Inc. Two business companies—Shionogi USA, Inc., and Sciele Pharma—are under the umbrella of that holding company. Going forward, besides making efficient use of management resources and engaging in consultations to ensure the Shionogi Group's smooth operations, the Group also intends to orchestrate concerted Group efforts to promote a continuous increase in its presence in the U.S. market.

One of the goals of our second medium-term management plan is to develop multiple in-house products simultaneously in Japan, the United States, and Europe. In line with this goal, we will not restrict ourselves to our recent initiatives in the United States. We are planning to move ahead with measures to also build the requisite infrastructure in Europe.

Please explain Shionogi's fundamental Corporate Social Responsibility (CSR) and corporate governance policies.

All our CSR activities are based on Shionogi's purpose—"Shionogi strives constantly to provide medicine of the best possible kind essential for protection of the health of the people." In other words, we want to make the products we supply useful to as many patients and medical practitioners as possible. We think it is important to realize this fundamental policy by giving due consideration to society and the natural environment.

Regarding corporate governance, to ensure that our operational management is flexible and that our management processes are transparent, we have streamlined our Board of Directors and introduced an executive officer system. In addition, from fiscal 2009 we brought outside directors, a corporate manager, and a lawyer who both have considerable experience with and knowledge about international affairs onto the Board. We expect that this move will further strengthen the Board's supervisory capabilities and promote prudent management decisions.

We will pay close attention to trends in society and strive to build operational execution systems that are highly efficient and responsive.

What measures is Shionogi taking regarding compliance systems?

Recently, the media have covered a series of problematic events concerning the operations of certain companies that give cause for reconsidering key corporate compliance issues, as well as the ideal nature of compliance-related systems. We recognize that giving additional consideration to compliance issues is particularly important for us at this time—when Shionogi is striving to accelerate its global business development and ensure that it is on track for sustained corporate growth over the medium-to-long term. Specific measures we have taken include those to establish a Compliance Committee, which is working to ensure rigorous legal compliance and corporate ethics performance throughout the Shionogi Group. In addition, our corporate auditors and Internal Control Unit have augmented their monitoring of management and operational execution processes with the introduction of internal and external compliance issue reporting systems. We are working to expedite the discovery of any problems that may exist and to prevent the recurrence of such problems.

Naturally, we are also emphasizing activities to promote the appropriate use of pharmaceutical products and maintain rigorous quality standards. In fiscal 2008, the Shionogi Group had zero cases of product recalls due to the discovery of patient health issues or product quality issues. In this way, we are fulfilling our social responsibility to offer stable supplies of products, and we have made great efforts to ensure our strict conformance with the Pharmaceutical Affairs Law and other relevant regulations.

Determined to never be complacent about our compliance performance, we intend to further intensify our compliance promotion activities, striving to prevent even apparent cases of noncompliance that turn out to be groundless.

What is Shionogi's stance on shareholder returns, and do you have any closing message for shareholders?

To increase its corporate value in the medium-to-long term, Shionogi is proactively undertaking business investments while aiming to disburse dividends at levels that are commensurate with its business performance, as well as being generally stable and rising over time. Our plans call for measures to realize a 35% consolidated dividend payout ratio in fiscal 2009.

Shionogi is getting on track for global growth. The second medium-term management plan that we are now implementing is designed to ensure that we stay on track for considerable corporate growth and that our current strategies will effectively promote our corporate development over the medium-to-long term, as well as the maximization of our corporate value. We ask that shareholders be frank in sharing their opinions with us and continue to be wholehearted in providing us with support.

Shionogi: Global Pers

Special Feature

Initial Strides of Globalization
Overcoming the Challenges of the U.S. Market

Sciele Pharma, Inc.

Company Overview

- Established in 1992 in the United States
- Nationwide operations, based in Atlanta, Georgia
- Engages in the development and sales of prescription drugs in the cardiovascular and metabolic disease, diabetes, women's health, and pediatrics domains
- Total number of employees: Approximately 1,000 (Of which, sales reps: More than 700)

Management Team

Patrick P. Fourteau
Chief Executive Officer

Edward Schutter
President and Chief Operating Officer

Darrell Borne
Executive Vice President, Chief Financial Officer, Secretary and Treasurer

Joseph J. Ciaffoni
Chief Commercial Officer

Larry M. Dillaha, M.D.
Executive Vice President, Chief Medical Officer

Leslie Zacks
Executive Vice President, Chief Legal and Compliance Officer

pective. Global Reach.

Shionogi's Overseas Operations/Globalization Strategy—Progress of the First and Second Medium-Term Management Plans

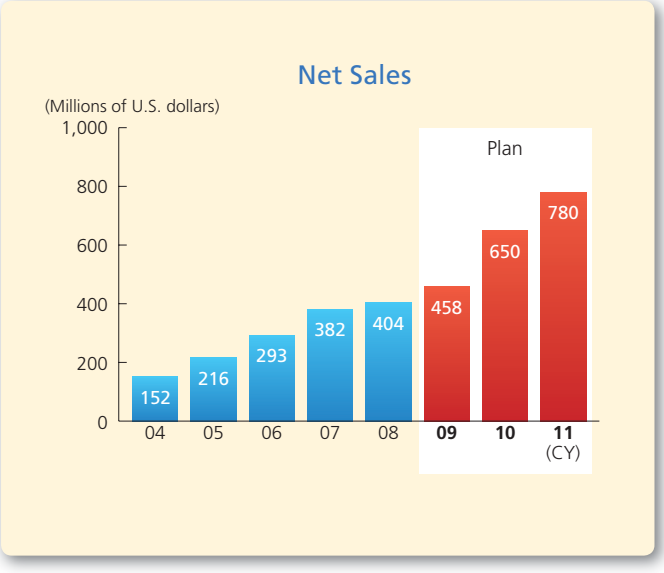
The world's pharmaceutical industry is engaged in intensifying global competition regarding both R&D and marketing operations in which the participants include U.S.- and Europe-based companies. At the same time, the Japanese market is declining due to repeated waves of medical system reforms, which are slowing the market's growth.

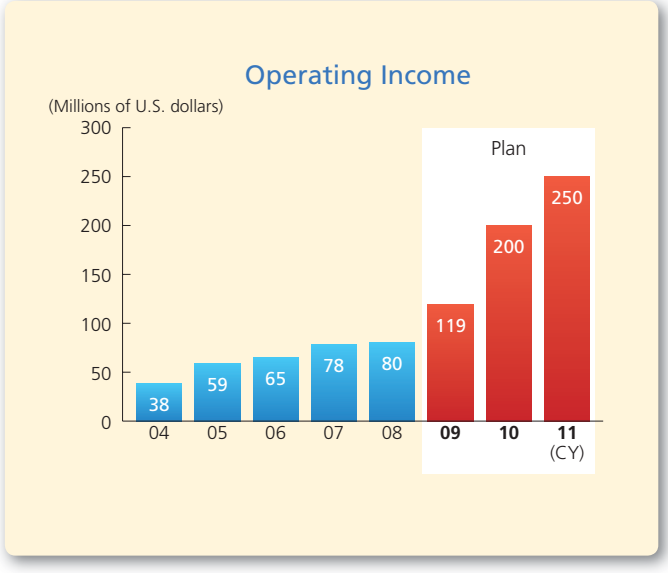
Amid these circumstances, Shionogi is striving to grow as a global pharmaceutical company. Its first medium-term management plan (April 2000 through March 2005) was designed to create a solid foundation of operations in preparation for tightening the Shionogi Group's focus on prescription drug business. Then, to leverage the results of that first plan, Shionogi drafted its second medium-term management plan (April 2005 through March 2010).

The second plan, which Shionogi is now implementing, calls for measures to enable Shionogi to "make significant strides." In line with this plan, the Shionogi Group is emphasizing moves to leverage strengths in three areas, including traditional strengths in infectious diseases along with newly established strengths in pain and metabolic syndrome. At the same time, the plan stipulates that the Shionogi Group strongly emphasizes R&D programs that generate in-house products that meet global standards. Accordingly, the Group has discovered numerous in-house drug candidates and is now moving ahead with domestic and overseas development programs for those candidates.

This progress in R&D operations is broadening the Shionogi Group's global development pipeline and, to market the pipeline products when they are approved, the Group is giving top priority to the establishment of overseas marketing bases, particularly in the United States, which has the world's largest pharmaceutical product market. Based on the results of diverse studies and deliberations, Shionogi decided that U.S. pharmaceutical company Sciele Pharma, Inc. was an optimal partner.

Performance of Sciele Pharma





Shionogi: Global Perspective. Global Reach.

Sciele Pharma Acquisition—Providing a Marketing Base in the United States

In October 2008, Shionogi made a very significant initial stride in its globalization by acquiring Sciele Pharma.

Sciele Pharma has several pipeline products in late-stage clinical development, as well as a proven record of successfully commercializing its new drug products. Sciele Pharma has more than 700 MRs in the United States, where they are engaged in day-to-day product marketing aimed at building strong relationships with medical professionals. In addition, its managed markets team is dedicated to working with managed care customers, pharmacy benefit managers, and government organizations.

The Shionogi Group is currently moving ahead with the creation of global systems able to concurrently develop multiple in-house drug candidates in Japan, the United States, and Europe, and the Group's domestic and overseas pipeline products are advancing smoothly through their development stages. In contrast, although Sciele Pharma is projecting growth based on existing products and its late-stage pipeline for a period of several years, it is not involved in early-stage research and development. In view of the expected timing of the market launch of Shionogi's in-house products, it is clear that the prospective product launch schedules of the two companies are mutually reinforcing in an optimal manner.

In the future, plans call for measures to strengthen Shionogi Group development and marketing systems, primarily through cooperation between Shionogi USA, Inc., and Sciele Pharma, as a means of accelerating the Group's growth.

The Shionogi Group's Growth Going Forward

As a result of the acquisition of Sciele Pharma, Shionogi is now able to draw on Sciele Pharma's strengths regarding the submission of regulatory applications and relationships with institutional customers. Moreover, Shionogi is positioned to shift away from its previous practice of licensing out overseas marketing rights for its in-house products and move toward cooperative marketing arrangements, as well as exclusive marketing schemes. Concerning development programs, Shionogi will be increasing its development activities in the U.S. market and also using both its own and Sciele Pharma's networks to arrange a growing number of in-licensing transactions. With respect to manufacturing operations, plans call for Shionogi and Sciele Pharma to share manufacturing technologies as a means of reducing manufacturing costs throughout the Group. As a result of these strategies and various collaborations, designed to deepen ties between the employees of Shionogi and Sciele Pharma, the Shionogi Group is expected to make considerable progress implementing its strategy of fostering the development of staff capable of managing global business programs.

Major Products

Cardiovascular/Metabolism

- Sular® (Hypertension)

SULAR® (nisoldipine) Extended-Release Tablets 8.5 | 17 | 25.5 | 34 mg
With Geomatrix® Delivery System

- Nitrolingual® Pumpspray (Angina)

Nitrolingual® Pumpspray
(nitroglycerin lingual spray)
0.4 mg nitroglycerin per spray

Diabetes

- Fenoglide™ (Lowering Non-HDL Cholesterol and Triglycerides)

Fenoglide™ 120mg
(fenofibrate) tablets & 40mg

- Prandin® (Type 2 Diabetes)

PRANDIN® repaglinide TABLETS
Available in 0.5 mg, 1 mg, and 2 mg TABLETS

Pediatrics

- Allegra® OS/ODT (Allergies)

allegra® fexofenadine HCl
Oral Suspension, 30 mg/5mL (6 mg/mL)

- Ulesfia™ (Head Lice)

Ulesfia™ (benzyl alcohol) Lotion

Women's Health Products

- Prenate DHA® (Prenatal Vitamin)

Prenate DHA™
Rx prenatal vitamin & DHA

- Prenate Elite® (Prenatal Vitamin)

Prenate Elite®
PRENATAL VITAMINS—FILM-COATED TABLETS

Surging Ahead in Step with Shionogi

Patrick P. Fourteau
CEO, Sciele Pharma, Inc.

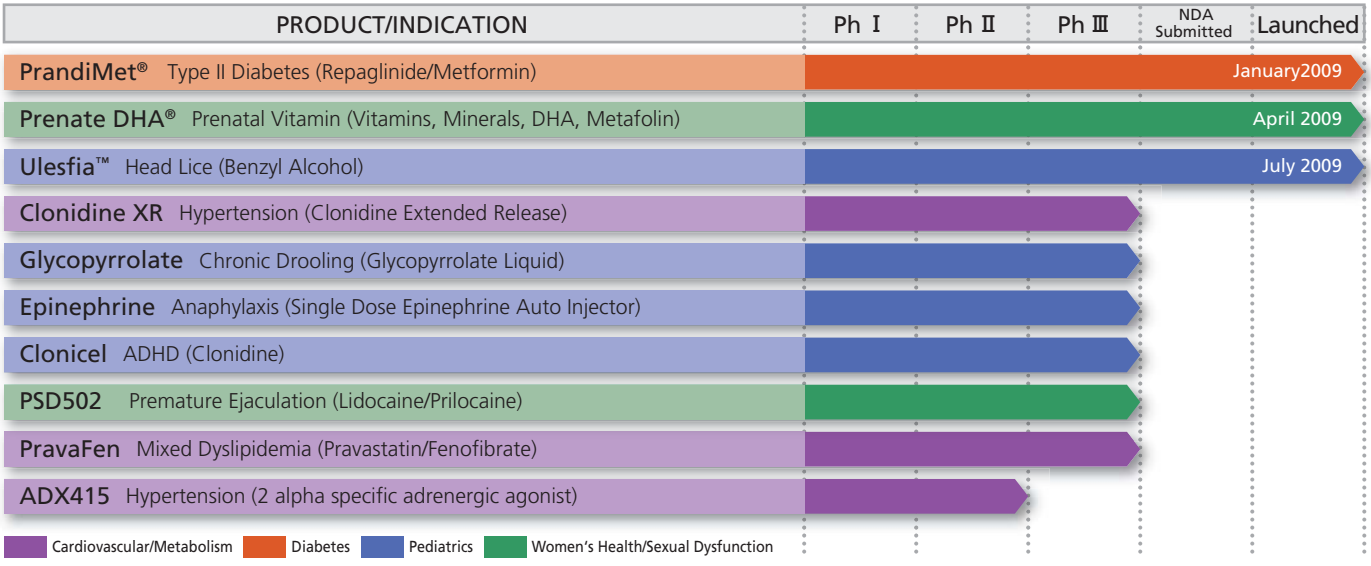
This past year has been an exciting and historic year of change for Sciele Pharma.

All of us are proud to be part of Shionogi, a world-class company with a long, distinguished history. Under the leadership of Dr. Teshirogi, our acquisition by Shionogi has been a very smooth transition. An important element of our successful integration is based on the tremendous respect that the leadership of Sciele Pharma and Shionogi have for each other. This is also true for all of the employees throughout our organizations. Our companies have similar cultures, which first and foremost place a high regard on our employees and customers. We share a common purpose, which is to create a world-leading pharmaceutical company, and to stand out above our competitors.

The outstanding efforts of our employees have enabled Sciele Pharma to achieve another year of excellent results. I am pleased with the performance of our sales force, who has executed well in a very difficult and challenging economic environment. We are enthusiastic about the July launch of our new head lice product, Ulesfia™, which was approved by the FDA in April 2009, and we plan to submit applications to the FDA for the approval of an additional four products this year. We synergistically cooperate with Shionogi, and we will continue to capitalize on opportunities that will generate further growth for the Group.

While we are pleased to be joined with a larger company like Shionogi, we have retained the values that have made Sciele Pharma successful in the past: speed of execution, teamwork, pay-for-performance, and an entrepreneurial spirit. All of us at Sciele Pharma, working together with our colleagues at Shionogi, are truly dedicated to bringing products to market that improve the health and quality of life for patients worldwide in the 21st century. I am very optimistic about our prospects for strong growth and the future contributions that Sciele Pharma will provide to Shionogi.

Sciele Pharma's Pipeline (As of August 2009)



Shionogi's Business Activities

Pharmaceutical Research

In its drug discovery research, Shionogi is seeking to realize high-productivity and continuously generate new drugs that meet global standards by means including the application of industry-leading advanced technologies and proactive arrangement of alliances.

Performance in Implementing the Second Medium-Term Management Plan

The Pharmaceutical Research Division moved ahead with respect to second medium-term management plan targets, including the following.

- Augmenting Shionogi's array of drugs for treating contagious diseases and positioning drugs for treating pain and metabolic syndrome as new strategic drug discovery domains
- Producing at least five drug candidates that can attain Phase II or higher level trials by fiscal 2009
- Proactively leveraging outside resources to increase the efficiency and success rate of research programs

As a result, the division succeeded in sustaining an output of four new drug development candidates in each of the past four years and made smooth progress in forming a pipeline of in-house discovered drug development candidates in Shionogi's three strategically emphasized domains. The division has already met the goal of producing at least five drug candidates that can attain Phase II or higher level trials by fiscal 2009, and it has numerous drug candidates with the potential for reaching Phase II trials before the end of fiscal 2009. Particularly in fiscal 2008, the division brought an agent for atopic dermatitis and two other products to the first trial in human (FTIH) stage, and four new drug candidates were discovered—including one for treating severe infections, one for treating HIV infections, one for treating metabolic syndrome, and one for treating diabetes. The division's ability to create such a rich group of drug candidates in a short period of time reflects its ability to perspicaciously anticipate unmet therapeutic needs of the future, tighten the focus of its principal research programs on strategically emphasized disease domains, and undertake thorough progress management of drug discovery processes. They also stem from the division's efforts to promote global cooperative research programs and otherwise proactively make use of outside resources.

Finding Drug Discovery Seeds

Exploratory research aimed at finding outstanding drug discovery seeds is an indispensible requirement for sustaining future growth. Regarding this kind of exploratory research, also, Shionogi is actively engaged in cooperative research programs with outside research institutions. In May 2008, the Company opened its own research facility on the campus of Hokkaido University, called the Shionogi Innovation Center for Drug Discovery—with the goals of drawing on Hokkaido University's outstanding drug discovery technology base, finding still-greater drug discovery seeds, further strengthening its technological resources, boosting research efficiency, and raising the success rate. We are also moving ahead with efforts related to the FINDS (PHarma-INnovation Discovery competition Shionogi) program, which is a new mode of industry-academic research institution cooperation. FINDS calls for Shionogi to make public announcements of its needs to research institutions in Japan, encourage those institutions to supply the seeds of innovative drugs that match those needs, and then working to commercially develop the ensuing seeds. In fiscal

2008, we ultimately selected five seeds from the many submissions and were able to start full-scale cooperative research programs for those seeds. Going forward, we intend to continue and strengthen these kinds of initiatives as we do our utmost to discover promising drug discovery seeds.

Fostering the Development of Globally Active Researchers

Shionogi believes that world-class researchers are the key to creating epochal new drugs, and its Pharmaceutical Research Division is therefore engaged in multidirectional personnel exchanges with the research units of its various overseas partners in collaborative research programs.

Aiming to foster the development of human resources able to lead cooperative drug development programs overseas, Shionogi began its Global Research Leader Training program. In fiscal 2009, the Company expects to see concrete results emerging from this training program, and plans call for continuing to emphasize the development of research personnel with broad, long-term perspectives and globally acknowledged qualifications.

Successfully Realizing Drug Discovery Dreams

In fiscal 2009, which is the final year of the second medium-term management plan, Shionogi is emphasizing efforts to bring two or more drug candidates to the FTIH stage and select four or more compounds worthy of being designated drug development candidates.

Aiming to create high-quality development candidates with a high likelihood of being marketable, Shionogi is building world-class drug discovery technologies able to support a high rate of success regarding proof of concept (PoC) demonstrations. Among the measures the Company is taking to realize this objective are plans to establish the Medicinal Molecular Imaging Center (tentative name) in cooperation with Osaka University in spring 2010. This center will employ molecular imaging technology able to capture in vivo images at the molecular level as it undertakes research programs ranging from nonclinical programs to bridging programs between non-clinical and clinical studies. In addition, in March 2009, Shionogi established a subsidiary, Ezose Sciences, Inc., that will develop business involving the commissioned application of serum glycan analysis technologies and discovery of novel biomarkers with the potential for enabling highly precise analyses of disease situations.

In addition, in fiscal 2011, plans call for opening a new research building that allows for the integration of currently scattered facilities along with an additional rise in the coordination of the work of researchers in those facilities. This move is expected to further strengthen Shionogi's drug discovery capabilities and create a steady stream of in-house developed, world-class drugs.

Pharmaceutical Development

To respond to the increasingly diverse needs of medical therapy facilities and contribute to effective treatment for patients worldwide, Shionogi is seeking to accelerate its development programs and increase their success rate.

Progress of the Second Medium-Term Management Plan

Shionogi launched three new drugs in Japan during fiscal 2008, including an antihypertensive agent, long-acting angiotensin II receptor antagonist, Irbetan®, in July 2008; the first topical preparation for acne vulgaris approved for manufacturing and marketing in Japan, Differin®, in October 2008; and an idiopathic pulmonary fibrosis treatment, Pirespa®, in December 2008.

As a result, the Company has succeeded in launching 9 new products during the past four years, and it has made great progress toward its medium-term management plan target of launching 10 new products in Japan during a five-year period.

Global Development Programs

In general, Shionogi's domestic and overseas clinical trial projects are smoothly advancing to new stages. An integrase inhibitor anti-HIV agent being developed by Shionogi-GlaxoSmithKline Pharmaceuticals LLC, S-349572, has moved up to the proof-of-concept (PoC) stage. Shionogi USA conducted year-long Phase IIb clinical trials of a neuropeptide Y Y5 receptor antagonist for treatment of obesity, S-2367, and found that the 800mg doses of the drug candidate attained the FDA's draft guidance standards. In view of this, the potential of S-2367 for treating obesity has been confirmed.

* For information on drug candidates in each region, please see the chart on page 18.

Measures to Accelerate the Generation of New Drugs

Amid the recent trend of decline in drug candidate commercialization rates, it is clear that candidate compounds that have reached the PoC stage must be developed with due attention to the maximization of product value from an early point based on a life-cycle-management perspective. Accordingly, the Pharmaceutical Development Division has established two new functions—the Medical Science Department and the Marketing Department—and is moving forward with measures to leverage analyses undertaken from the perspective of medical science and to increase emphasis on life-cycle-management strategies.

Shionogi's development plan for fiscal 2009 calls for submitting an application for the approval of a neuraminidase inhibitor anti-influenza agent, S-021812, that has been the subject of Asian multinational Phase III trials; expanding the applications of duloxetine hydrochloride for the indication of diabetic neuropathic pain, as a life-cycle-management measure; and submitting an application for Finibax® carbapenem antibiotic for the indication of treating severe and intractable infectious diseases.

Moreover, in February 2009, Shionogi entered into a licensing agreement that gives it globally exclusive rights to peptide vaccines for cancer treatment, and the Company has begun developing those vaccines. Going forward, Shionogi plans to continue proactive in-licensing/out-licensing activities as it strives to strengthen its development pipeline and ensure its future growth.

Advancing from the Accelerating Stage to the Significant Strides Stage

Currently, Shionogi is drafting its third medium-term management plan. This plan will call for achieving steady progress during the period from 2012 through 2014 in arranging the submission and approval of applications for global development drug candidates as well as the marketing of the resulting drugs. Both in Japan and overseas, the Group will create systems able to provide markets with steady supplies of products.

By means of proactive research activities, the Pharmaceutical Development Division has acquired capabilities for steadily moving distinctive in-house drug candidates ahead to more-advanced clinical study stages. To this end, it has fostered capabilities for perspicaciously evaluating compounds at early development stages, focusing and concentrating limited resources on selected projects, and increasing development efficiency. Moreover, it is evolving a culture that encourages drawing on the most advanced scientific technologies to boldly address challenging tasks that require innovative new approaches. By effectively leveraging these approaches, the division intends to play a key role in impelling Shionogi ahead from the stage of "accelerating toward significant strides" to the "brink of significant strides" and "significant strides" stages.

Shionogi USA: Building on Recent Successes

Sapan A. Shah, Ph.D.
CEO, Shionogi USA, Inc.

For Shionogi USA, fiscal 2008 represented a turning point in our goal to establish a truly global product development engine for Shionogi & Co., Ltd. Most notably, we completed the largest clinical study conducted independently by Shionogi outside of Japan—a Phase IIb study of S-2367 (velneperit) for obesity. The results not only demonstrate the potential for NPY5 receptor antagonism as a target for obesity treatment, but confirm that Shionogi is capable of executing global clinical studies for product candidates originating from our own pipeline. In addition, Shionogi USA supported the achievement of a successful Phase IIa proof-of-concept result for our HIV integrase inhibitor candidate, S-349572, which is being developed in collaboration with GlaxoSmithKline.

This fiscal year, S-2367 and S-349572 are slated to enter later-stage clinical trials, and Shionogi USA is progressing multiple new product candidates into clinical trials. Active clinical programs within Shionogi USA include S-888711 (TPO mimetic for thrombocytopenia), which will hit key U.S. milestones in fiscal 2009. To meet needs related to increasingly important global clinical trials, Shionogi USA expanded its teams of clinical development, medical, project management, and regulatory personnel.

Also in fiscal 2009, the portfolio of clinical stage candidates originated by our research group in Osaka will progressively expand, and the capable team at Shionogi USA is ready to aggressively support our corporate goal of launching new medicines globally.

Overview of Particularly Important Drug Candidates

LY248686 (Duloxetine hydrochloride)
(Serotonin & noradrenaline reuptake inhibitor) for depression)
Application for duloxetine hydrochloride for treatment of depression in Japan was submitted in January 2008, and it is hoped that approval will be received during fiscal 2009. Besides enabling remission/alleviation of depression based on a single daily administration, duloxetine hydrochloride also improves body condition regarding aches and pains, etc. Duloxetine hydrochloride has already been approved in more than 90 countries, and Shionogi expects it to become a significant growth-driver product.

S-2367 (Velneperit) (Neuropeptide Y Y5 receptor antagonist for treatment of obesity)
Having completed U.S. Phase IIb clinical trials, the 800mg dosage group has demonstrated compliance with FDA draft guidance standards as well as a high level of safety. Plans call for discussions with the FDA concerning the possibility of trials in conjunction with other obesity treatment agents as well as for the start of development in Japan.

S349572 (Integrase inhibitor for treatment of HIV)
With strongly active inhibition of HIV replication and an excellent resistance profile, this drug candidate reaches therapeutic blood concentrations with one daily dosage administration and has a low likelihood of causing drug interactions. Phase IIb trials will soon begin.

S-021812 (Peramivir) (Anti-influenza agent, Neuraminidase inhibitor)
In addition to human type-A and type-B influenza viruses, this drug candidate has demonstrated strongly active antiviral efficacy toward highly pathogenic avian influenza (H5N1) viruses. It is expected to meet the needs of a broad range of patients, including ordinary patients as well as those with such high risk factors as asthma and diabetes.

S-888711 (Thrombocytopenia agent, TPO mimetic)
Having completed Japanese Phase I clinical trials, this drug candidate is currently undergoing U.S. Phase I trials. Once-daily administration elicits a rapid rise in blood platelet counts. This candidate is appropriate for diverse diseases accompanied by thrombocytopenia, and plans call for moving ahead to Phase IIa trials (global) during fiscal 2009.

Cancer Vaccines (Therapeutic peptide vaccines)
These drug candidates are peptides from proteins selectively over-expressed in cancer cells. Cytotoxic T lymphocyte (CTL) induction was confirmed in physician-guided translational research focused on bladder and esophageal cancers, and some patients demonstrated a response to the vaccines. Plans call for initiating Japanese Phase Ib trials during fiscal 2009.

Product Pipeline

		Code No. (Generic Name)	Stage						
			Ph Ⅰ	Ph Ⅱa	Ph Ⅱb	Ph Ⅲ	NDA Submitted	Launched	
Three Targeted R&D Areas	Infection Disease	S-4661 (Doripenem hydrate)						Sept. 2005	
			USA	Complicated intra-abdominal infections, Complicated urinary tract infections, including pyelonephritis				Oct. 2007	
			USA	Hospital-acquired (nosocomial) pneumonia, including ventilator-associated pneumonia				June 2007	
			EU					July 2008	
		BAY12-8039 (Moxifloxacin hydrochloride)						Dec. 2005	
		S-021812 (Peramivir)				Asian multi-national study (Phase III)	NDA filing in preparation		
		S-013420 (Modithromycin)							
		S-349572/S-265744/S-247303	USA						
			EU						
	Pain	S-8116 (Oxycodone hydrochloride)						Feb. 2007	
		LY248686 (Duloxetine hydrochloride)					NDA filing in preparation		
		S-811717 (Oxycodone hydrochloride)							
		S-297995							
	Metabolic Syndrome	S-4522 (Rosuvastatin)						Apr. 2005	
		SR47436 (Irbesartan)						July 2008	
		S-2367 (Velneperit)	USA						
			Japan						
		S-3013 (Varespladib methyl)	USA						
			EU						
Frontier Areas	Allergies	SCH29851 (Loratadine)						Jan. 2008	
		S-555739	Japan						
			EU						
		S-444823							
	Others	NS75A (Cetrorelix acetate)						Sept. 2006	
		CD-271 (Adapalene gel)						Oct. 2008	
		S-7701 (Pirfenidone)						Dec. 2008	
		LY248686 (Duloxetine hydrochloride)					Jan. 2008		
		NS75B (Cetrorelix pamoate)							
		S-0139	Japan						
			EU						
		S-0373							
		S-888711	Japan						
			USA						
		S-222611	EU						

●In-house product
▲Out-licensed product
■In-licensed product

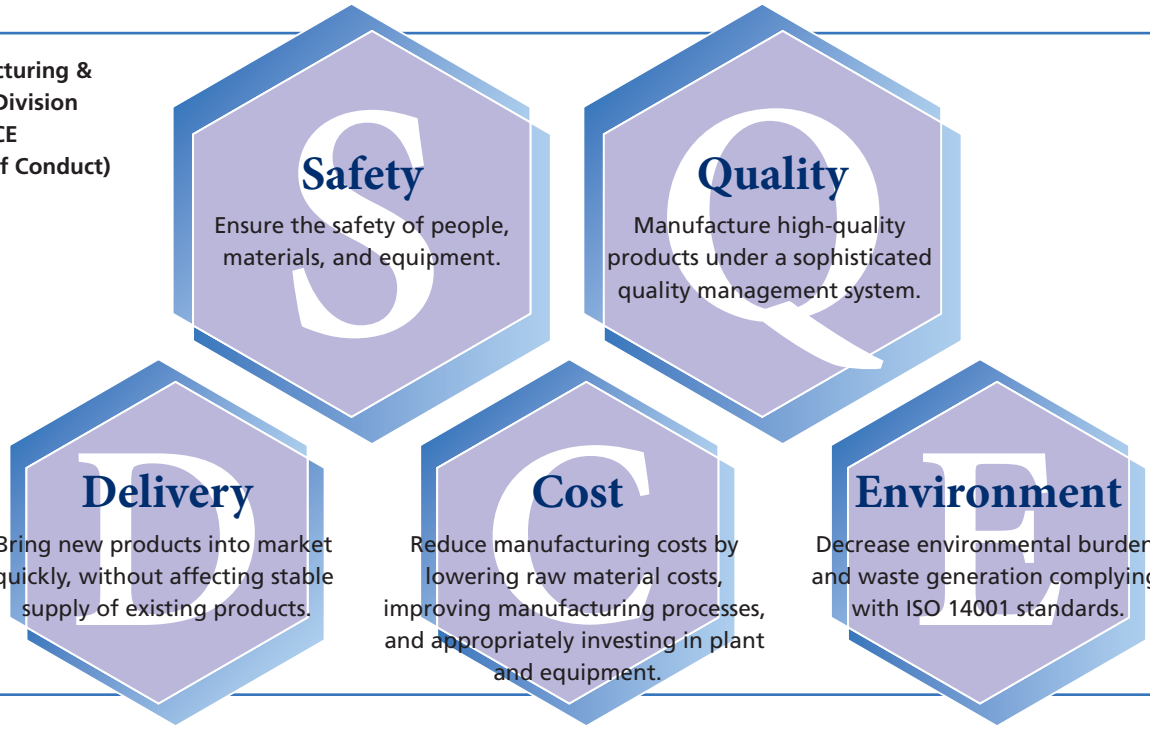
(as of August 2009)

Category (Administration)	Indication	Origin [Licensee]	Development Area	Product Name
Carbapenem antibiotic (Injection)	Bacterial infection	●In-house	Japan	Finibax®
	Pediatric infection	●In-house	Japan	
	Addition of new dosage regimen (1g t.i.d. for serious infection)	●In-house	Japan	
	Bacterial infection	▲In-house [Johnson & Johnson]	USA / Europe	
New quinolone antibiotic (Oral)	Bacterial infection	■Bayer Yakuhin (Japan)	Japan	Avelox®
Neuraminidase inhibitor (Injection)	Influenza infection	■BioCryst Pharmaceuticals, Inc. (USA)	Asia	
Novel macrolide antibiotic (Oral)	Bacterial infection	■Enanta Pharmaceuticals, Inc. (USA)	Japan	
Integrase inhibitor (Oral)	HIV infection	●Shionogi-GlaxoSmithKline	In-house product being developed globally	
Immediate-release oxycodone (Oral)	Cancer pain	■Mundipharma AG (Netherlands)	Japan	OxiNorm™
SNRI (serotonin & noradrenaline reuptake inhibitor) (Oral)	Diabetic peripheral neuropathic pain	■Eli Lilly and Company (USA)	Japan	
Natural opium alkaloids (Injection)	For the treatment of moderate to severe pain in patients with cancer pain	■Napp Pharmaceutical Limited (UK)	Japan	
Periferal opioid receptor antagonist (Oral)	Alleviation of opioid-induced adverse effect	●In-house	In-house product being developed globally	
HMG CoA reductase inhibitor (Oral)	Hyperlipidemia	▲In-house [AstraZeneca]	Japan	Crestor®
Angiotensin II receptor antagonist (Oral)	Hypertension	■Sanofi SA (France)	Japan	Irbetan®
Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity	●In-house	In-house product being developed globally	
Secretory PLA2 (sPLA2) inhibitor (Oral)	Acute coronary syndromes Mixed dyslipidemia	▲Shionogi & Eli Lilly and Company (USA) [Anthera Pharmaceutical, Inc.]	USA/Europe	
Histamine H1 receptor antagonist (Oral)	Allergic rhinitis and itch caused by various dermatitis	■Schering-Plough Corp. (USA)	Japan	Claritin® Dry Syrup
Prostaglandin D2 receptor antagonist (Oral)	Allergic disease	●In-house	In-house product being developed globally	
Cannabinoid receptor agonist (Topical)	Atopic dermatitis	●In-house	In-house product being developed globally	
Gonadotropin releasing hormone antagonist (SC)	Premature ovulation inhibitor	■Zentaris AG (Germany)	Japan	Cetrotide®
Retinoic acid nuclear receptor agonist (Topical)	Acne vulgaris	■Galderma (France)	Japan	Differin® Gel
Anti-fibrosis (Oral)	Idiopathic interstitial pulmonary fibrosis	■Marnac, Inc. (USA) ■KDL (Japan)	Japan	Pirespa®
SNRI (serotonin & noradrenaline reuptake inhibitor) (Oral)	Depression	■Eli Lilly and Company (USA)	Japan	
Gonadotropin releasing hormone antagonist (Injection)	Benign prostatic hypertrophy	■Æterna Zentaris GmbH (Canada)	Japan	
Endothelin A receptor antagonist (Injection)	Cerebrovascular diseases	●In-house	Japan/Europe	
Non-peptide mimetic of TRH (Oral)	Spinocerebellar ataxia	▲In-house [Kissei Pharmaceutical Co., Ltd.]	Japan	
Small molecule TPO mimetic (Oral)	Thrombocytopenia	●In-house	In-house product being developed globally	
Her2/EGFR dual inhibitor (Oral)	Malignant tumors	●In-house	In-house product being developed globally	

Manufacturing

Shionogi has developed manufacturing systems and facilities to meet global standards and is steadily expanding overseas business.

The Manufacturing & Technology Division Motto: SQDCE (Standards of Conduct)



Under the Company Policy of Shionogi, the Manufacturing & Technology Division has carried out the following three missions based on the SQDCE motto:

1 To manufacture high-quality medicines at an appropriate cost and provide their stable supply.

2 To contribute to the quick launches of new products by developing them considering their post-marketing stages at their early development stages.

3 To effectively apply product life cycle management (PLCM) methods, which are upgraded by developing and adding new high-value-added formulations.

Manufacturing Technologies to Support Overseas Business

To fulfill these missions, Shionogi has been enhancing its manufacturing technologies through commercial manufacturing and CMC (chemistry, manufacturing, and controls) activities. Its global manufacturing systems have been built on enhanced technologies. To make this objective clear, the Company renamed the current division from its Manufacturing Division to the Manufacturing & Technology Division in April 2009. In addition, the functions of the CMC Development Laboratories and Industrial Technology Laboratories were consolidated into the CMC Research Laboratories.

By these changes, we intend to strengthen the division's responsibility for a broad range of CMC research covering all stages from initial development to post-marketing and enable the division to act on emerging issues more flexibly and quickly.

Shionogi also proactively provides technical support to Sciele Pharma, Inc.—a new Shionogi Group company based in the United States—for PLCM of existing products and new product development.

This helps Shionogi strengthen its global CMC capability and bolster human resource development.

Attaining Second Medium-Term Management Plan

Aiming to respond to new product demands on the market and increase its productivity, Shionogi has been proactively implementing investments in plant and equipment.

In fiscal 2009—the final year of its second medium-term management plan—the Company intends to leverage facilities built by the investment made so far to achieve further progress in increasing quality and decreasing manufacturing cost.

Shionogi also makes its continuous efforts to execute well-planned infrastructure

development essential for corporate growth in the next medium-term management plan and beyond.

●**Kanegasaki Plant:** The Kanegasaki Plant achieved considerable results and progress as a supply base for narcotics as well as antibiotics that inspire confidence overseas as well as in Japan. Regarding antibiotics production, Shionogi responds to the global marketing demands of the carbapenem antibiotic Doribax® (marketed as Finibax® in Japan) by obtaining approval from the U.S. and the EU authorities for the production of the aseptic drug substance using a new facility with four times greater manufacturing capacity than the existing facility. Concerning narcotics for cancer pain, to increase productivity to meet growing demand for OxiNorm®, an immediate release formulation of OxyContin®, the Company has expanded and strengthened its production capabilities in the solid formulation facility. In addition, to improve patients' compliance, Shionogi proactively addresses improvement of packaging and an increase in the kind of dosages.

●**Settsu Plant:** In response to needs associated with the production of Pirespa®, which were launched in December 2008, and needs associated with the import custom clearance and visual inspection of Differin® Gel, the Settsu Plant has taken measures to quickly supply these products to the market and thereby has contributed to smooth sales growth of these products. In November 2008, the Company built a new solid formulation packaging facility in which Shionogi's formulation and packaging technology and manufacturing know-how accumulated over many years are incorporated.

This facility allows to complete entire manufacturing ranging from clinical trial samples to commercial products in a single building, which gives a considerable contribution to increase the quality of clinical trial samples and the quick commercial launch of new products. Moreover, the equipment in the facility and quality assurance systems, which meet global standards, make it possible for Shionogi to supply products for Japanese and overseas markets. The manufacture of new products, such as duloxetine hydrochloride, an antidepressant for which the NDA was filed, will commence in the near future.

This facility is also a major base for integrated contract manufacturing services by Shionogi, so, the Company is considering maximizing the utilization of this facility not only for its own products but for the products of other companies.

Solid formulation manufacturing and packaging facility at the Settsu Plant

●**Kuise Site:** The Kuise Site operates as a base for chemistry, manufacturing, and controls (CMC) technology research, which currently develops bulk drug substance manufacturing processes, formulation processes, and quality testing methods for many drug candidate compounds. It also quickly supplies products for clinical trials.

In particular, with respect to formulation and packaging technologies, the site has developed various technologies—such as those for relatively small-sized tablets, the precise printing of information on specific locations of the foil sheet components of press-through packages (PTPs*), and for a new protective bottle filler for tablets—that have already been applied to new products. The site continues to contribute to global-level manufacturing and maximizing product values.

*PTPs: Press-through packages (PTPs) hold drug tablets in individual pockets that can be pressed with a finger to push the tablet through the backing.

Major Products

Shionogi strives constantly to provide medical professionals and patients with medicine of the best possible kind essential for protection of the health of the people.

Prescription Drugs

● Crestor® Tablet Hyperlipidemia Treatment *(Rosuvastatin Calcium)*
Launched April 2005

The clinical effectiveness of Crestor® for preventing atherosclerotic diseases has been confirmed by many large-scale clinical studies in Japan and overseas, such as JUPITER and COSMOS.

As a statin with an outstanding serum lipid improving effect and accumulated evidence of efficacy and safety for patients, Crestor® has earned a high evaluation among medical professionals.

Crestor® is particularly attractive due to the current evidence about the relationship between the regression of atherosclerosis and the ratio of LDL cholesterol to HDL cholesterol, "bad cholesterol/good cholesterol," and is expected to drive the statin therapy forward.

● Finibax® Carbapenem Antibiotic *(Doripenem Hydrate)*
Launched September 2005

Finibax® is a carbapenem antibacterial agent for infusion with a broad spectrum of superior antibacterial activity against various bacteria. Antibacterial activity especially against *Pseudomonas aeruginosa* is the most potent among carbapenem antibacterial agents, and it was revealed recently that Finibax® had an inhibitory action on the formation of carbapenem resistance in *Pseudomonas aeruginosa*. Finibax® is being recognized as a highly useful drug for the treatment of serious infections.

● Differin® Gel Acne Vulgaris Treatment *(Adapalene)*
Launched October 2008

Differin® Gel 0.1% has been approved and launched in more than 80 countries around the world, and it is the first topical retinoid preparation to be approved for the application of treating acne vulgaris in Japan. Marketed (in Japan) since October 2008, it is being promoted by Shionogi in cooperation with Galderma KK. A fundamental element of acne vulgaris therapy, Differin® Gel is expected to improve acne patients' quality of life and satisfaction with the efficacy of their treatment. Shionogi is providing medical information to promote its appropriate use, mainly by dermatologists.

● Irbetan® Tablet Antihypertensive *(Irbesartan)*
Launched July 2008

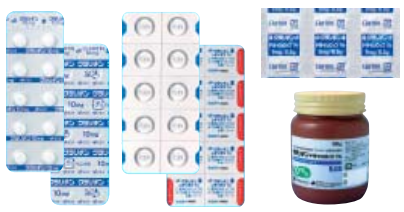
A long-acting angiotensin II receptor blocker with a superior antihypertensive effect, Irbetan® is promoted with materials centered on the phrase "powerful and long-acting for protection." Large-scale clinical trials overseas have confirmed the beneficial renoprotective effect of Irbetan®, which is marketed in 88 countries. Besides providing information on Irbetan®, Shionogi is promoting greater awareness of the need to diagnose and treat chronic kidney disease (CKD) through a campaign centered on the phrase "Beat the CKD."

● Pirespa® Tablet Idiopathic Pulmonary Fibrosis Treatment *(Pirfenidone)*
Launched December 2008

Offering the effect of inhibiting pulmonary fibrosis, Pirespa® has demonstrated efficacy in the treatment of idiopathic pulmonary fibrosis, and, in December 2008, Shionogi became the first company in the world to obtain manufacturing and marketing approval of the drug for that indication. Giving top priority to ensuring patient safety, Shionogi is now marketing Pirespa® while conducting post-marketing surveillance on all the patients taking the drug.

● Claritin® Tablet, RediTabs®, Dry Syrup Allergy Treatment *(Loratadine)*
Launched September 2002

A non-sedative antihistamine drug that is effective when taken once daily but does not cause drowsiness or affect mental concentration or learning ability, Claritin® has been confirmed to have outstanding efficacy and safety. Having already launched Claritin® 10mg tablets in September 2002 and Claritin® RediTabs® 10mg tablets in November 2004, Shionogi further expanded the Claritin® lineup with the January 2008 launch of Claritin® Dry Syrup 1%, thereby creating Japan's first line of antihistamines to include three different formulation types. By expanding the number of formulation alternatives, this initiative was designed to enable the Claritin® family to meet the needs of a still-broader range of age-groups.



- **OxyContin® Cancer Pain Analgesic OxyContin® Tablets (Oxycodone Hydrochloride Hydrate)**
  Launched July 2003
- **OxiNorm® Powder 0.5% (Oxycodone Hydrochloride Hydrate)**
  Launched February 2007

The World Health Organization and other authorities recommend treating cancer-related pain with oral drugs that include immediate-release and extended-release formulations of the same active ingredient, with the same administration route. Shionogi strongly agrees with this recommendation, as is reflected in the Company's product line—Shionogi's cancer-related pain treatment products include extended-release OxyContin® Tablets and immediate-release OxiNorm® Powder 0.5%. Shionogi does its utmost to appropriately promote these products in a manner that enables patients to be liberated from pain so they can live their lives calmly and peacefully.

OTC Drugs

Amid the steady increase of demographic graying in Japan, progress is being made in efforts to promote the greater awareness of the benefits of self-medication. Shionogi is working to expand its healthcare business by providing the products customers need.

- **Sedes® Analgesic Antipyretics**

The four items in Shionogi's Sedes® line of analgesic antipyretics allow users to choose the most appropriate product for a given situation. In spring 2009, the Company renovated the packaging design for these products. These include New Sedes®, designed for household use in treating minor fevers and headaches; Sedes®–Hi, which is effective for treating painful headaches and toothaches that demand urgent relief measures; Sedes® V, which relieves the pain of stiff shoulders and related headaches; and Sedes® Cure, an effective means of countering menstrual pains and sore throats.

- **Popon® Vitamin Compounds**

Popon® S is a well-balanced comprehensive vitamin supplement that provides elements that people with modern lifestyles tend to lack, including eight vitamins as well as calcium and magnesium. Many people take it daily as a means of establishing a strong foundation for good health. The Popon® line also includes Popon® C White, which contains vitamin C with L–cysteine to help moderate blemishes and freckles, and Shionogi is preparing for the September 2009 launch of Popon® B Fresh, a new vitamin B_1-centered product designed to help relieve muscular fatigue.

Diagnostics

Shionogi aims to contribute to better human health by providing a broad range of products for therapeutic as well as diagnostic applications. In the cardiovascular/metabolism domain, Shionogi supplements such therapeutic products as Crestor® and Irbetan® with reagent products used to measure blood levels of brain natriuretic peptide (BNP). Similarly, in the immune system/allergy domain, Shionogi complements such therapeutic products as Claritin® and Rinderon® with reagent products used to measure histamine and thymus and activation-regulated chemokine (TARC).

- **Allerport® TARC Th2 Chemokine/TARC Kit**
  Launched February 2008

Allerport® TARC is used to measure serum levels of TARC, which rise in step with atopic dermatitis symptoms. Thus, this diagnostic product enables the evaluation of the severity of atopic dermatitis symptoms.

- **MI02 Shionogi BNP (Human BNP Kit) and MI02 Shionogi BNP Immunoluminescence Measurement Unit**
  Launched December 2004

- **Shionospot® BNP (Human BNP Kit) and Shionospot® Reader Portable Immunoluminescence Analysis Unit**
  Launched September 2006

Because blood levels of BNP will rise when heart functions are even lightly impaired, they are a useful indicator for reference when diagnosing and assessing cardiac insufficiency. Recent therapeutic guidelines cite testing of BNP blood levels as a useful means of screening people with hypertension for signs of cardiac insufficiency. MI02 Shionogi BNP and Shionospot® BNP are reagents used to measure the BNP level, while MI02 and Shionospot® Reader are electronic units that use those reagents to perform actual measurements.

Corporate Governance

In line with the Company Policy of Shionogi, we recognize that it is our social mission to continually discover, develop, and provide highly effective and safe medicines. Shionogi is also aware that sustaining its implementation of this social mission will increase corporate value. Accordingly, it gives top priority to carrying out sound and transparent management through the corporate governance system it has established.

Corporate Governance System

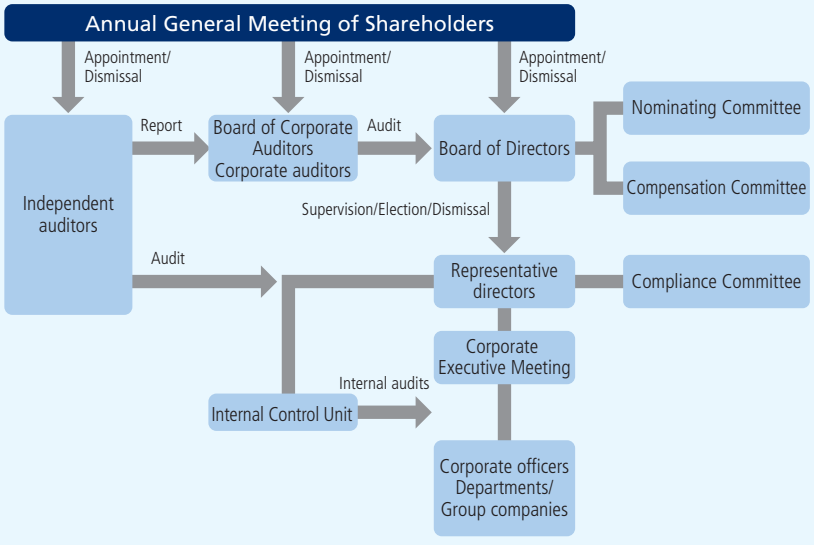
Shionogi has adopted a "company with corporate auditors" corporate governance system that includes a board of directors, a board of corporate auditors, and independent accounting auditors.

At the June 2009 General Meeting of Shareholders, two outside directors were elected to the Board of Directors to promote highly fair management from an outside perspective, thereby further strengthening the directors' capabilities for supervising operation and supporting an additional rise in the level of management transparency. The Board of Directors is composed of six directors, including the two outside directors. It meets once a month, in principle, to make decisions on important matters affecting management. To facilitate rapid responses to changes in the operating environment and clarify management responsibilities, the directors' term in office has been set at one year. Moreover, the Company has introduced a corporate officer system to build a flexible operational execution structure able to rapidly respond to changes in the operating environment. The Corporate Executive Meeting is a unit created to conduct deliberations regarding operational execution issues. It is composed of the directors and managers responsible for operation, and, in principle, it meets every week.

In addition, to further increase management transparency, the Board of Directors decided in August 2009 to establish a nomination advisory committee and a compensation advisory committee. Composed mainly of outside directors, these committees are advisory bodies with the task of conducting deliberations concerning directors and corporate officer-related personnel matters and remuneration matters.

The Company has two standing corporate auditors and two outside corporate auditors. The corporate auditors attend meetings of the Board of Directors, Corporate Executive Meetings, and other important meetings, offering opinions when necessary. In addition, by conducting operational and accounting audits in accordance with corporate auditing standards, they check and evaluate the legality and propriety of operations executed by directors and corporate officers and thereby work to ensure management transparency. While implementing audits and providing advice and suggestions, the corporate auditors work to coordinate their activities with the Internal Control Unit, an internal auditing department. In addition, by regularly exchanging opinions with the representative directors, the corporate auditors endeavor to increase the effectiveness of audits.

Corporate Governance Structure (As of August 2009)



Strengthening the Internal Control System

In accordance with the Basic Policy for Building an Internal Control System approved by the Board of Directors based on the Companies Act, Shionogi has worked to establish internal control systems throughout the Shionogi Group. The Board of Directors annually evaluates the state of internal control systems and the progress in implementing the basic policy based on consideration of the operational situation during the previous year and continually works to strengthen and augment the internal control systems.

Sincere efforts to ensure the reliability of financial statements are necessary for maintaining management transparency and integrity. To comply with the J-SOX internal control report system under the Financial Instruments and Exchange Act, Shionogi has worked to optimize its IT environment and is moving ahead with measures to build and improve internal controls over financial reporting. As part of these efforts, the president of Shionogi has sent a message to all Group employees regarding the need to emphasize the reliability of financial reporting, and the Company is working to promote greater and broader-spread awareness of this issue.

Risk Management

Each of the Company's organizational units recognizes the intrinsic risk factors associated with its activities, determines response strategies in line with the degree of risk related to each factor, and takes measures to avoid or mitigate those risks.

Responses to important risks that could significantly impact the Company's management are discussed at the Corporate Executive Meeting and other meetings and, based on the response policies determined at those meetings, the responsible units cooperate with relevant departments to respond as necessary. Regarding risks associated with disasters, accidents, and other situations requiring emergency responses, Shionogi is promoting crisis management processes that emphasize respect for human lives as well as consideration for and contributions to local communities.

Framework for Information Disclosure

Shionogi has established internal systems for the timely, appropriate, and fair disclosure of accurate corporate information to investors and all other kinds of stakeholders, and the Company continues to make necessary revisions to these systems with the goal of maintaining and improving them.

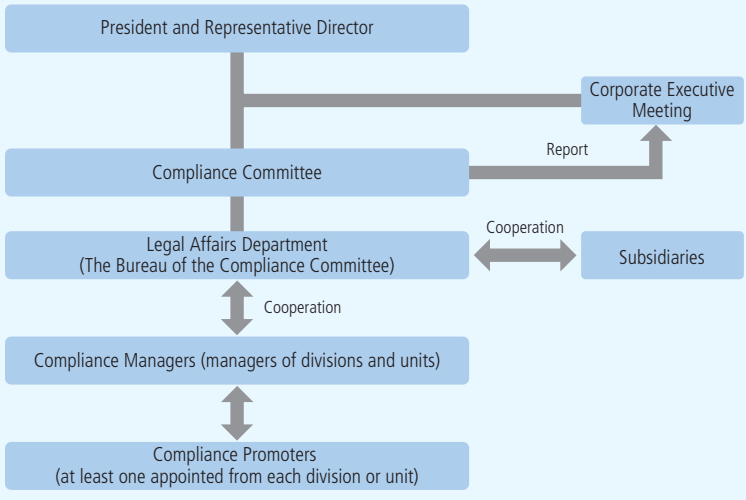
Thorough Compliance

Shionogi promotes compliance in all departments and units including subsidiaries through measures centered on those of the Compliance Committee, which is chaired by the president and for which the Legal Affairs Department serves as the secretariat.

Not limited to conformance with laws and regulations, Shionogi's broad definition of compliance also requires ethical behavior. Each year, the Company engages in the following activities aimed at promoting outstanding compliance consciousness and compliance performance among all employees.

1. As the designated Compliance Manager, the manager of each department or unit cooperates with an assistant—designated the Compliance Promoter—in undertaking activities that promote comprehensive compliance consciousness, identifying risks and considering related responses, drafting and submitting reports regarding implementation and improvement measures, and taking various other measures.
2. Besides drafting compliance measure proposals, the Legal Affairs Department provides support for each department or unit through such measures as those to implement and facilitate compliance education programs, prepare and distribute Shionogi's Compliance Handbook, and conduct employee attitude surveys.
3. Shionogi has established an internal reporting system, an internal reporting desk in the Legal Affairs Department, and an external reporting desk at the offices of its outside legal counsel. Moreover, in accordance with the intent of Japan's Whistleblower Protection Act, the Company has established internal protection regulations aimed at preventing whistleblowers from being subjected to disadvantageous situations, and it makes risk management efforts designed to promote the early discovery, amelioration, and prevention of compliance violations.
4. Concerning the protection of personal information, Shionogi has established an information management system based on its Information Security Policy and employs this system to manage information assets. In addition, the Company has established a standing committee headed by the General Manager of the Legal Affairs Department that takes various measures to prevent the inappropriate usage or leakage of personal information, including implementation of the Company's privacy policy, disclosing the scope of personal information usage objectives, establishing a dedicated consulting line to handle personal information-related consultations and complaints, and helping employees who handle personal information to participate in educational programs and acquire related certifications.

Compliance Promotion Structure (As of April 2009)



Compliance Education Course

Compliance Handbook
(3rd Edition)

Intellectual Property

Shionogi's global intellectual property activities aim to link intellectual property strategies with R&D strategies to promote sustained corporate growth and profitability.

The difficulty of discovering new drugs is growing each year, but imitating existing drugs has become increasingly easy and inexpensive due to globalization and the advancing technological capabilities in developing countries. The process of developing new drugs requires huge R&D expenditures, and it is also noteworthy for consuming considerable time before a product can be marketed. Because of this, if one calculates the time required to reach the break-even point with a new drug based on discounted cash flow, it becomes clear that—in addition to the reexamination period system of Japan's Pharmaceutical Affairs Law and data exclusivity periods overseas—it is crucial that protection be provided by means of patent laws. Moreover, there are fewer patents in the pharmaceutical industry than in other industries; so, the value of a single patent is extremely high, and intellectual property factors can determine the level of a company's competitiveness. In view of these situations, improving the quality of patent protection is a top priority task for the pharmaceutical industry on a par with the task of cultivating R&D operations able to generate innovative new drugs.

Patent Filing Strategy

Shionogi's patent filing strategy emphasizes the efficient acquisition of substance patents covering a broad range of the novel compounds it discovers. Focusing on the future, Shionogi also continues working to reserve suitable patent rights for drug discovery targets and basic search technologies relating to genes, proteins, and screening methods.

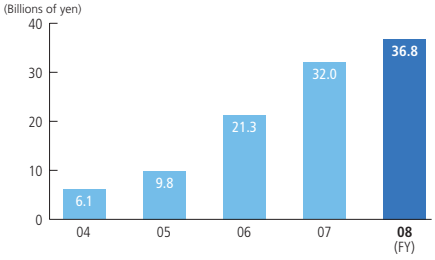
In fiscal 2008, Shionogi filed approximately 100 patent applications, of which about 30% were filed overseas.

Patent Portfolio Management and Royalty Income from Patent Licensing

Shionogi periodically reviews its patent portfolio to determine how to manage the portfolio, taking cost into account. As of March 31, 2009, Shionogi held approximately 220 patents in Japan and about 140 patent families (subject matter claimed, patents registered) overseas.

Royalty income from patent licensing in fiscal 2008 was approximately ¥36.8 billion, up approximately 15% from ¥32.0 billion in fiscal 2007.

Royalty Income from Patent Licensing



Response to Patent Disputes

Shionogi does its utmost to sustain protection of its profits based on patents. In the United States, Shionogi filed patent infringement actions based on the substance patent covering the active ingredient in the hyperlipidemia treatment agent Crestor®. The actions were filed against each generic drug company that has filed an application for permission to produce a generic version of Crestor® before expiration of the substance patent. In Japan, Shionogi filed patent infringement actions based on the crystal patent for the Flomox® oral cephem antibiotic agent against import companies and a generic drug company that wished to import the Flomox® from Korea in bulk powder form.

Members of the Board, Corporate Auditors, and Corporate Officers (As of June 25, 2009)

Front row from left: Motozo Shiono, Isao Teshirogi, Back row from left: Sachio Tokaji, Akio Nomura, Teppei Mogi, Yasuhiro Mino

Directors

Chairman of the Board and Representative Director
Motozo Shiono

President and Representative Director
Isao Teshirogi, Ph.D.

Director
Sachio Tokaji

Director
Yasuhiro Mino

Outside Director
Akio Nomura

Outside Director
Teppei Mogi

Corporate Auditors

Standing Corporate Auditor
Mitsuaki Ohtani, Ph.D.

Standing Corporate Auditor
Satoshi Komatsu

Outside Corporate Auditor
Takeharu Nagata

Outside Corporate Auditor
Shinichi Yokoyama

Corporate Officers

Senior Executive Officer
Sachio Tokaji

Senior Executive Officer
Yasuhiro Mino

Executive Officer
Takuo Fukuda

Executive Officer
Ryuichi Kume, Ph.D.

Corporate Officer
Hirosato Kondo, Ph.D.

Corporate Officer
Takuko Sawada

Corporate Officer
Shigenobu Mashimo

Corporate Officer
Masaaki Goshima

Corporate Officer
Yoshiaki Kamoya

* Sachio Tokaji and Yasuhiro Mino are serving concurrently as corporate officers.
* Akio Nomura and Teppei Mogi are outside directors appointed pursuant to Article 2, Paragraph 15 of the Companies Act.
* Takeharu Nagata and Shinichi Yokoyama are outside corporate auditors appointed pursuant to Article 2, Paragraph 16 of the Companies Act.

Shionogi's Social Activities

Shionogi's CSR Activities

Shionogi proactively undertakes corporate social responsibility (CSR) activities to realize the Company Policy.

Fundamental Policy on CSR

Shionogi's purpose, as expressed in the beginning of the Company Policy instituted in 1957, is "to strive constantly to provide medicine of the best possible kind essential for protection of the health of the people." This enduring and unwavering corporate philosophy is a statement of our vision and value to society. Our activities as a pharmaceutical company definitely contribute to society, and we believe that implementing our corporate philosophy promotes our fulfillment of social responsibilities.

Further, to help realize the Company Policy, we have created Shionogi's Action Guidelines, which are a framework of standards for day-to-day activities that all people working at Shionogi share. The Action Guidelines provide concrete indications of the ideal nature of all our current and future activities.

By acting in accordance with the Company Policy and the Action Guidelines, we can contribute to patients, physicians, and other healthcare professionals who need the medicines we provide as well as to shareholders and society as a whole. We are confident that this leads to the Company's development and to the personal growth of Shionogi employees and the enrichment of their lives.

In all its activities including CSR activities, Shionogi believes that maintaining the integrity of society and protecting the natural environment are essential for protecting the health of the people in line with its fundamental policies, and it is proactively engaging in such essential activities.

The Company Policy of Shionogi

Shionogi's Action Guidelines

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

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.

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.

Value

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 mind-set and accomplishing the goals they have set in order to achieve the highest level of competence in every field.

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.

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.

Toward Progress in Cancer Pain Management

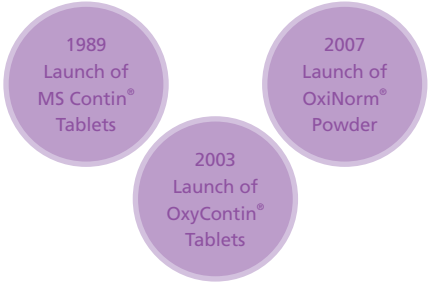
As part of its CSR activities, Shionogi has worked to promote broader-spread treatment of cancer pain for the past three years. Aiming to provide cancer pain relief as quickly as possible, we intend to sustain these promotional activities going forward.

Current State of Cancer Pain Treatment in Japan

Cancer is a disease with a high mortality rate in Japan. While the share differs by gender, roughly one in two Japanese will develop cancer some time, making cancer a very familiar disease. Many cancer patients experience severe pain due to their disease and its treatment. However, even when patients are subjected to extremely severe pain, therapy based on oral narcotics can eliminate that pain. Unfortunately, many cancer patients in Japan are still just doing their best to tolerate their pain during the period of their treatment.

Reason for Shionogi's Efforts to Promote Treatment of Cancer Pain

Shionogi began marketing oral therapeutic narcotics for use in connection with cancer treatment about 20 years ago, and the Company has since that time proactively worked to provide information aimed at promoting broader-spread pain therapy. Compared with the situation in other industrialized countries, however, the use of therapeutic narcotics in Japan remains insufficient. The April 2007 application of the Basic Law Concerning Cancer Countermeasures took effect and has enabled some progress regarding the use of palliative therapy for cancer pain and other kinds of pain. By promoting keener and more-widespread awareness of antipain therapy among members of the general public, Shionogi is striving to help prepare an environment in which the liberation of cancer patients from pain can move forward.



Activities Implemented during Fiscal 2008

Within the framework of Shionogi's efforts to promote understanding of the importance of cancer pain treatment throughout society, fiscal 2008, in a continuation of the previous year's activities, was positioned as a year for foundation building through the implementation of the following activities undertaken in cooperation with government, academic, the industrial arena (principally the pharmaceutical industry), and media entity partners.

Production and Broadcast of Television Commercials

Based on commercial broadcasts in fiscal 2007, commercials were prepared featuring the caption "therapeutic narcotic drugs" as a means of promoting understanding.

Cooperation with Government Programs to Promote Awareness of "Cancer Palliative Care"

Public relations activities were taken via mass media and other initiatives were taken to support the Orange Balloon Project, which spreads correct information about palliative care for those suffering from cancer and other diseases under the sponsorship of the Ministry of Labour, Health and Welfare.

Participation in and Management of Corporate Associations

Shionogi participated in the Cancer Pain Relief Consortium, a corporate association aimed at promoting broader-spread awareness and application of cancer pain relief therapy. This corporate consortium proactively took measures to promote improved awareness.

がん性疼痛緩和
推進コンソーシアム
Cancer Pain Relief Consortium

(At the end of April 2009, the Cancer Pain Relief Consortium included six companies: Shionogi; Teikoku Seiyaku Co., Ltd.; Terumo Corporation; Nippon Shinyaku Co., Ltd.; Hisamitsu Pharmaceutical Company, Inc.; and Janssen Pharmaceutical K.K.)

Activities Planned for Fiscal 2009

In the current fiscal year, as previously, Shionogi is employing the venerable celebrity Shunji Fujimura as the central image character for public awareness advertisements proactively disseminated via newspapers, television, the Internet, and other media. Plans also call for additional energy to be invested in the Cancer Pain Relief Consortium with the goal of supporting collaborative efforts by industry, academic, and government entities to promote cancer pain care. To increase proper awareness of cancer pain therapy among an increasingly larger number of people, Shionogi will continue to emphasize information-dissemination activities.

Television commercial about cancer pain treatment

Relationship with Employees

Human Resource Development

Shionogi considers people to be its most important resource, and it does its utmost to create an environment in which employees can proactively improve and exercise their skills. One of the results of this approach is seen in the share of Shionogi MRs who pass the MR accreditation test of the MR Education and Accreditation Center of Japan—while the industry average is 80%, the rate for Shionogi employees is close to 100%.

Besides education and training programs, Shionogi implements a "youthful employee interview" program for employees in their second and fourth years with the Company. Human resource staff undertake interviews with all the youthful employees throughout Japan and their bosses concerning routine tasks and problems and provide advice with emphasis on educational issues as a means of tailoring human resource development activities to each individual employee's needs.

Fair and Equitable Personnel Evaluations

Shionogi has rigorously aligned Company targets with individual employee targets as well as built a target management system that emphasizes Plan-Do-Check-Act (PDCA) management.

To maximize employees' motivation and capabilities, we believe it is crucial to properly evaluate the abilities employees display, the roles they undertake to play, and results they achieve in their areas of responsibility, so that we can give them appropriate jobs, remuneration, and other treatment. In view of this, besides creating evaluation standards and disclosing them to employees, Shionogi is increasing the transparency and objectivity of its evaluation methodology by preparing evaluation manuals and providing educational programs for evaluators. In addition, by gathering feedback on evaluation results, the Company is working to increase employee confidence in the evaluation system and to operate the system in a manner that effectively promotes human resource development.

A follow-up training course for employees in their second year with the Company

Education and Training Systems

Support steady advancement	▶ **Training for junior employees....**Building the foundation ▶ **Management training....**Promoting management capabilities and helping upgrade skills ▶ **Training for newly promoted employees....**Broadening the scope of activity
Help employees pursue opportunities	▶ **Job requests....**Leveraging individual capabilities in choosing preferred area of activity ▶ **Study programs....**Aiming to further improve professional skills
Detailed development by matching work to employee growth	▶ **Interview program....**Personal guidance by supervisors ▶ **New employee trainer system....**Detailed guidance by senior employees
Help motivated employees upgrade their abilities and skills	▶ **Optional training....**Choose from a wide range of training programs ▶ **Career design seminars....**Self-guided career design ▶ **Succession plans....**Foster key personnel
Enhance job-specific abilities and skills	▶ **Education for MRs** ▶ **Education for researchers and development personnel**

Occupational Safety and Health

In line with its corporate purpose of "protection of the health of the people", Shionogi recognizes the primary importance of its employees' safety and health, which the Company works to ensure through a variety of initiatives centered on the safety and health committees of each workplace. Regarding safety, because many chemicals are used at its research and production facilities, the Company strictly enforces appropriate handling and storage management, and is strengthening its internal check system. In addition, to prevent occupational injury or illness, Shionogi regularly conducts rigorous safety inspections, promptly rectifies any problems identified, and works to raise employee safety awareness.

Concerning employee health, Shionogi has introduced a work information system to facilitate the management of working hours and thereby create a framework for preventing the incidence of chronically excessive work hours. We are also cooperating with a health insurance association to augment our efforts to maintain and improve employee health. Specifically, we work to ensure employees take part in the regular annual health checkup, for which the participation rate is currently 99.9%. Based on the results, industrial physicians, nurses, public health nurses, and other health maintenance staff undertake detailed follow-up work regarding each individual employee with a pre-existing or newly diagnosed condition. Moreover, we organize such events as health seminars and fitness walks to improve employees' awareness of their own health situations.

To address mental health, Shionogi has a specialized physician working as an industrial physician and has established a counseling system that includes a counseling room and outside services. In these and other ways, the Company is implementing a comprehensive range of measures in line with the Japanese Ministry of Health, Labour and Welfare's "four care policy" (self-care, managerial care, on-site industrial health staff care, and external resource-based care).

Number of Occupational Illnesses/ Injury Incidents	2007	2008
Number of occupational illnesses/ injury incidents	18	12
Occupational illness/injury incident frequency rate	0.33%	0.108%
Occupational illness/injury incident severity rate	0.002%	0.0002%

Employment of Persons with Disabilities

To help normalize the lives of persons with disabilities, Shionogi has been making ongoing efforts to hire such persons. In fiscal 2008, the share of Shionogi's employees with disabilities was 2.17%, considerably higher than the legally mandated share of 1.8%. Shionogi has also received recognition from the Osaka Employment Development Association as a distinguished employer. This association also annually presents disabled Shionogi employees with longtime service awards that reflect the Company's high retention rate for employees with disabilities.

Human Rights Initiatives

Shionogi has clearly articulated its employee rights concept in the "Conduct at Shionogi" section of the Shionogi Charter of Conduct, stating that "Shionogi respects the rights and individuality of its employees and works to ensure their comfort and fulfillment." In line with this, Shionogi has implemented various training programs and established a consultation service to ensure that there is no discrimination either inside or outside the Company on the grounds of race, nationality, origin, religion, creed, beliefs, gender, age, education, disability, illness or other factors, nor any sexual harassment, power harassment, or other types of harassment. In addition, as stated in one of the five values of Shionogi's Action Guidelines, "Respect for the individual," maintaining maximum respect for the diverse individualities of everyone involved with Shionogi is one of the Company's most important values.

Employee Welfare Benefits

Shionogi has introduced a "cafeteria plan" that allows employees to select support programs from an array of options in line with their own life plans and needs. This plan helps employees enrich their lives by offering a broad menu of more than 30 programs, including those that provide support for health, child care and upbringing, nursing care, self-improvement, lifestyle, and asset building.

In addition, Shionogi is working to augment its systems that help create an environment where employees can securely harmonize their work life and family life responsibilities, including those associated with child and nursing care. As a part of this effort, on April 1, 2009, Shionogi introduced a new system for providing support related to the life events of marketing staff. Designed to expand female MRs' scope of activities, this system includes such programs as those for MRs who want to work in a specific region following marriage and MRs who require shortened work hours due to child-raising responsibilities as well as a program that helps any employee to return to their careers after a life event-related interruption. The new system has created an environment that makes it easy for female employees to work at Shionogi.

Vacation and Leave Systems

System	Features
No-Overtime Day	On two specified days each month, employees are encouraged to leave at the regular time without working any overtime.
Consecutive Vacation Day System	Employees can use three of their annually allotted paid vacation days in conjunction with weekends to enjoy five consecutive days of vacation.
Child-Care Leave	Available until the child is three years of age. In fiscal 2008, 110 employees used this option.
Reduced Work Hours for Child Care	Employees with preschool children can reduce their daily working hours by up to two hours. In fiscal 2008, 138 employees used this option.
Staggered Hours	Employees with preschool children can stagger their working hours. (Six 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 for each family member in need of care.
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 for each family member in need of care.
Nursing Leave	Employees with preschool or otherwise dependent children can take up to five paid days off a year to care for a sick child. In fiscal 2008, eight employees used this option.

Workplace Support Systems for Life Events

System	Features
Marketing Staff Work Location Request System for Marriage-Related Factors	Employees assigned to marketing jobs who find it difficult to cohabit with their spouse at the time of their marriage may specify their desired work location.
Marketing Staff Work-Hour Reduction System for Child-Raising Related Factors	Employees assigned to marketing jobs who have preschool children may adjust their work schedules by reducing the number of daily work hours (by one hour or by two hours) and concurrently making use of a flextime system.
Career Resumption System	Former employees who have interrupted their careers due to such life events as those associated with marriage, childbirth, child raising, and/or nursing family members may register with the Company, which will rehire them as contract employees when the former employees' circumstances permit this and when they are positioned to help meet the Company's human resource needs.

* Each of these systems is available to qualified employees regardless of their gender.

Application of Innovative Manufacturing Technologies

Shionogi strives to improve its manufacturing technologies through research in the manufacture and formulation of medicine as well as its quality evaluation. From the standpoint of emphasizing "Customer Focus", "Trust", and "On-Site Orientation," which are elements of Shionogi's Action Norm ("The Value"), the Company has undertaken extensive projects to develop and improve formulations, aiming to provide medicines that are easier for patients to take and for medical professionals to prescribe.

"Easy to take" Granules for Children

Parents often come across difficulty in making their children take a medicine owing to its unpleasant taste or smell, and even if the children swallow the medicine, they may spew it out together with what they ate just before swallowing the medicine. Medicines are often dispersed in water or fruit juice when prescribed to infants. This treatment is sometimes troublesome, so Shionogi has developed Flomox Fine Granules for children which quickly disperse in solution by slight stirring. For children who want to take the granules without solution, Shionogi applied its taste-masking technologies to the granules and enhanced sweetness by modifying the formulation process.

After the improvement measures, large granules have been eliminated and the average diameter of granules has been reduced. This reduces the rough feeling of the granules and increases the ease of administering the granules.

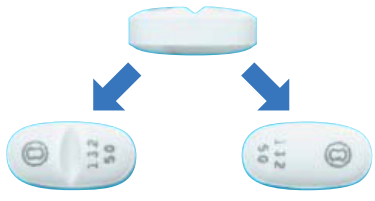
A New Protective Bottle Filler for Tablets

A molded plastic bottle filler or polyethylene (PE) film filler is usually inserted into the top of the bottle to prevent tablets from such damage as breakage, cracking, or defacement during transportation. However, the plastic bottle filler is not easily removed, and the tablets are sometimes entangled with the PE film filler. To solve these problems, Shionogi has developed a new protective bottle filler for tablets. The new bottle filler, made of polyethylene, is prepared by rolling a cylindrical net into a several-layer ball having a stem on the top. It has superior shock-absorbing ability thanks to its high level of elasticity, and can easily be removed from the bottle by pulling out the stem. Moreover, the filler has some other outstanding characteristics; the size of the filler is easily adjusted so that it can be applied to different sizes of containers. We have filed patents on this filler and registered its trademark, "TabGuard", and applied this to bottled medicines, such as Irberan®, Pirespa®, and Crestor®.

Prevention of Medication Errors (To Ensure Right Medication)

In Irbetan® and Pirespa®, the product name and dosage are displayed on each pocket of the press-through packages (PTPs*) of the medicines. Therefore, even if a PTP sheet is divided into pieces, patients can find the name and dosage in each piece, which prevents the patients from misuse. Furthermore, in Irbetan®, the dosage, Shionogi's logo, and recognition code are alternately printed on both obverse and reverse sides as well as on either side of the score line of the tablet, so that the name and dosage of the medicine can be recognized even when divided in half.

*PTPs: Press-through packages (PTPs) hold drug tablets in individual pockets that can be pressed with a finger to push the tablet through the backing.



Shionogi's Environmental Activities

Efforts to Preserve the Environment

In carrying out its business activities, Shionogi is aware that, as a company, it has an important social responsibility to maintain and promote improvement of the global and local environments. To lessen its environmental impact in all of its business activities, Shionogi established the Shionogi Group's Basic Environmental Policy. In line with this policy, we have established the Shionogi Group Environmental Protection Plan and conduct a growing range of environmental preservation activities. Although the scale of manufacturing and research and development activities increased in fiscal 2008, the Company moved ahead with efforts to reduce the environmental load of all its activities.

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 laws and 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.

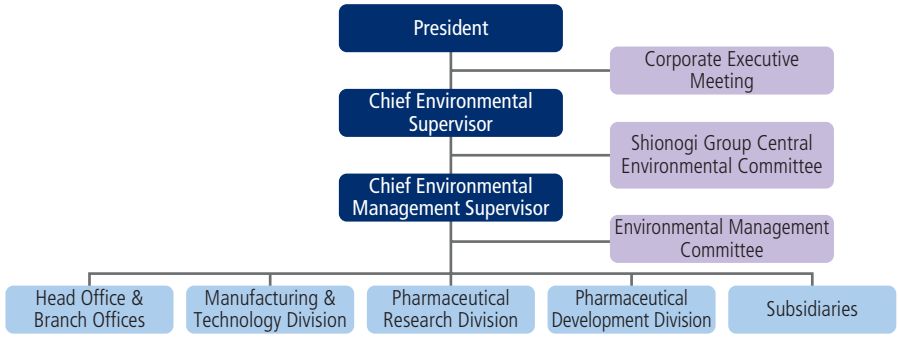
6. Disclosure of Our Basic Environmental Policy

The Shionogi Group will disclose the Basic Environmental Policy both inside and outside the Group.

April 1, 2008
Isao Teshirogi, President and Representative Director
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 all of the Shionogi Group. All major business sites have environmental committees chaired by the 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.



Environmental Management System

ISO 14001

Shionogi's R&D and manufacturing departments and domestic manufacturing subsidiaries, which have a relatively large environmental impact, have obtained certification in accordance with the ISO 14001 international environmental management standard. These units are audited by an external organization each year to verify the effectiveness of their management systems. In fiscal 2008, Shionogi, Bushu Pharmaceuticals Ltd., and Nichia Pharmaceutical Industries Ltd. underwent a qualification-maintenance audit by Japan Chemical Quality Assurance Ltd. (JCQA), and their certifications were extended.

Environmental mangement system ISO 14001 certificates

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 the case of shortcomings, measures are organized to rectify those shortcomings. In fiscal 2008, environmental audits were conducted at the Settsu Plant and Aburahi Laboratories.

Environmental audits (Aburahi Laboratories)

Environmental Education/Training

Shionogi conducts environmental education to raise environmental awareness among employees and provides training on such subjects as managing facilities to prevent environmental pollution. Other activities include qualification training of internal auditors to audit the operation of the environmental management system and education to raise their skill level. In addition, Shionogi establishes response procedures regarding such events as earthquakes, tsunami, and other natural disasters as well as fires, chemical leaks, and other emergencies. Each year, Shionogi conducts drills to practice the procedures and reevaluates procedures and emergency equipment and materials.

In fiscal 2008, because of the strong earthquakes that occurred in Japan's Tohoku region during June and July of 2008, the Kanegasaki Plant and other business sites placed emphasis on earthquake response measures and implemented drills of such measures. In addition to evacuation, personnel safety verification, and reporting procedures, preparations were made for responding to fires by undertaking drills of fire-extinguishing measures and early-stage fire response measures and confirming related capabilities. Furthermore, the Shionogi Research Laboratories responded to a revision of Fire Service Act standards by changing the siren sound of emergency alarm broadcasts to a beeping sound.

Disaster prevention drill (Settsu Plant)

Information Disclosure

Initially, Shionogi issued a separate Environmental Report as a printed brochure that was also made available via the Internet. Since fiscal 2007, the Company has integrated the Environmental Report with its Annual Report and disclosed environmental information via its Annual Report. Detailed information, including site data, is disclosed via the Company's website.

Environmental Reports and Annual Reports (2000~2008)

Legal Compliance/Accidents/Complaints

Regarding the prevention of air and water pollution and compliance with other regulation mandated environment-related measurement values, Shionogi established necessary procedures and undertakes monitoring and measuring activities. In addition, each year, the Company confirms the appropriate administration of these activities by using procedure evaluation sheets.

Shionogi has maintained a flawless performance concerning the non-incidence of environment-related penalties or litigation. In fiscal 2008, however, regarding such laws as the Invasive Alien Species Act, the Company was at fault in the late submission of applicant change notifications, the surpassing of breeding volume limits, and certain other matters. To prevent the recurrence of this, the Company has made changes to procedural handbooks and provided educational programs for the responsible employees. In addition, transformers containing polychlorinated biphenyls (PCBs) were temporarily transported away from their installation site during a building demolition project but were subsequently recovered, and appropriately managed as PCB waste products. During fiscal 2008, there were zero cases in which Shionogi exceeded regulation mandated environment-related measurement values or was the object of environment-related complaints.

Interaction with Local Communities

Shionogi maintains communication with local communities through participation in cleanup activities around each site and in environment-related associations as well as by conducting factory tours and undertaking other activities. We endeavor to always provide advance notice of upcoming construction and demolition work to the heads of local residents' associations, school principals, and other concerned parties.

In fiscal 2008, the Kanegasaki Plant co-sponsored "Iwate Prefecture's CO_2 Diet Point Promotion program" and the "Kanegasaki Greenery and Flower Bank." In addition, the Aburahi Laboratories organized a work-site experience study program for local junior high school students, who were provided with an opportunity to experience a portion of environment-related work processes.

Cleanup activities (Kuise Site)

Shionogi and the Environment

Shionogi works to reduce its environmental impact by comprehensively measuring the energy inputs and waste product generation associated with its business operations and setting targets for such items as greenhouse gas emission volume and waste product volume. We are also receiving cooperation from transactional counterpart companies regarding such issues as green procurement and the consigning of waste disposal to appropriate waste management contractors.

In fiscal 2008, the expansion of business activities led to a rise in greenhouse gas emissions generated, although the partial revision of waste treatment methods and other factors enabled a decrease in total waste product volume.

	Shionogi		Subsidiaries		Shionogi Group	
Item	Amount Used	Calorific Value (MJ)	Amount Used	Calorific Value (MJ)	Amount Used	Calorific Value (MJ)
Electricity (purchased)	103,383 MWh	1,016,257,210	18,522 MWh	182,068,704	121,905 MWh	1,198,325,914
Kerosene	7 kl	262,478	0 kl	14,680	8 kl	277,158
Fuel oil A	12,083 kl	472,445,300	3,639 kl	142,284,118	15,722 kl	614,729,418
Propane	17 tons	854,404	0 ton	14,056	17 tons	868,460
City gas	7,366 thousand m^3	286,978,905	7 thousand m^3	262,621	7,373 thousand m^3	287,241,525
Gasoline (in-house)	3,328 kl	115,165,892	131 kl	4,532,254	3,459 kl	119,698,146
Diesel oil (in-house)	2 kl	91,413	0 kl	11,460	3 kl	102,873
Water intake	1,619 thousand m^3		352 thousand m^3		1,971 thousand m^3	

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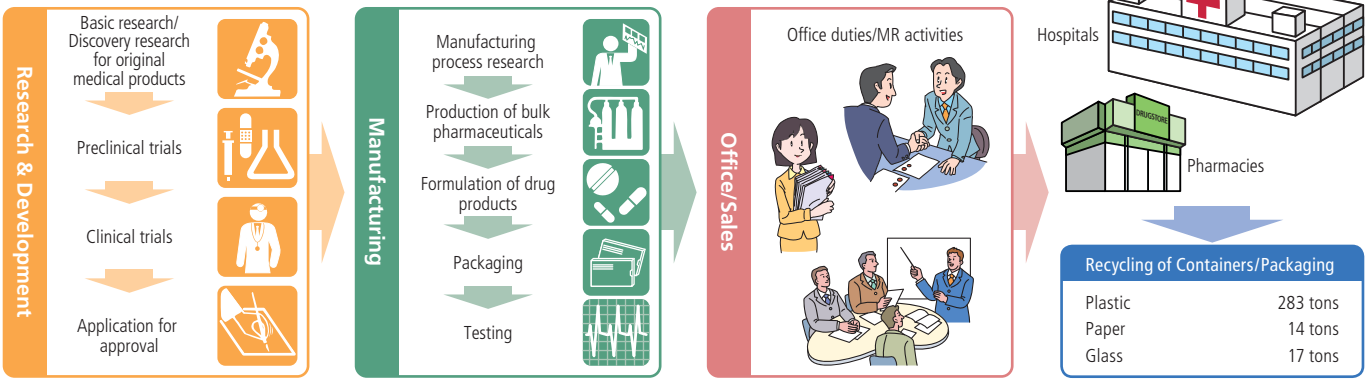


OUTPUT

	Shionogi	Subsidiaries	Shionogi Group
Item	Amount Released	Amount Released	Amount Released
Greenhouse gas emissions	94,692 tons-CO_2	16,882 tons-CO_2	111,574 tons-CO_2
Environmental emissions of PRTR Class 1 chemical substances	100 tons	4 tons	104 tons
Waste generated	5,964 tons	1,319 tons	7,283 tons
Waste sent directly to landfills	1 ton	0 ton	1 ton
Public sewerage	494 thousand m^3	36 thousand m^3	530 thousand m^3
Natural waterways	972 thousand m^3	261 thousand m^3	1,233 thousand m^3
NO*x*	167 tons	15 tons	182 tons
SO*x*	24 tons	14 tons	38 tons
BOD	12 tons	1 ton	13 tons
COD	7 tons	2 tons	8 tons

The Phase 3 Shionogi Group Environmental Protection Plan

Previously, Shionogi worked to reduce its environmental impact based on two stages of its Company-wide Environmental Protection Plan; Phase 1 covered fiscal 1995 through 2000, and Phase 2 covered fiscal 2000 through 2004.

Aiming to further augment its environmental activities and expand their scope to include the parent company and other Shionogi Group companies, Shionogi is currently carrying out Phase 3 of the Shionogi Group Environmental Protection Plan, which covers fiscal 2005 through 2010.

Targets and Results of Phase 3 Shionogi Group Environmental Protection Plan

Phase 3 Shionogi Group Environmental Protection Plan Targets	Fiscal 2008 Targets
1 Strengthen conservation of resources and waste disposal measures • Reduce amount of waste generated by 38% (to 4,990 tons) [42% reduction to 4,460 tons] • Reduce waste 40% by fiscal 2015 (to 4,830 tons) [44% reduction to 4,350 tons]	13% reduction (to 6,971 tons) [25% reduction to 5,794 tons] • Raise environmental efficiency by reducing the amount of waste generated (Kanegasaki Plant) • Implement registration processes for the treatment of PCB waste products (Shionogi Research Laboratories, Aburahi Laboratories)
• Promote zero emissions	Waste sent directly to landfills: 0.95 ton [0.95 ton] • Promote appropriate treatment methods and reduce waste volume to zero (Nichia Pharmaceutical Industries) • Further increase the sophistication of waste separation into burnable and non-burnable categories (Nagoya branch office)
• Reduce use of copy paper and printing paper by 5% (to 36.5 million sheets) [7% reduction to 34.3 million sheets] • Reduce 8% in fiscal 2015 (to 35.3 million sheets) [10% reduction to 33.1 million sheets]	8.3% reduction (to 35.255 million sheets) [10.3% reduction to 33.024 million sheets] • Employ shared folders and diverse printing machine functions to achieve further progress toward paper-free operations
2 Implement measures to counter global warming • Maintain greenhouse gas emissions at level of benchmark year (to 102,500 tons-CO_2) [8% reduction to 84,000 tons-CO_2] • Reduce 1% in fiscal 2015 (to 101,500 tons-CO_2) [8% reduction to 84,000 tons-CO_2] • Promote energy conservation	Limit increase to 10.3% (to 113,086 tons-CO_2) [5.9% increase to 97,207 tons-CO_2] • Work to renovate energy-saving facilities • Increase environmental efficiency (Kanegasaki Plant)
3 Strengthen management of chemical substances • Monitor and reduce use, emissions and transfer of hazardous chemicals	• Continue to monitor use, emissions and transfer of hazardous chemicals as well as undertake appropriate management • Reduce atmospheric emissions of dichloromethane to not more than 87 tons (Kanegasaki Plant) • Practice and sustain environment-friendly experiment methods (Shionogi Research Laboratories)
• Completely eliminate specified CFCs (applies to equipment holding more than 20kg)	• Renovate three facilities employing specified fluoron gases (Kuise Site)
• Set and manage voluntary control levels for atmosphere, wastewater, soil, and underground water	• Continue periodic measurement and evaluation of air, water, and soil
4 Enhance system for evaluating safety of chemical processes	• Maintain administration of chemical process safety evaluation system (Kuise Site)
5 Promote Product Life Cycle Assessment	• Consider selection of packaging materials, methods, etc., based on results of environmental impact surveys (Kuise Site)
6 Implement environmental accounting	• Continue to collect data in accordance with 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%]	Green purchasing rate 78% [76%] • Promote green procurement
8 Contribute to society	• Promote communication with surrounding communities
9 Disclose environmental information	• Publish environmental information as part of the Annual Report

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 2008 Results	Evaluation	Fiscal 2009 Targets
9% reduction (to 7,283 tons) [23% reduction to 5,964 tons] • Environmental efficiency raised and waste product volume reduced through partial change of waste product treatment methods (Kanegasaki Plant) • Registration processes for the treatment of PCB waste products was completed earlier (Shionogi Research Laboratories, Aburahi Laboratories) • Installed recycling facilities for the reuse of outdoor drainage water (Bushu Pharmaceuticals)	×	12% reduction (to 7,109 tons) [24% reduction to 5,907 tons] • Make efforts to offset natural increase in environmental impact accompanying the start of operations at new building (Settsu Plant) • Reduce waste product volume 145 tons below the fiscal 2008 level despite an increase in production volume (Kanegasaki Plant)
Waste sent directly to landfills: 1.13 tons [0.93 ton] • 0.2 ton of landfill waste was generated, including activated charcoal, ion-exchange membranes, etc. (Nichia Pharmaceutical Industries) • Waste separation was thoroughly implemented, decreasing the volume of non-burnable waste (Nagoya branch office)	×	Waste sent directly to landfills: 0.79 ton [0.79 ton] • Promote appropriate treatment methods (Nichia Pharmaceutical Industries) • Thoroughly implement waste separation and decreasing the volume of non-burnable waste (Nagoya branch office)
12.0% reduction (to 33.816 million sheets) [15.8% reduction to 31.016 million sheets] • Further progress was made toward paper-free operations based on the use of two-sided printing and compressed printing functions (Settsu Plant, Aburahi Laboratories)	○	8.6% reduction (to 35.127 million sheets) [12.6% reduction to 32.177 million sheets] • Employ diverse printing machine functions, information sharing, and other measures to sustain progress toward paper-free operations
8.8% increase (to 111,574 tons-CO_2) [3.2% increase to 94,692 tons-CO_2] • Operation of an accumulator facility was turned off and a refrigeration unit and compressor unit were renovated (Kuise Site) • Measures including those to replace steam distribution pipes and renovated air compressors supported a rise in environmental efficiency (Kanegasaki Plant)	○	Limit to 14.3% increase (to 117,235 tons-CO_2) [9.6% increase to 100,581 tons-CO_2] • Reduce to below the fiscal 2008 level (Kuise Site) • Further raise environmental efficiency targets (Kanegasaki Plant)
• Measured hazardous chemical use, emission, and transfer volumes and undertook appropriate management • Dichloromethane emissions into the atmosphere were reduced from the previous year's level, to 89.8 tons, but the reduction target was not attained (Kanegasaki Plant) • Reduced waste solvents and catalysts through measures that include modification of water content measurement methods, analysis methods, and refining methods (Shionogi Research Laboratories)	×	• Continue to monitor use, emissions, and transfer of hazardous chemicals and undertake appropriate management • Respond to Osaka's chemical substance management system • Increase capacity utilization rate of processes employing dichloromethane as a means of reducing emissions to below 95 tons (Kanegasaki Plant) • Sustain use of environment-friendly experiment methods (Shionogi Research Laboratories)
• Three freezer facilities were renovated according to plans (Kuise Site)	○	• Renovate two freezers (Kuise Site) • Renovate one freeze-drying equipment (Settsu Plant) • Renovate one freezer (Kanegasaki Plant)
• Carried out periodic measurement and evaluation of air, discharged water, and soil based on voluntary standards	○	• Continue periodic measurement and evaluation of air, water, and soil
• Chemical process safety evaluations were performed for all 39 processes related to new products under development (Kuise Site)	○	• Continue to manage chemical process safety evaluation system (Kuise Site)
• Began experiments in preparation for a shift to new packaging methods (SP packaging and bottle cap material modification) (Kuise Site)	○	• Continue considering selection of packaging materials, methods, etc., based on results of environmental impact surveys (Kuise Site)
• Collected data on Shionogi Group facilities in accordance with environmental accounting guidelines	○	• Continue to collect data in accordance with environmental accounting guidelines
Green purchasing rate 76% [74%] • The response to the incidence of falsified claims of recycled paper content led to changes in sticker mark standards for environmental labels, causing a decline in the green purchasing rate.	×	Green purchasing rate 78% [76%] • Promote green purchasing
• Undertook concerted cleanup campaigns near business facilities and for nearby main roads and participate in other environmental programs • Co-sponsored "Iwate Prefecture's CO_2 Diet Point Promotion program" and the "Kanegasaki Greenery and Flower Bank" (Kanegasaki Plant) • Lent out facility grounds and cooperated in work experience program for junior high school students (Aburahi Laboratories)	○	• Promote communication with surrounding communities
• Made the Annual Report available as a booklet and made it public on the Internet	○	• Publish environmental information as part of the Annual Report

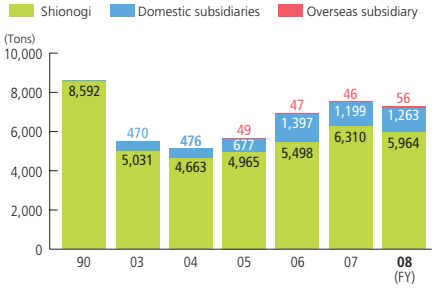
Measures for Resource Conservation and Wastes

Amount of Waste Generated

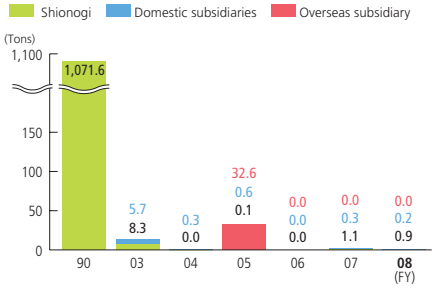
Principal waste products included waste oil generated from manufacturing processes, sludge generated from wastewater treatment processes, and plastics used in product containers. Despite growth in the scale of manufacturing and R&D operations, the volume of waste products was reduced owing to such measures as the partial modification of waste liquid processing methods. The Shionogi Group defines the goal of reducing the amount of waste products from its business sites that are directly disposed of in landfills to zero as "zero emissions," and, with this goal in mind, it is working to reduce the amount of waste products it directly disposes of in landfills.

In addition, to prevent illegal dumping of waste products, Shionogi carefully selects the companies to which it consigns waste processing and transport tasks, verifying their industrial permit acquisition situation as well as their treatment facilities, operational situation, document management situation, and other items listed on evaluation sheets to provide a basis for deliberations on whether or not to employ a particular company. After work is consigned, Shionogi appropriately manages the relevant contracts, permit certificates, and manifests, and undertakes an on-site check of the waste processing company one or more times each year.

Waste Products Generated



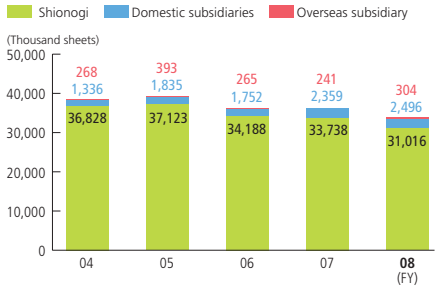
Waste Products Sent Directly to Landfills



Copy Paper and Printing Paper

We are reducing the amount of copy paper and printing paper used by means of various initiatives, including those to print double-sided or multiple pages per sheet, shift to paperless faxing, increase LCD projector use by carrying personal computers to meetings, and promote the use of scanners and management of documents in electronic forms. In fiscal 2008, the amount of paper used was reduced.

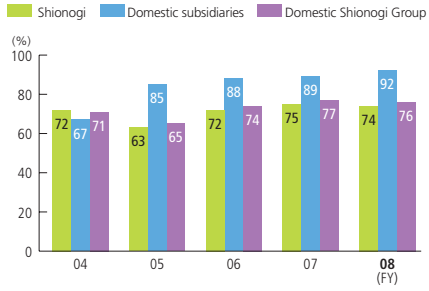
Number of Sheets of Paper Purchased



Green Purchasing

Regarding office supplies, we make efforts to purchase environment-friendly products that meet the standards of the Eco Mark, Green Purchasing Network (GPN) Mark, or similar environmental labels. Shionogi has built an intranet-based purchasing system that facilitates green purchasing by displaying a green products mark that allows users to search for and recognize eco-friendly products when ordering. In fiscal 2008, the incidence of counterfeit recycled paper led to changes in sticker mark standards for environmental labels and Shionogi's green purchasing ratio declined as a result.

Green Purchasing Ratio

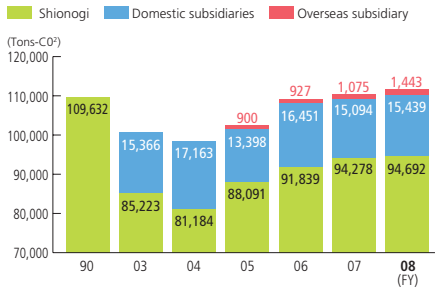


Prevention of Global Warming

Shionogi has been aggressively working on energy conservation, with particular attention to manufacturing plant operations that use a particularly large amount of energy. In addition, Group companies are working to curb greenhouse gas emissions through means that include upgrading lighting equipment, air-conditioning systems, and manufacturing equipment so that they use less energy and changing their operating methods.

In fiscal 2008, we continued to take systematic steps, including those to turn off steam system accumulators; renovate such equipment as freezers, compressors, and air conditioners; and install lights that automatically turn themselves off. However, an increase in the scale of manufacturing and R&D activities led to a rise in the volume of greenhouse gas emissions. Going forward, to curb output of greenhouse gases and improve our environmental efficiency, we will continue reconsidering the most-efficient facility usage methods and operating time periods as well as will take other measures, including those to upgrade such items as transformer substation equipment and air-conditioning equipment with high-energy-efficiency equipment.

CO_2 and Other Greenhouse Gas Emissions



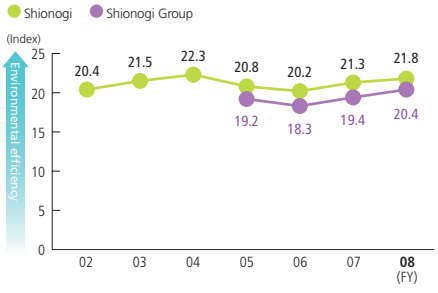
* From fiscal 2005, figures for all greenhouse gas emissions are included on a Group-wide basis.
* From fiscal 2006, the Tokyo Branch Office expanded the scope of its calculations.

Environmental Efficiency

Environmental efficiency, which is based on greenhouse gas emissions and net sales, currently shows little change, but Shionogi will work to improve environmental efficiency through efficient business activities.

* Environmental efficiency is calculated as net sales divided by the amount of greenhouse gas emissions. Therefore, higher numbers indicate more environment-friendly business activities.

Environmental Efficiency Index

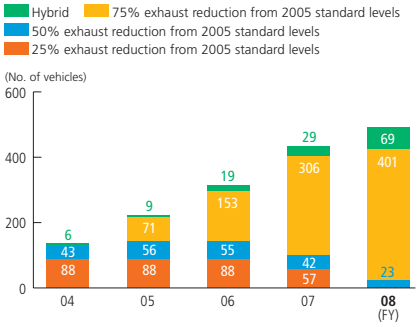


* For fiscal years prior to fiscal 2005, only figures for the CO_2 emissions of Shionogi & Co.'s sites are used.
* From fiscal 2005, figures for all greenhouse gases are included on a Group-wide basis.

Low-Emission Vehicles

Shionogi is introducing low-emission vehicles for use by MRs. In fiscal 2008—following the introduction of 69 hybrid vehicles, low-emission vehicles, and other vehicles that meet specified fuel economy standards—all 493 of the Company's marketing-use cars were low-emission vehicles that have exhaust emissions 50% or more below the 2005 standard level. Going forward, plans call for introducing vehicles, mainly hybrid cars, that have low levels of exhaust gases and high levels of fuel economy and for promoting greater use of public transportation within Tokyo.

Introduction of Low-Emission Vehicles (LEVs)



Chemical Substance Management

Because many chemical substances have an impact on human health, ecosystems, and the global environment, the pharmaceutical industry is autonomously implementing such measures as those to survey the amount of chemical substances used and reduce atmospheric emissions. The Shionogi Group properly managed its emissions of chemical substances into the atmosphere and water and otherwise undertakes the appropriate management of harmful chemical substances. In addition, we have a reagent control system in place for appropriate inventory management regarding chemicals used in R&D as well as access controls concerning poisonous and/or hazardous chemicals.

Environmental Emission Volume

Shionogi files reports based on the Pollutant Release and Transfer Register (PRTR) Law, which requires companies to measure, compile, and announce data on hazardous chemicals released into the environment. Going forward, we will continue to properly maintain a grasp of the amount of such chemicals we use, release, and transfer.

Environmental Accounting

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

Principal environmental investments in fiscal 2008 included such global environment protection expenditures as those for the renovation of lighting, air conditioning, and elevator-related equipment as well as such resource recycling expenditures as those for an outside drainage water system recycling facility at the plant of Bushu Pharmaceuticals. Principal expense items included maintenance and administration expenses associated with such facilities as those for the treatment of waste gas and wastewater as well as waste recycling and processing expenses. Real economic benefits included profit on the sale of waste liquids and metals from the Kanegasaki Plant and reduced expenses due to the shutdowns of accumulators at the Kuise Site, the switch to a different kind of disinfectant-use ethanol at the Kanegasaki Plant, and the shutting off of lights at intermediate product storage facilities.

Substances Reported under the PRTR Law

(kg, mg-TEQ for dioxins)

Site Name	Chemical Substance	Amount Used	Amount Released into Environment			Amount Transferred	
			Atmosphere	Natural waterways	Soil	Sewerage	Off-site
Kuise Site	Acetonitrile	9,481	53	0	0	0	9,428
	Dichloromethane	3,285	82	0	0	0	3,203
	Toluene	4,839	25	0	0	0	4,814
Settsu Plant	Dichloromethane	1,624	1,371	0	0	0	254
Kanegasaki Plant	Acetonitrile	62,204	6,759	0	0	0	27,571
	Dichloromethane	258,324	89,821	8	0	0	105,822
	N,N-dimethylformamide	58,354	380	0	0	0	0
	Pyridine	18,013	1,509	0	0	0	10,267
	Benzene	1,566	0	0	0	0	0
Shionogi Research Laboratories	Acetonitrile	6,370	3	0	0	4	6,363
	Chloroform	8,007	21	0	0	0	7,986
	Dichloromethane	1,455	27	0	0	0	1,429
Developmental Research Laboratories	Acetonitrile	1,063	0	0	0	0	1,063
	Dioxins	0	0	0	0	0	0
Bushu Pharmaceuticals	Acetonitrile	1,579	0	0	0	0	1,579
	Dichloromethane	1,374	1,147	0	0	0	227
Nichia Pharmaceutical Industries	Acetonitrile	2,363	0	0	0	0	2,363
	Ethylene glycol	5,709	0	0	0	0	4,000
	Dichloromethane	55,250	2,543	0	0	0	52,707
	N,N-dimethylformamide	1,296	0	0	0	0	1,294
	Toluene	11,342	0	0	0	0	11,342

Environmental Management Evaluation Report

Experts at the Institute for Environmental Management Accounting are providing Shionogi with their opinion regarding efforts to improve the reliability and transparency of disclosure of the Company's environmental activities and with advice on the Company's environment-friendliness and environmental management situation in the future.

Interview with Top Management

Environmental Management Evaluation Opinion Certificate

For more-detailed information on Shionogi's environmental activities and other activities, please visit our website at **URL:http://www.shionogi.co.jp/environment/eco/**

Financial Section

Six-Year Summary of Selected Financial Data

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

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

	Yen						U.S. dollars
Per share amounts:							
Net income	¥ 46.75	¥ 74.21	¥ 54.61	¥ 66.55	¥ 54.64	¥ 6.06	$ 0.48
Net assets	924.43	1,020.31	1,014.73	989.76	879.79	844.53	9.41
Cash dividends applicable to the year	28.00	22.00	16.00	16.00	12.00	8.50	0.29
Financial indicators:							
Interest coverage ratio (times)	37.3	306.3	225.6	72.1	68.5	32.4	
Net worth ratio (%)	61.7	82.7	80.4	78.8	75.5	77.7	

* U.S. dollar figures have been calculated, for convenience only, at the rate of ¥98.23 = US$1.00, the approximate rate of exchange on March 31, 2009.
* From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former shareholders' equity, valuation and translation adjustments, and minority interests as total net assets. Figures for fiscal years through the year ended March 31, 2006 have been calculated in conformity with the new standard.

Overview of Results

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

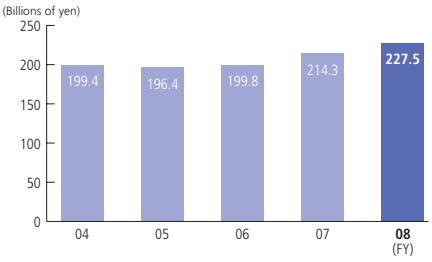
Amid this operating environment, the Shionogi Group proactively took R&D, manufacturing, and marketing initiatives designed to realize the goals of the Group's second medium-term management plan. This plan covers the period from April 2005 to March 2010, which is strategically positioned as the initial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

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

Net Sales

Net sales increased to ¥227,512 million, up 6.2% from the fiscal 2007 level. Factors supporting the increase included growth in sales of such mainstay prescription drugs as Crestor® and cancer pain drugs as well as contributions from such new drugs as Irbetan®, a hypertension treatment, and Differin® Gel, a topical treatment for acne vulgaris. On the other hand, sales of the anticancer agent Imunace® were reduced by the launch of competing products, and the impact of the NHI drug reimbursement price adjustment shrank the Japanese drug market and depressed net sales of antibiotics and other products, leading to an overall decline in net sales of prescription drugs. However, royalty income from industrial property rights increased greatly, reflecting the expanded overseas sales of Crestor® by AstraZeneca and the inclusion of Sciele Pharma in the scope of consolidation.

Net Sales



Gross Profit

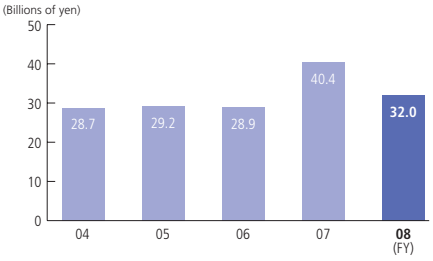
The cost of sales rose ¥2,335 million from fiscal 2007, to ¥70,929 million, but the cost of sales ratio decreased to 31.2% of net sales, from 32.0% owing to the rise in royalty income and the consolidation of Sciele Pharma. As a result, gross profit increased 7.5%, to ¥156,583 million.

Operating Expenses and Operating Income

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

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

Operating Income



Other Income (Expenses)

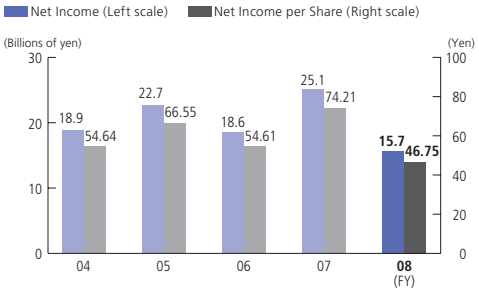
Net other expenses totaled ¥1,229 million, compared with net other expenses of ¥436 million in fiscal 2007. Net interest and dividend income decreased to ¥1,634 million, from ¥2,309 million for the previous fiscal year, and the gain on exchange of investments in securities fell to zero, although the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

Income before Income Taxes and Minority Interests and Net Income

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

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

Net Income and Net Income per Share



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

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

(Millions of yen)

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

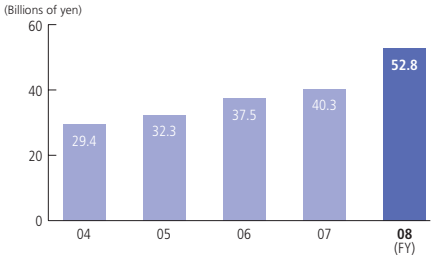
Research and Development Expenses

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

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

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

R&D Expenses



Cash Flows

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

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

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

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

Capital Investments

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

Assets, Liabilities, and Net Assets

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

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

Total liabilities increased ¥120,291 million from a year earlier, to ¥191,759 million. Current liabilities were up ¥34,360 million, to ¥76,804 million, while long-term liabilities grew ¥85,931 million, to ¥114,955 million. Principal factors behind the rise in total liabilities included growth of ¥10,000 million in short-term borrowings, ¥14,000 million in the current portion of long-term borrowings, and ¥91,000 million in new long-term borrowings together with a ¥4,562 million decrease in deferred income taxes.

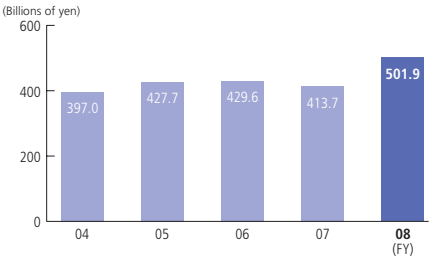
Total net assets decreased ¥32,142 million from a year earlier, to ¥310,094 million. While shareholders' equity increased ¥6,578 million, the net unrealized holding gain on securities was down ¥13,860 million, and translation adjustments were down ¥25,011 million.

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

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

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

Total Assets



Dividends

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

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

Business and Other Risks

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

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

① Systemic and Regulatory Risk

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

② Risk of Adverse Drug Reactions

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

③ Pharmaceutical R&D Risk

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

④ Intellectual Property Risk

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

⑤ Risk of Dependence on Certain Products

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

⑥ Intensification of Global Competition

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

⑦ Risk of Alliances with Other Companies

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

⑧ Plant Closure and Shutdown Risk

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

⑨ Capital Market and Foreign Exchange Risk

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

⑩ Other Risks

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

Consolidated Balance Sheets

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

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Income

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

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

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

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

See accompanying notes to consolidated financial statements.

1. Basis of Preparation

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

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

(b) Foreign currency translation

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

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

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

(c) Cash and cash equivalents

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

(d) Short-term investments and investments in securities

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

(e) Inventories

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

Change in accounting policy

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

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

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

Property, plant and equipment are stated at cost.

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

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

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

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

Supplemental information

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

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

Change in accounting policy

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

(g) Intangible assets (other than leased assets)

Intangible assets are amortized by the straight-line method.

(h) Leases

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

Change in accounting policy

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries applied "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 issued on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 issued on March 30, 2007). Under this accounting standard, finance lease transactions that do not transfer ownership, which had previously been accounted for as operating leases, are capitalized and recognized as fixed assets. As a result, leased assets of ¥3 million ($3,054 thousand), which are included in property, plant and equipment, were recognized. There was no impact on operating income and income before income taxes and minority interests.

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

(i) Goodwill

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

(j) Research and development expenses and computer software

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

(k) Income taxes

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

(l) Allowance for doubtful accounts

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

(m) Allowance for employees' bonuses

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

(n) Retirement benefits

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

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

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

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

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

(o) Hedge accounting

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

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

(p) Distribution of retained earnings

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

3. U.S. Dollar Amounts

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

4. Change in Accounting Policy

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

5. Short-Term Investments and Investments in Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(6) Change in holding purpose of securities

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

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

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

6. Inventories

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

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

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

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

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

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

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

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

8. Installment Accounts Payable

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

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

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

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

9. Pledged Assets

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

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

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

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

10. Contingent Liabilities

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

11. Shareholders' Equity

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

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

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

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

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

	Number of shares			
	2009			
	March 31, 2008	Increase	Decrease	March 31, 2009
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	16,013,128	176,697	—	16,189,825

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

12. Income Taxes

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

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

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

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

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

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

13. Leases

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

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

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

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

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

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

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

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

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

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

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

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

14. Retirement Benefits

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

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

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

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

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

	2009	2008
Discount rate	**2.0%**	2.0%
Expected rates of return on plan assets	**3.6%**	2.2%

15. Research and Development Expenses

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

16. Special Contract Expenses

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

17. Casualty Losses

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

18. Related Party Transactions

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

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

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

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

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

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

19. Supplementary Cash Flow Information

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

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

20. Amounts per Share

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

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

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

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Information used in computation of basic net income per share:			
Net income	¥15,661	¥25,064	$159,432

	Thousands of shares	
	2009	2008
Weighted-average number of shares of common stock outstanding	335,022	337,744

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

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

	Thousands of shares	
	2009	2008
Number of shares used in the calculation of net assets per share	334,946	335,123

21. Derivatives

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

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

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

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

22. Segment Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Europe: United Kingdom, Switzerland, Germany and other

(2) Other: North America, Asia and other

23. Business Combinations

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

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

The assets acquired and liabilities assumed are as follows:

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

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

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

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

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

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

24. Litigation

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

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

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

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

25. Subsequent Events

(1) Dividend

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

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

(2) Acquisition of Victory Pharma, Inc.

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

(3) Bond issuances

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

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

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

ERNST & YOUNG

Ernst & Young ShinNihon LLC

Report of Independent Auditors

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, 2009 and 2008, 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, 2009 and 2008, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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.

Ernst & Young ShinNihon LLC

Osaka, Japan
June 25, 2009

Corporate Data

(As of March 31, 2009)

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: 6,010 Non-consolidated: 4,262
Category of Business	Marketing and manufacturing of drugs
Type of Business	Manufacture and sale of pharmaceutical products, diagnostics, and other related products
Fiscal Year-End	March 31
Net Sales	Consolidated: ¥227,511 million, Non-consolidated: ¥206,753 million (Year ended March 31, 2009)

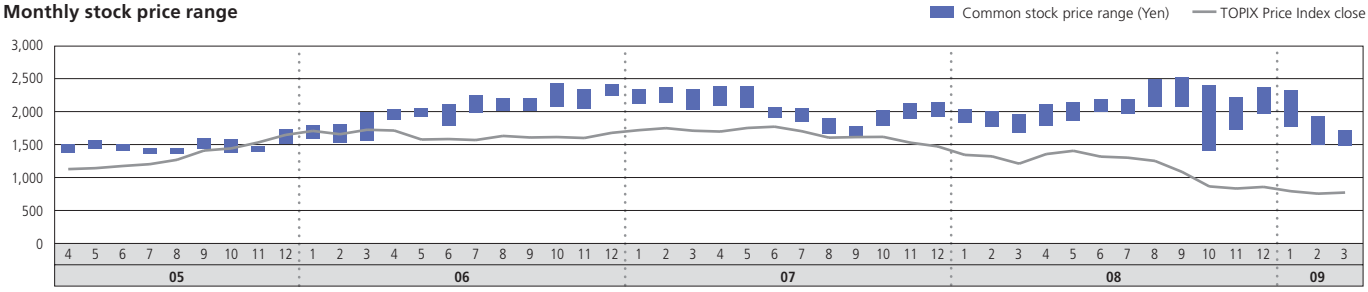
Stock (Securities) Listings	Osaka, Tokyo (#4507)
Common Stock	Authorized: 1,000,000,000 shares Issued: 351,136,165 shares Number of shareholders: 20,353
Transfer Agent	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department, 5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

Major Shareholders

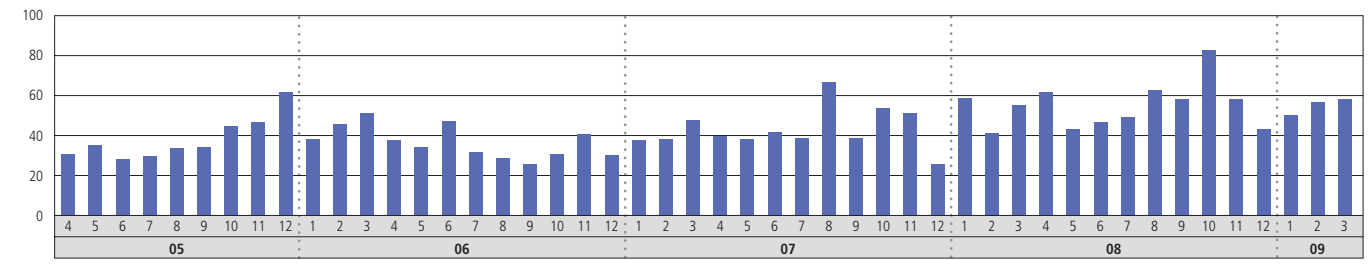
Name	Number of shares (Thousands)	Percentage of total shares
The Master Trust Bank of Japan, Ltd. (trust account)	21,828	6.22
Japan Trustee Services Bank, Ltd. (trust account)	19,858	5.66
Sumitomo Life Insurance Company	18,604	5.30
The Chase Manhattan Bank NA, London Secs Lending Omnibus Account	17,191	4.90
Shionogi & Co., Ltd.	16,189	4.61
Japan Trustee Services Bank, Ltd. (trust account)	14,930	4.25
Nippon Life Insurance Company	13,138	3.74
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
State Street Trust and Banking Company, Limited	8,385	2.39
NIPPONKOA Insurance Co., Ltd.	7,551	2.15

Stock Price Range and Trading Volume (Tokyo Stock Exchange)

Monthly stock price range



Monthly trading volume (Million shares)



Shionogi Group Directory

(As of March 31, 2009)

Major Business Locations

Head Office/Branch Offices

1 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

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