SHIONOGI & CO., LTD.

SONG for the Real Growth

Annual Report 2012

Year ended March 31, 2012

Contents

Editorial Policy

Period Under Review
Fiscal 2011 (April 1, 2011–March 31, 2012)
Certain activities continuing after fiscal 2011 are also included.

Scope and Organization
This Annual Report encompasses the activities of Shionogi & Co., Ltd. and 34 companies (30 consolidated subsidiaries and 4 affiliates).

The section entitled Efforts to Preserve the Environment covers all business facilities of Shionogi & Co., Ltd., six domestic subsidiaries, and overseas manufacturing subsidiaries. In this report, "Shionogi" refers to Shionogi & Co., Ltd. and all its on-site subsidiaries. "Domestic subsidiaries" refers to the one domestic manufacturing subsidiary (Shionogi Pharma Chemicals Co., Ltd.) and two domestic non-manufacturing subsidiaries (Shionogi General Service Co., Ltd. and Saishin Igaku 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.

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 of these pharmaceuticals nor provide medical advice of any kind.

FUNDOH Means Pursue the Truth

Shionogi's corporate emblem is derived from FUNDOH, which is a weight used to measure medicine on a balance. FUNDOH was registered as a trademark in 1909, but has changed shape as the years have gone by. However, it still symbolizes "accuracy", "honesty" and "trust," and expresses Shionogi's wish for the constant pursuit of the truth.

Founder Gisaburo Shiono, Sr.

Shionogi founder Gisaburo Shiono, Sr. was born in 1854 as the third son of Kichibe Shionoya, a second generation owner of a drug wholesaler in Doshomachi, Osaka. Gisaburo Shiono, Sr., who had learned the wholesale trade under the guidance of his father Kichibe, left home in 1874 and launched his own drug wholesaling business on his 24th birthday on March 17, 1878. This wholesaler was Shiono Gisaburo Shoten, which was the predecessor of Shionogi & Co., Ltd.

The Company Policy of Shionogi

Shionogi's purpose

Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

For this purpose, Shionogi will need to

Pursue the search for even better medicines.
Produce even better medicines.
Promote awareness of these better medicines to more people so that more people will be able to use these medicines.
Research, 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)

Shionogi's History

1878
Gisaburo Shiono, Sr., founder of the Company, launched Shiono Gisaburo Shoten as a drug wholesaler at the present site of the head office, Doshomachi, Osaka.

1886
The management of Shionogi decided to concentrate on imported western drugs.

1897
Shionogi started to deal directly with trading firms in Europe and the US.

1909
Antacidin, an antacid agent, was launched as the first drug produced.
The corporate emblem FUNDOH was registered.

1910
A manufacturing plant, Shiono Seiyakusho, was constructed.

1919
Shiono Gisaburo Shoten and Shiono Seiyakusho were merged and the new company was named Shionogi Shoten Co., Ltd.

1922
Established the Kuise Plant (Now Kuise Site).

1943
The Company was given its name, Shionogi Seiyaku K.K. (Now Shionogi & Co., Ltd.).

1946
Developed the Aburahi Laboratories (Now Aburahi Facilities)

1957
The Company Policy of Shionogi was established.

1958
Established the Detail-man system.

1961
Constructed the Shionogi Research Laboratories.

1963
Activities of the veterinary drugs, agricultural chemicals and clinical laboratory started. Transferred in 2002, 2001 and 2002, respectively.
Taiwan Shionogi & Co., Ltd. was established.

1968
Established the Settsu Plant.

1980
Established the Developmental Research Laboratories (Now Shionogi Pharmaceutical Research Center (SPRC))

1983
Constructed the Kanegasaki Plant.

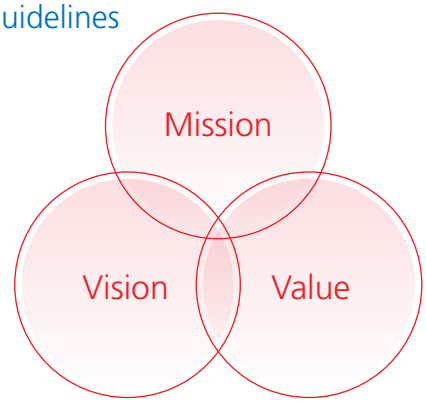
1992
Established Shionogi Qualicaps Co., Ltd. (Sold in 2005).

1997
Launched a cephem antibiotic, *Flomox*

1998
Established the Shionogi Charter of Conduct.
Established Ohmori Co., Ltd., a wholesaler of pharmaceuticals (Sold to Suzuken Co., Ltd. in 2002).
Established Bushu Pharmaceuticals Ltd., a toll manufacturing company (Sold in 2010).

1878 1900

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

Shionogi is looking to realize the Company Policy—"to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve"—on a global basis.

Shionogi has begun measures to advance toward the new stage where we can all feel the real growth.

2000
The First Medium-Term Business Plan starts.

2001
Established Shionogi USA, Inc. (Now Shionogi Inc.)
Established a joint venture named Shionogi-GlaxoSmithKline Pharmaceuticals LLC (Now Shionogi-ViiV Healthcare LLC).

2002
Launched the allergy medication, *Claritin*.

2003
Launched the cancer pain analgesic, *OxyContin*.

2005
The Second Medium-Term Business Plan starts.
Launched the hyperlipidemia treatment, *Crestor*.
Launched the carbapenem antibiotic, *Finibax*.

2007
Launched the cancer pain analgesic, *OxiNorm*.

2008
Established Shionogi Analysis Center Co., Ltd.
Launched the hypertension treatment, *Irbetan*.
Established a joint research facility with Hokkaido University, Shionogi Innovation Center for Drug Discovery.
Acquired Sciele Pharma, Inc.
Launched the acne vulgaris treatment, *Differin*.
Launched the idiopathic pulmonary fibrosis treatment, *Pirespa*.

2009
Established Ezose Sciences, Inc., a venture company providing serum glycan analysis services.

2010
The Third Medium-Term Business Plan starts.
Launched the anti-viral drug for influenza, *Rapiacta*.
Launched the antidepressant drug, *Cymbalta*.
Established the PET Molecular Imaging Center at the Osaka University Graduate School of Medicine.
Established Shionogi Inc. as the US group headquarters.
Established Shionogi Techno Advance Research Co., Ltd.

2011
Completed a new research facility SPRC4.
Acquired a Chinese pharmaceutical company, C&O Pharmaceutical Technology (Holdings) Limited.

2012
Established a European subsidiary, Shionogi Limited.
Launched the injectable cancer pain analgesic, *OxiFast*.

2000 2005 2010

Snapshot

Priority Domains

Shionogi

has three priority therapeutic areas: infectious diseases, metabolic syndrome and pain. The Company is also focusing on frontier fields such as allergies and cancer.

- Infectious Diseases
- Metabolic Syndrome
- Pain
- Frontier Fields (allergies, cancer, and others)

Major Products

Shionogi

is aiming to achieve sustained growth over the medium and long terms by concentrating business resources on strategic products and growing market share.

8 Strategic Products

3 Core Strategic Products

Crestor
(Hyperlipidemia treatment)
Sales
¥35.7 billion
(¥64.7 billion*)
*Royalty income

Irbetan
(Antihypertensive)
Sales
¥8.9 billion

Cymbalta
(Depression/depressive condition, diabetic neuropathic pain)
Sales
¥6.6 billion

OxyContin
OxiNorm
OxiFast
(Cancer pain analgesic)
Sales
¥8.9 billion

Finibax
(Carbapenem antibiotic)
Sales
¥4.7 billion

Differin
(Acne vulgaris treatment)
Sales
¥3.7 billion

Pirespa
(Idiopathic pulmonary fibrosis treatment)
Sales
¥3.4 billion

Rapiacta
(Antiviral drug for influenza)
Sales
¥1.4 billion

The above product sales are actual sales results for fiscal 2011.

For more detailed information, please refer to pages **32** and **33**. ▶▶

The Third Medium-Term Business Plan Targets

Shionogi

is aiming to generate net sales of ¥600.0 billion in fiscal 2020 by steadily executing three basic strategies.

Fiscal 2011 (Actual)
Net sales
¥267.3 billion
Operating income
¥47.0 billion

Fiscal 2014 (Plan)
Net sales
¥375.0 billion
Operating income
¥110.0 billion

Fiscal 2020 Aim
Net sales
¥600.0 billion
Operating margin
At least 25%
Overseas net sales ratio
At least 50%

Basic strategy 1
Steady growth mainly through enriched pipeline

Basic strategy 2
Investments in the new growth drivers

Basic strategy 3
Therapeutic areas to be focused on

Pipeline

Shionogi

has a rich pipeline that will serve to drive its growth.

Submission/approval	Phase III	Phase II	Phase I
6 compounds	3 compounds	11 compounds	7 compounds

(As of August 2012)
(Includes jointly developed compounds, licensed-in compounds, and licensed-out compounds)

Attention Products

Submission
Ospemifene
(Selective estrogen receptor modulator for post-menopausal vulvar and vaginal atrophy)

Ospemifene is an oral non-estrogen drug that stimulates estrogen receptors in the vaginal mucosa. It is being developed for treating conditions in which declining estrogen levels have adversely affected the thickness of vaginal epithelial cells, elasticity, and vaginal secretion. It lacks the side effects associated with traditional estrogen-related products.

Phase III
Dolutegravir (S-349572)
(HIV integrase inhibitor)

Dolutegravir displays stronger antiviral activity than existing integrase inhibitors, as well as an excellent resistance profile and favorable pharmacokinetics (once-daily administration without a booster is possible). It is moreover an oral drug that can be administered in combination with other HIV medications.

Phase II
S-297995
(Peripheral opioid receptor antagonist for alleviating opioid-induced adverse effects)

S-297995 is an oral medication that has minimal CNS effect and selectively targets peripheral opioid receptors. It is therefore effective in alleviating opioid-induced adverse effects including nausea/vomiting and constipation, yet exerts no adverse impact on the analgesic effect of opioids.

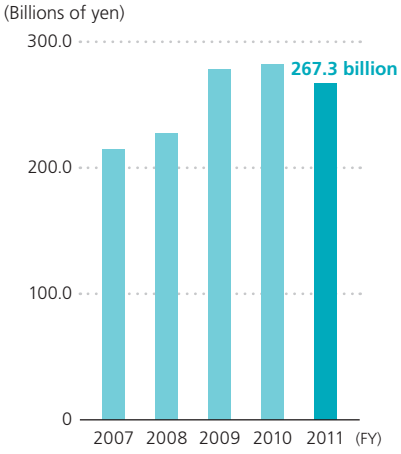
For more detailed information, please refer to pages **26** and **27**. ▶▶

Consolidated Financial Highlights

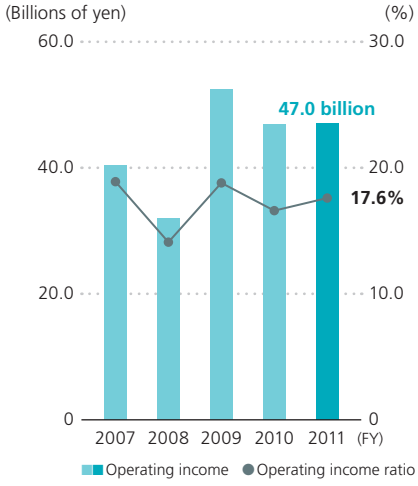
	Millions of yen			Thousands of U.S. dollars
	FY2009	FY2010	FY2011	FY2011
For the years ended March 31:				
Net sales	¥ 278,503	¥282,350	¥ 267,275	$3,254,292
Cost of sales	76,264	81,737	77,753	946,706
Selling, general and administrative expenses	149,801	153,721	142,519	1,735,286
Operating income	52,438	46,892	47,003	572,300
Income before income taxes and minority interests	58,541	33,135	41,495	505,236
Net income	38,626	20,027	27,102	329,989
Research and development expenses	51,808	50,921	53,599	652,612
Capital investments	12,547	17,967	13,233	161,123
Depreciation and amortization	18,048	17,966	16,282	198,247
Net cash provided by operating activities	52,902	56,528	54,724	666,310
Net cash used in investing activities	(826)	(13,947)	(38,290)	(466,212)
As of March 31:				
Property, plant and equipment, net	¥ 62,448	¥ 70,221	¥ 74,282	$ 904,444
Total assets	540,762	523,242	522,162	6,357,750
Total long-term liabilities	131,956	115,326	92,900	1,131,134
Total net assets	341,976	328,096	347,198	4,227,420
Per share amounts:		Yen		U.S. dollars
Net income	¥ 115.33	¥ 59.80	¥ 80.93	$ 0.99
Net assets	1,019.71	979.69	1,027.83	12.51
Dividends	36.00	40.00	40.00	0.49
Other:				
Equity ratio (%)	63.2	62.7	65.9	
Return on equity [ROE] (%)	11.9	6.0	8.1	
Return on assets [ROA] (%)	9.7	8.5	8.8	
Payout ratio (%)	31.2	66.9	49.4	

* U.S. dollar figures have been calculated, for convenience only, at the rate of ¥82.13 = US$1.00, the approximate rate of exchange on March 31, 2012.

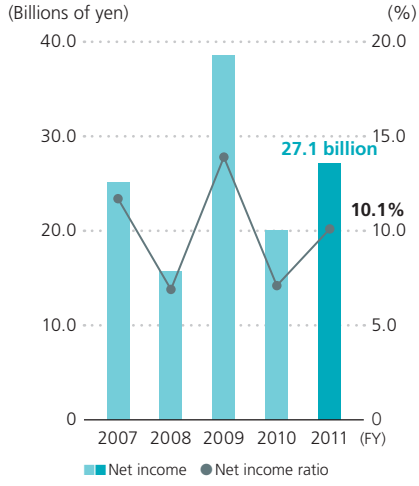
Net Sales



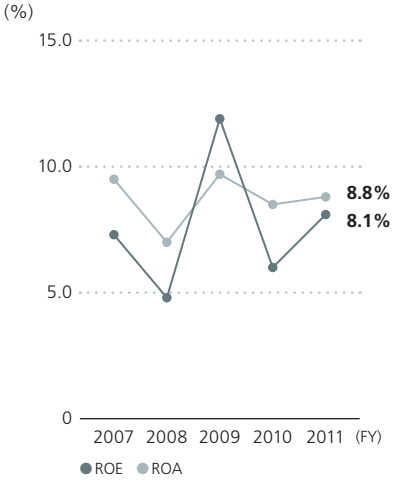
Operating Income / Operating Income Ratio



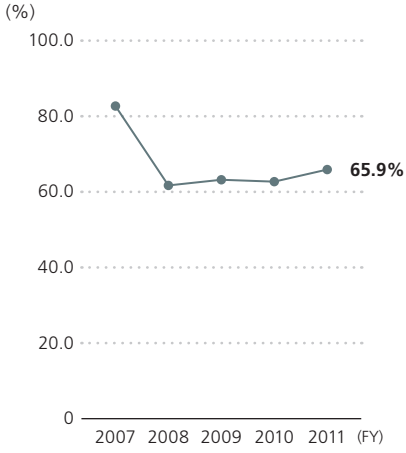
Net Income / Net Income Ratio



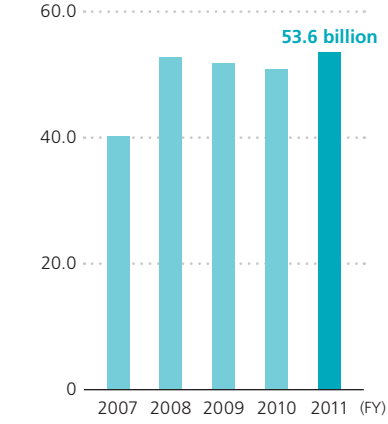
ROE / ROA



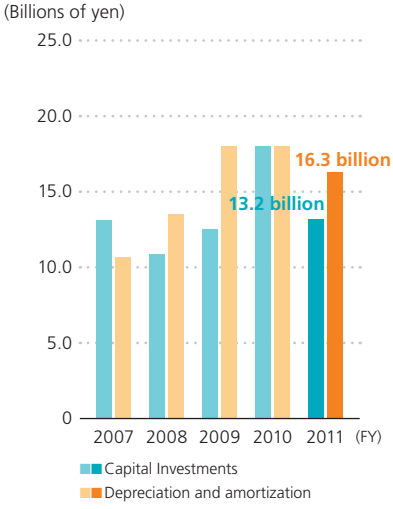
Equity Ratio



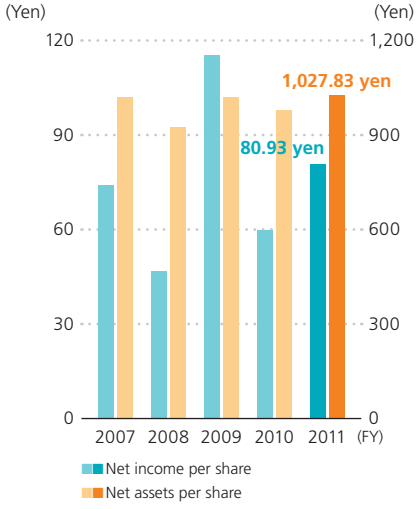
Research and Development Expenses



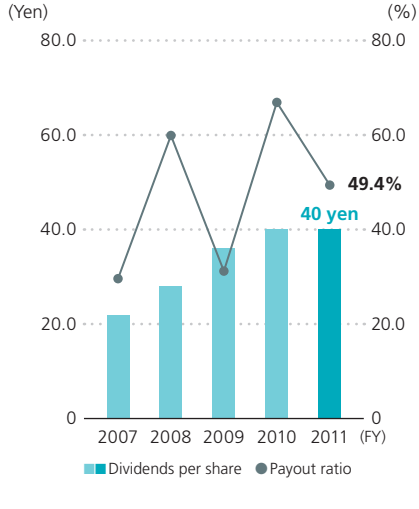
Capital Investments / Depreciation and Amortization



Net Income per Share / Net Assets per Share



Dividends per Share / Payout Ratio



To Our Stakeholders

Industry Operating Environment

Across the pharmaceutical industry, business is becoming much more global in nature, leading to increasingly fierce international competition. Mega-pharma companies from Western countries are stepping up their push into Japan and other Asian markets, while Japanese pharmaceutical companies are now focusing more and more on emerging economies as well as the US and Europe. In order to surmount this fierce competition and achieve sustained growth, pharmaceutical companies around the world are adopting new approaches to R&D. Whereas companies previously tended to target blockbuster markets with many patients—especially treatments for lifestyle diseases—there has been a shift of late toward R&D targeting areas of unmet medical needs, even if patient numbers are smaller. Going forward, we think that companies capable of swiftly and accurately identifying unmet medical needs, and bringing a sustained flow of innovative new drugs to market, will be at the forefront of the global pharmaceutical industry.

Turning our attention to the domestic market, pharmaceutical company earnings are being substantially affected by reforms to the drug pricing system, including additional reductions in price for long-listed drugs, and the "NHI Drug Price Premiums for Promoting the Creation of New Drugs and the Elimination of Off-label Drug Use," introduced on a trial basis in fiscal 2010.

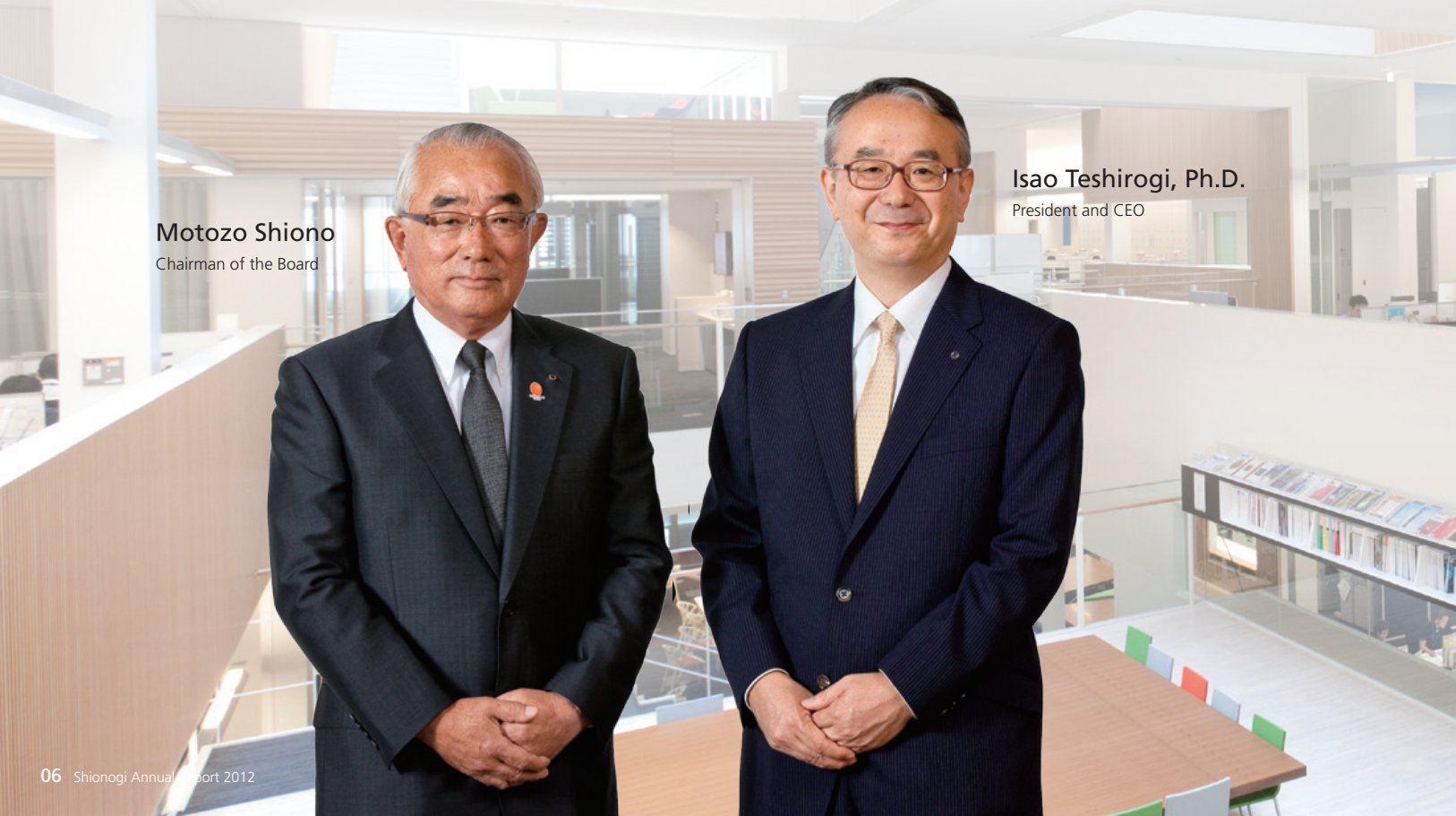
Under these circumstances, we think the ability to consistently provide patients with the drugs they need will be crucial for pharmaceutical companies looking to achieve sustained and lasting growth.

Fiscal 2011 in Review

The Company Policy of Shionogi is "to strive constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve." We believe that by realizing this goal on a global basis we can contribute to the interests of patients and healthcare professionals, shareholders and other investors, business partners and employees, and indeed all Shionogi stakeholders.

We are in the midst of our Third Medium-Term Business Plan, spanning the five years from fiscal 2010 to 2014. Under this Plan, we are implementing various initiatives aimed at overcoming the "Crestor Cliff" represented by the expiration of patents for the hyperlipidemia treatment *Crestor* in 2016 and 2017, and ensuring renewed growth thereafter.

We feel that steady progress was made toward our medium-term objectives in fiscal 2011, when we achieved year-on-year growth in excess of 20% for domestic sales of our eight strategic products, on which we are focusing resources with a view to securing stable earnings. At the same time, we are making a concerted effort to streamline costs of all description—including manufacturing and selling,



Motozo Shiono
Chairman of the Board

Isao Teshirogi, Ph.D.
President and CEO

general and administrative (SG&A) expenses—with the aim of shedding excess flab and adding muscle.

Overseas, the US subsidiary acquired for the purpose of expanding our sales network now has new management, under which it has progressed from lackluster earnings last fiscal year to being capable of stable performance. We took several other steps to build a foundation for overseas growth, including the takeover of a Chinese company, establishment of a European development base, and full opening of the Shionogi Pharmaceutical Research Center (SPRC). As evidenced also by the advances made in global development of our anti-HIV drug, fiscal 2011 was a year of solid progress in the initiatives being undertaken to realize Shionogi's vision for the future.

Our Initiatives Ahead

The Shionogi Group will continue to implement its Third Medium-Term Business Plan to ensure global realization of our Company Policy.

On the domestic market, we will pursue further efficiencies in expenditure while at the same time concentrating resources on our eight strategic products in order to minimize the impact of NHI drug price revisions and grow sales.

Overseas, we will be working to expedite the launch of our treatment drug for vulvar and vaginal atrophy for which there is high market potential, with an eye to growing our US business. In China, we plan to expand our operations by using appropriate detailing activities to garner an increased share of the antibiotics market, while also debuting products other than antibiotics.

On the research front, we will maintain a focus on infectious diseases and certain other therapeutic areas, while at the same time leveraging the now fully operational SPRC to conduct research into areas of unmet medical needs. In addition, we will continue undertaking joint research with academia, both domestically and internationally. In the sphere of development, we will continue to focus our resources in order to achieve a launch, even one day sooner, for the global development compounds we have identified as future growth drivers; these include an anti-HIV drug, a treatment for opioid-induced adverse effects, an allergic rhinitis treatment, and cancer peptide vaccines.

In Closing

At the Shionogi Group, we are determined to implement the Company Policy on a global basis, in doing so, serving the interests of all parties with a stake in the Company. We look forward to receiving ongoing support and guidance from all our stakeholders.

Motozo Shiono
Chairman of the Board

Isao Teshirogi, Ph.D.
President and CEO

Interview with the President

I believe that if Shionogi is to continue growing, we must first achieve globalization as called for in the Company Policy.

Isao Teshirogi, Ph.D.
President and CEO

Question 1

First, could you sum up the Company's business activities in fiscal 2011?

In addition to stabilizing our struggling US operation, we acquired a Chinese pharmaceutical company and established a subsidiary for development in Europe. We also advanced some global development compounds including an anti-HIV drug. All in all, I think it was an important year in terms of stepping stones toward globalization.

Our US business had been performing poorly since fiscal 2010, beset by fierce generic competition, quality control issues, and higher-than-anticipated sales deductions. In the second half of fiscal 2011, however, we managed to stabilize earnings by in-licensing new products and recognizing impairment losses, and by revising how we estimate allowances for rebates and returns. In addition, nearly a year has now passed since we acquired Chinese company, C&O Pharmaceutical Technology (Holdings) Limited, and made it into a consolidated subsidiary. Thus far its contribution to earnings is by no means large, as a public announcement of impending tough new regulations in China concerning the clinical use of antibiotics has caused the market to contract. However, we think it has an important role to play in enhancing our profile in China. In February 2012, we launched Shionogi Limited in the UK. This new development base joins those already established in Japan and the US, and represents solid progress in laying the foundations for globalization.

Our anti-HIV agent, *dolutegravir* (generic name) is currently the subject of multiple Phase III studies around the world, and has already achieved some favorable results. With regard to *ospemifene* (generic name), our treatment for vulvar and vaginal atrophy (VVA), we completed the bioequivalence testing necessary to file for regulatory approval in the US, and submitted a new drug application to the FDA. Elsewhere, new drug development is proceeding broadly as planned, with S-297995 (alleviation of opioid-induced adverse effects) advancing to Phase IIb trials in the US, and S-555739 (allergic rhinitis treatment) doing likewise in Japan while also entering a Phase IIa study in the US. Furthermore, we inked an agreement with Irish pharmaceutical company, Shire plc to jointly develop and commercialize treatments for attention deficit hyperactivity disorder drugs, while also expanding the scope of licensing rights covered by our peptide vaccine agreement with OncoTherapy Science, Inc.

In July 2011, with a view to improving research productivity, we integrated drug discovery functions previously dispersed among several sites, building a new pharmaceutical research building that will form the core of our drug discovery operation, at our research facility in Toyonaka City, Osaka. This marked the full-scale launch of the Shionogi Pharmaceutical Research Center (SPRC). In order to secure new drug seeds, we are also continuing to explore new therapeutic areas.

In terms of business performance, domestic sales of our eight strategic products grew approximately 26% year on year, with prescription drug sales as a whole reaching ¥164.4 billion. Consolidated net sales fell 5.3% to ¥267.3 billion, however, on a decline in overseas sales caused by weakness at our US operation. Operating income was roughly flat year on year at ¥47.0 billion, as fiscal 2010 was a 15-month accounting period for Shionogi Inc. and also reduced sales expenses as a result of the Great East Japan Earthquake contributing to Group-wide expense reduction activities. Net income rose 35.3% year on year to ¥27.1 billion, as a 2.0% increase in ordinary income, to ¥46.1 billion, combined with the absence of quake-related losses and US business restructuring expenses booked the previous fiscal year.

Net sales

Fiscal 2010		**Fiscal 2011**
¥282.4 billion	→	**¥267.3 billion**

Positive factor: Growth in Japan sales of 8 strategic products

Negative factor: Sluggish US operations

Operating income

Fiscal 2010		**Fiscal 2011**
¥46.9 billion	→	**¥47.0 billion**

Positive factor: Benefits of Company-wide expense reduction activities

Negative factor: Lower earnings due to lower sales

Question 2

What initiatives do you consider necessary to achieve growth for Shionogi over the medium to long terms?

In order to survive this era of harsh global competition and achieve sustained growth, we think it essential to bring revolutionary new drugs to overseas markets. To that end, the Shionogi Group formulated its Third Medium-Term Business Plan, outlining a vision for the future and initiatives to support ongoing growth.

If Shionogi is to rise above fierce global competition and achieve independent and ongoing growth, we need to secure a solid earnings foundation in Japan, our mother market, as well as run a stable operation in the US, the world's largest pharmaceutical market. We also need to increase our share in high-growth overseas markets, especially emerging nations. With this in mind, in March 2010, we unveiled our Third Medium-Term Business Plan based on our vision for the Company 10 years from now. The plan calls for net sales of ¥600.0 billion, an operating margin of more than 25%, and an overseas net sales ratio of more than 50%, and outlines initiatives for overcoming the so-called "Crestor Cliff," referring to the expiration of patents for *Crestor* in 2016–2017. At Shionogi, we are implementing three basic strategies in order to achieve these medium-term goals.

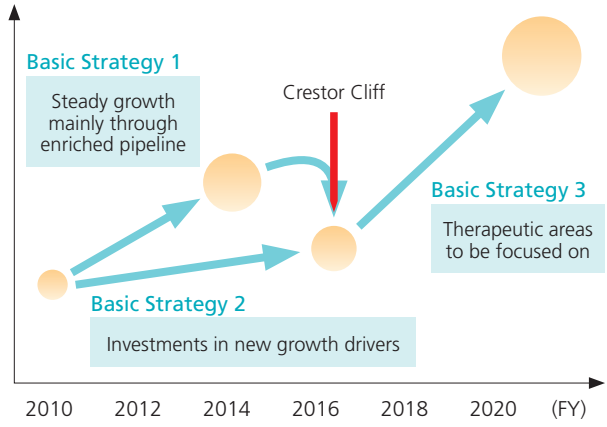
The first of these basic strategies is "steady growth mainly through enriched pipeline," geared toward establishing a robust

earnings base not dependent on long-listed drugs, including off-patent drugs. To this end, we are working to increase domestic sales of the eight drugs we have identified as strategic products. For fiscal 2011, these eight strategic products accounted for approximately 45% of Shionogi's prescription drug sales in Japan. This marked a 16-point advance from fiscal 2009, when we formulated the current business plan, for a ¥29.0 billion increase in revenue. Our second basic strategy is "investments in new growth drivers" with an eye to surmounting the "Crestor Cliff," based on which we aim to develop new pipeline products capable of buoying global earnings. We have assigned top priority to our anti-HIV drug as well as to S-297995 and S-555739. All have now advanced to the clinical trial stage, along with other compounds including peptide vaccines and a Gram-negative cephem jointly developed with GlaxoSmithKline plc. Among initiatives supporting our third basic strategy of "therapeutic areas to be focused on" and the discovery of development candidates capable of underpinning an era of renewed growth 10 years from now, we undertook collaborative research with AnGes MG, Inc. on NF-κB decoy oligodeoxynucleotide for atopic dermatitis, and also pursued research into drugs for chronic pain.

The July 2011 completion of our newest research building saw all research functions brought under one roof in Toyonaka City, Osaka. Going forward, we will continue recruiting quality personnel to support a flow of innovative new drugs from the Osaka site, which has played an integral role in Shionogi's long history dating back to 1878.

Shionogi Medium- to Long-term Vision

Overcome the so-called "Crestor Cliff" and enter an era of renewed growth



Question 3

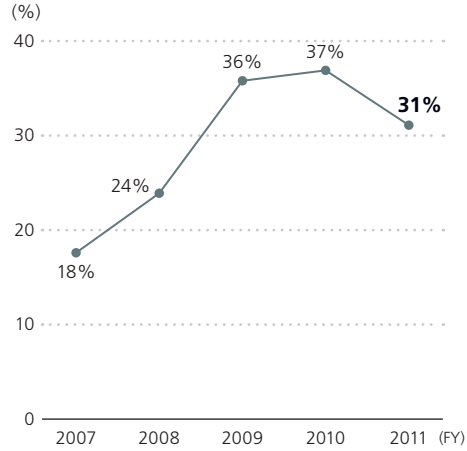
What issues have you identified that stand in the way of achieving the objectives of the Third Medium-Term Business Plan?

I believe our greatest challenge in achieving the goals of the Third Medium-Term Business Plan is reversing the downturn in sales of overseas markets.

In fiscal 2014, the final year of the Third Medium-Term Business Plan, we are targeting net sales of ¥375.0 billion and an operating income of ¥110.0 billion. That net sales target includes ¥200.0 billion for the domestic market, ¥87.0 billion for overseas markets, and ¥75.0 billion for *Crestor* royalties. In fiscal 2011, though, these sales totaled ¥164.4 billion, ¥17.0 billion and ¥64.7 billion, respectively; as such overseas sales in particular remain well short of our fiscal 2014 target.

To fill that gap, it is imperative that we increase sales in the US market. While we have managed to stabilize the business performance of our US subsidiary, Shionogi Inc., it seems not enough has been done to secure growth. Moreover, in fiscal 2011 our overseas net sales ratio slid six points year on year to 31%, highlighting a lack of progress in launching new drugs. We consider *ospemifene*,

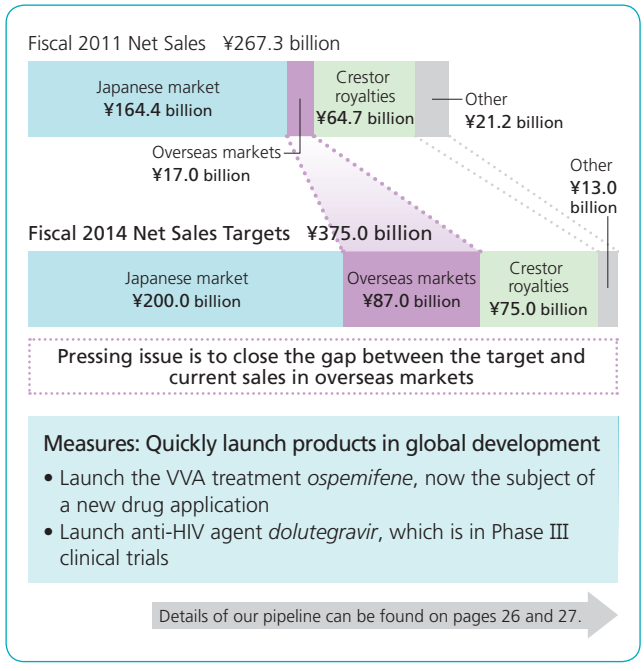
Overseas Net Sales Ratio



now the subject of a new drug application, key to breaking this impasse and growing the top line. We believe this drug has ample potential as a VVA treatment drug. In addition to its superior profile, there is a lack of any competitors with the same mechanism. We further believe that *dolutegravir*, currently under development at Shionogi-ViiV Healthcare LLC, can make a substantial contribution to our earnings in markets in Europe and the US, where demand for anti-HIV drugs is huge. We intend to prioritize the allocation of business resources to these products, if that means bringing them to market even one day sooner.

We also view China as a crucial market. There, we aim to steadily grow sales by marketing products already offered by our new consolidated subsidiary, C&O, alongside the carbapenem antibiotic *Finibax* and other proprietary products that we plan to launch. In this manner, we plan to build a solid earnings foundation over the medium to long term. Through these initiatives for the US and Chinese markets, we believe we can further improve on our overseas net sales.

As well as growing sales, we are also working toward an operating income of ¥110.0 billion, to which end we are marshaling all our resources to rein in costs. Measures to improve manufacturing costs have included changing suppliers for raw materials and production sites. However, it takes time to deal with the accompanying procedures and quality control requirements. As such, significant benefits are yet to emerge. On the subject of SG&A expenses, the various initiatives undertaken thus far have not been without cost. Since the start of the Third Medium-Term Business Plan, however, we have adopted a budgeting approach. By assigning a clear order of priority to the initiatives undertaken to reach our performance goals, we have been able to allocate resources more effectively. While SG&A expenses have remained roughly flat since the Plan was formulated in fiscal 2009, we will not be stinting in our effort to optimize expenditure.



Question 4

Please discuss initiatives planned for fiscal 2012, the midpoint for your Third Medium-Term Business Plan.

In Japan, we will continue striving to stabilize earnings through a focus on our eight strategic products, with a view to offsetting the impact of lower reimbursement resulting from NHI drug price revisions. In overseas markets, we will conduct pre-launch activities for *ospemifene* and *dolutegravir*, to ensure smoother growth in sales post-launch. In China, our objective is to restore sales of antibiotics by promoting proper use.

In the domestic market, six of our eight strategic products will be eligible for "NHI Drug Price Premiums for Promoting the Creation of New Drugs and the Elimination of Off-Label Drug Use." Under the NHI drug price revisions of April 2012, the revision rate for Shionogi products averaged less than 6%, lighter than the industry average of over 6%. The hyperlipidemia treatment, *Crestor*, the antihypertensive, *Irbetan* and the antidepressant *Cymbalta* (which in February 2012 won approval for the additional indication of diabetic neuropathic pain) are all performing well overseas. In Japan, too, combined sales of the three products grew 32% year on year in fiscal 2011, and in our view will continue rising in fiscal 2012 onward. We aim to neutralize the impact of NHI drug price revisions, thereby contributing to stable earnings, by impressing on medical professionals the advantages of prescribing our eight strategic products.

On the subject of our medium- to long-term outlook for overseas markets, conditions remain tough in the US market in fiscal 2012. These difficulties notwithstanding, Shionogi Inc. will continue working to grow sales of existing products, along with undertaking a pre-launch educational campaign for *ospemifene*, aimed at ensuring quick growth in sales after launch. In China, the public announcement of impending regulations has caused the antibiotics market to contract. Shionogi, however, has prior experience promoting the proper use of antibiotics in Japan. C&O intends to seize this opportunity and secure greater market share for its mainstay penicillin-based antibiotic, *Amolin*, and for the oxacephem antibiotic, *Flumarin*, originally developed by Shionogi. C&O will also work to launch products outside of the antibiotics market.

November 2011 saw the launch of generic versions of *Lipitor*, a rival drug for *Crestor*. Going forward, we will maintain a close watch on sales of *Crestor* by AstraZeneca plc, and monitor the impact on Shionogi royalties.

On the R&D front, we will forge ahead with global development of *dolutegravir*. We expect to have results from Phase III clinical studies by the end of 2012, based on which we will seek regulatory approval for *dolutegravir*. While planning to vigorously pursue development of other pipeline products, we intend to cap R&D expenses at 20% of net sales. As with other expenses, spending on R&D will be in line with the level of priority assigned to individual compounds.

Main Initiatives in Fiscal 2012

Sales

- Japan: Step up sales of the 8 strategic products
- US: Raise sales at Shionogi Inc.
- China: Expand the antibiotics market share

R&D

- Turn out four or more high-quality development candidates
- Globally develop and file for regulatory approval of *dolutegravir*
- Conduct a public awareness campaign ahead of the launch of *ospemifene*

Question 5

The corporate governance of companies has been called into question recently in Japan by a spate of corporate scandals. Please explain Shionogi's management system.

Shionogi has established a corporate governance system in order to practice transparent and sound management which should help maximize shareholder value. By appointing a majority of outside directors to the Board of Directors, we have built a system facilitating fair and efficient management.

In line with the Company Policy of Shionogi, we recognize that continuously discovering highly effective and safe medicines will be crucial in enhancing corporate—in effect, shareholder—value. We have established a corporate governance system to ensure that our business practices are sound and transparent. To facilitate rapid responses to change in the operating environment, the Board of Directors is currently composed of five directors. Of this small number, a majority are appointed from outside. Two of the three outside directors were appointed in June 2009: Mr. Akio Nomura, who previously served as Chairman of Osaka Gas Co., Ltd., and Mr. Teppei Mogi, from the law firm Oh-Ebashi LPC & Partners. They were joined after the June 2012 Annual General Meeting of Shareholders by Mr. Katsuhiko Machida, a Corporate Advisor at Sharp Corporation. We believe that receiving appropriate advice from two individuals with a wealth of experience as corporate managers, and one with a lawyer's specialist knowledge, has proved invaluable in promoting transparent and sound management.

For more detailed information, please refer to pages 16 and 18.

Question 6

Could you share your thoughts on Shionogi's share price in fiscal 2011?

For various reasons, our share price dropped sharply in fiscal 2011. By conducting business activities that meet the expectations of all our stakeholders and delivering results, we will increase our corporate value. At the same time, we hope to pay dividends that will testify to our growth.

Shionogi shares fell intermittently through the second half of fiscal 2011 and, on November 25, 2011, hit a year-to-date low of ¥871, dragging the P/B ratio below 1.00 to 0.89. This prompted many questions from shareholders, who demanded to know, for example, what our response would be to the softening share price. It was also suggested that we explain the situation to shareholders.

Our message is that the share price decline is attributable in the main to deterioration in the operating environment—in the form of equity market weakness stemming from Europe's debt crisis and protracted yen appreciation—as well as earnings instability at Shionogi Inc., and an adverse impact from *Lipitor* generics on AstraZeneca's worldwide sales of *Crestor*. We recognize that other factors include delays in instituting structural reforms at the parent company, so that the earnings structure is not as reliant on *Crestor* royalties.

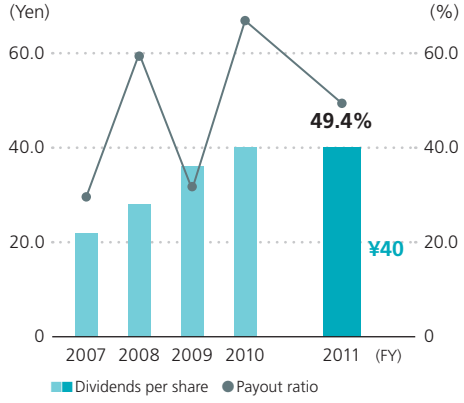
In our view, above all else, the pipeline must be fleshed out if we are to surmount the "Crestor Cliff" and achieve long-term growth. Moving forward, we will be proactive in making the investments necessary to achieve this goal, supporting the in-house discovery of new drug seeds, the R&D required to advance these compounds toward market, and the signing of licensing agreements for drugs in development and products already commercialized. It is our hope that the launch of innovative new drugs will shore up our business performance, enhancing corporate value.

We implore all of our stakeholders to focus on Shionogi's push to evolve into an R&D-oriented pharmaceutical company that does not depend on *Crestor* royalties and instead is known for new drugs.

Shionogi aims to raise dividends steadily in line with performance. In regard to dividends, our Third Medium-Term Business Plan calls for the Company to maintain a dividend payout ratio of 35% or annual dividend of ¥40 per share, and to return to shareholders any income from business activities that is incremental to our initial expectations.

We must stay true to Shionogi's Company Policy on a global basis if we are to continue growing. The current Medium-Term Business Plan contains a practical course of action for globalizing our business. I hope that all of our stakeholders will continue to lend us their support in this endeavor, such that together we can experience the tangible benefits of growth.

Dividends per Share / Payout Ratio



Dividend Policy

Shionogi aims to raise dividends steadily in line with performance.
Our consolidated dividend payout ratio target is **35%**.

Members of the Board (As of June 27, 2012)

Earning the Trust of All Stakeholders

Shionogi aims to be a corporate entity trusted by all stakeholders, including shareholders, patients and their families, and the medical community by directly addressing various issues with transparency and high ethical values.

Directors

Front row from left: Motozo Shiono, Isao Teshirogi. Back row from left: Teppei Mogi, Akio Nomura, Katsuhiko Machida

Chairman of the Board Representative Director **Motozo Shiono**	1972 Joined the Company 1984 General Manager, Marketing Planning Department 1984 Director of the Company 1987 General Manager, Accounting Department	1987 Managing Director of the Company 1990 Senior Managing Director of the Company 1996 General Manager, Agro., Vet. & Industrial Chem. Division 1999 President of the Company	1999 General Manager, Corporate Planning Division 2008 Chairman of the Board (incumbent)
President and CEO Representative Director **Isao Teshirogi, Ph.D.**	1982 Joined the Company 1999 General Manager, Corporate Planning Department and General Manager, Secretary Office 2002 Director of the Company	2002 General Manager, Corporate Planning Department 2004 Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division	2006 Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division 2007 Senior Executive Officer 2008 President and CEO (incumbent)
Outside Director **Akio Nomura**	1998 Representative Director and President, Osaka Gas, Co., Ltd. 2000 Director, West Japan Railway Company	2003 Representative Director and Chairman, Osaka Gas, Co., Ltd. 2008 Director, Royal Hotel, Ltd. (incumbent)	2009 Outside Director of the Company (incumbent)
Outside Director **Teppei Mogi**	1989 Registration as attorney at law 1994 Partner, Oh-Ebashi Law Offices (incumbent) 2002 Partner, Oh-Ebashi LPC & Partners (incumbent)	2004 Professor, Kwansei Gakuin University Law School 2005 Part-time instructor, Kobe University Graduate School of Law (incumbent)	2009 Outside Director of the Company (incumbent) 2010 Part-time instructor, Kwansei Gakuin University Law School (incumbent)
Outside Director **Katsuhiko Machida**	1969 Joined Hayakawa Electric Industry Co., Ltd. (currently Sharp Corporation) 1987 Corporate Director, Sharp Corporation 1990 Corporate Executive Director, Sharp Corporation 1992 Corporate Senior Executive Director, Sharp Corporation	1998 President, Sharp Corporation 2007 Chairman, Sharp Corporation 2008 Outside Director, Sekisui House, Ltd. (incumbent) 2008 Chairman and Chief Executive Officer, Sharp Corporation 2010 Chairman, Sharp Corporation	2012 Director, Corporate Advisor, Sharp Corporation 2012 Corporate Advisor, Sharp Corporation (incumbent) 2012 Outside Director of the Company (incumbent)

Corporate Auditors

From left: Shinichi Yokoyama, Sachio Tokaji, Mitsuaki Ohtani, Takeharu Nagata, Kenji Fukuda

Standing Corporate Auditor **Mitsuaki Ohtani, Ph.D.**	1975 Joined the Company 1998 Director of the Company 1998 General Manager, Clinical Research Department and General Manager, Product Development Department	2000 General Manager, Pharmaceutical Development Division and General Manager, Strategic Development Department 2001 Executive General Manager, Pharmaceutical Research & Development Division, General Manager, Discovery Research Laboratories and General Manager, Strategic Development Department	2002 Executive General Manager, Pharmaceutical Research & Development Division and General Manager, Discovery Research Laboratories 2004 Standing Corporate Auditor of the Company (incumbent)
Standing Corporate Auditor **Sachio Tokaji**	1970 Joined the Company 1998 General Manager, Accounting Department 2002 Director of the Company 2002 General Manager, Accounting & Financial Department 2004 Corporate Officer and General Manager, Accounting & Financial Department	2004 Corporate Officer and General Manager, Accounting & Financial Department and General Manager, International Business Department 2006 Corporate Officer and Corporate Business Management Executive and General Manager, Accounting & Financial Department	2007 Executive Officer and Corporate Business Management Executive 2008 Director of the Company and Senior Executive Officer 2011 Standing Corporate Auditor (incumbent)
Outside Corporate Auditor **Takeharu Nagata**	2002 Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation 2005 Representative Director and President, Keihanshin Real Estate Co., Ltd.	2005 Outside Corporate Auditor of the Company (incumbent) 2006 Outside Corporate Auditor, SANYO Electric Co., Ltd. 2010 Chairman, Keihanshin Real Estate Co., Ltd.	2011 Outside Director, KOKUYO Co., Ltd. (incumbent) 2011 Chairman, Keihanshin Building Co., Ltd. (incumbent)
Outside Corporate Auditor **Shinichi Yokoyama**	2001 President, Sumitomo Life Insurance Company 2003 Outside Corporate Auditor, NEC Corporation	2007 Chairman and Representative Director, Sumitomo Life Insurance Company (incumbent)	2008 Outside Corporate Auditor of the Company (incumbent) 2010 Outside Corporate Auditor, Sumitomo Chemical Co., Ltd.
Outside Corporate Auditor **Kenji Fukuda**	1984 Registration as attorney at law 1984 Joined Dojima Law Office 1987 Partner, Dojima Law Office (incumbent) 2009 Vice President, Osaka Bar Association	2009 Governor, Japan Federation of Bar Associations 2009 Visiting Professor, Osaka University Law School	2011 Outside Corporate Auditor of the Company (incumbent)

Corporate Officers

Senior Executive Officer **Takuko Sawada**	Executive Officer **Takuo Fukuda**	Executive Officer **Ryuichi Kume, Ph.D.**	Executive Officer **Yoshiaki Kamoya**	Corporate Officer **Hirosato Kondo, Ph.D.**	Corporate Officer **Masaaki Goshima**
Corporate Officer **Kohji Hanasaki, Ph.D.**	Corporate Officer **Takayuki Yoshioka, Ph.D.**	Corporate Officer **Kiyoshi Nagata, Ph.D.**	Corporate Officer **Akio Tsubokura**	Corporate Officer **Masaaki Takeyasu**	

Corporate Governance

In line with the Company Policy of Shionogi, we recognize that it is our social mission to continually discover, develop, and provide useful and safe medicines that help improve the health of people and medical treatment around the world as well as quality of life. Shionogi is also aware that by accomplishing this mission through rigorous compliance it should increase its corporate value. Accordingly, it believes strongly in carrying out sound and transparent management practices through the corporate governance system it has established.

Corporate Governance System

Shionogi has adopted a "company with board of corporate auditors" corporate governance system that is composed of a Board of Directors, a Board of Corporate Auditors, and independent accounting auditors.

To further enhance the effective functioning of corporate governance, two outside directors were elected to the Board of Directors in fiscal 2009 and another was added in fiscal 2012 to promote comprehensive management decision-making incorporating an outside, objective perspective. The outside directors recognize their role as independent directors in helping the Company to fulfill its corporate responsibilities, making decisions with maximizing shareholder interests in mind from the standpoint of representatives of general shareholders and contributing to highly transparent management. The Board of Directors is composed of five directors, including the three 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.

In addition, to further increase management transparency and accountability to stakeholders, the Company has established a Nomination Advisory Committee and a Compensation Advisory Committee as advisory bodies to the Board of Directors. Both committees are chaired by outside directors, ensuring that management decisions in these areas are examined from a fair and honest perspective, as well as that selected directors are vetted and evaluated from multiple angles, including assessment of aptitude, impact on management, quality of work performance, and appropriateness of compensation.

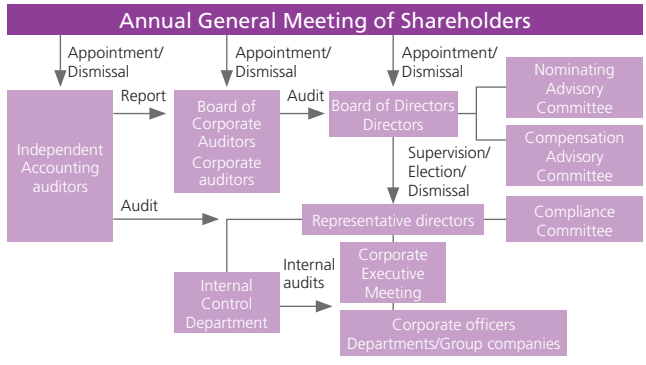
Moreover, the Company has introduced a corporate officer system to allow management policy to be reflected in operations without delay, and has built a flexible operational execution structure able to rapidly respond to changes in the operating environment. Furthermore, the Corporate Executive Meeting is a unit created to conduct deliberations regarding operational execution issues. It is composed of the directors, standing corporate auditors, and corporate officers responsible for operation, and, in principle, it meets every week.

The Company has appointed two standing corporate auditors and three outside corporate auditors to create a Board of Corporate Auditors that puts emphasis on the expertise of each individual and independence. 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 each corporate officer.

Amount of Remuneration for Directors and Corporate Auditors (Fiscal 2011)

Category	Persons remunerated	Amount of remuneration paid (¥ millions) Base remuneration	Bonus	Stock options	Total
Directors	6	217	25	21	264
(Outside directors among directors)	(2)	(24)	(—)	(—)	(24)
Corporate auditors	6	87	—	—	87
(Outside corporate auditors among corporate auditors)	(3)	(31)	(—)	(—)	(31)
Total	12	305	25	21	352

Corporate Governance Structure (As of April 2012)



Status of Audit Execution

(Accounting Audits)

The corporate auditors receive reports on the details of accounting audits from the independent auditors, and exchange opinions and respond in other ways.

Names of Certified Public Accountants (CPAs) and Independent Auditors

Names of CPAs		Name of Independent Auditors
Designated partner	Akihiko Masuda	Ernst & Young ShinNihon LLC
Engagement partner	Hideki Maekawa	

· Assistants for audit work
9 CPAs, 12 other people
*Other people include people who have passed the CPA examination and systems experts.

(Internal Audits)

The corporate auditors receive regular monthly reports on the details of internal audits from the Internal Control Department, and exchange opinions and respond in other ways. Furthermore, the corporate auditors cooperate with the Internal Control Department to conduct investigations and carry out other work to quickly address any issues from an internal control perspective.

About Outside Directors and Outside Corporate Auditors

Selection Policy for Outside Directors and Outside Corporate Auditors

- There are no conflicts of interest between the Company and individual outside directors and outside corporate auditors and no risk of conflicts of interest with general shareholders.
- Selected individuals have outstanding insight and ability based on experience and specialist expertise relating to management, and can properly demonstrate that insight and ability.
- Selected individuals know their role as an outside director or outside corporate auditor and can give frank opinions and advice to Company management at the right time.
- Selected individuals have the personality, professional background, insight and other qualities that are sincerely valued by not only the Company's management team but also stakeholders.

Attendance at Board of Directors' and Board of Corporate Auditors' Meetings (Fiscal 2011)

	Name	Attendance
Outside directors	Akio Nomura	Attended all 9 Board of Directors' meetings
	Teppei Mogi	Attended all 9 Board of Directors' meetings
Outside corporate auditors	Takeharu Nagata	Attended all 9 Board of Directors' meetings Attended 7 of 8 Board of Corporate Auditors' meetings
	Shinichi Yokoyama	Attended all 9 Board of Directors' meetings Attended all 8 Board of Corporate Auditors' meetings
	Kenji Fukuda	Attended all 7 Board of Directors' meetings since appointment Attended all 5 Board of Corporate Auditors' meetings since appointment

Reason for Selection of Outside Directors and Outside Corporate Auditors

Name	Reason for Selection
Akio Nomura	Mr. Nomura has abundant experience and broad discernment as a senior corporate executive. The Company believes that he can make management decisions placing importance on the objectivity and impartiality of management and contribute to highly transparent management as an independent director.
Teppei Mogi	Mr. Mogi has abundant experience and professional knowledge as an attorney at law. The Company believes that he can use this experience and knowledge to make management decisions placing priority on the observance of social norms, laws and ordinances and contribute to highly transparent management as an independent director.
Katsuhiko Machida	Mr. Machida has abundant experience and broad discernment as a senior corporate executive of a global manufacturing business. The Company believes that he can make management decisions placing importance on the objectivity and impartiality of management and contribute to highly transparent management as an independent director.
Takeharu Nagata	Mr. Nagata has abundant experience and broad discernment as a senior corporate executive. The Company believes that he can properly carry out audit duties such as providing advice regarding the legality and propriety of operations executed by directors.
Shinichi Yokoyama	Mr. Yokoyama has abundant experience and broad discernment as a senior corporate executive. The Company believes that he can properly carry out audit duties such as providing advice regarding the legality and propriety of operations executed by directors.
Kenji Fukuda	Mr. Fukuda has abundant experience and professional knowledge as an attorney at law. The Company believes that he can use this experience and knowledge to properly carry out audit duties such as providing advice regarding the legality and propriety of operations executed by directors.

Messages from Outside Directors

Akio Nomura

Through my activities as an outside director to date, I feel that Shionogi is a pharmaceuticals manufacturer that conducts corporate activities with high ethical values based on its Company Policy of striving constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

In order for a company to develop continuously with the trust of society, it must actively promote the disclosure of information while ensuring the transparency of its own decision-making. I believe that Shionogi's Board of Directors makes open and fair decisions, always mindful of its accountability.

I intend to use my extensive experience as a senior corporate executive to help Shionogi develop further and raise its corporate value as well as be helpful to society in a broad sense.

Teppei Mogi

I have come into contact with many individual compliance issues as an attorney and offered advice for creating compliance systems. As the economy becomes more global in nature, it will be extremely important for Japanese companies to not only deal with compliance issues in Japan, but also deal with overseas legal systems, including pharmaceutical and antitrust laws in different countries around the world, and the Foreign Corrupt Practices Act (FCPA) in the US.

As Shionogi develops business globally going forward, it will be vital that Shionogi's management executes business with sufficient awareness of overseas legal systems, as well as Japanese law. I intend to draw on my experience in international corporate law to contribute in establishing and operating a global compliance and risk management system as an outside director.

Katsuhiko Machida

I was recently appointed as an outside director of Shionogi.

I have many years of experience as a senior corporate executive at an electronics manufacturer. While the pharmaceutical industry is a completely different industry to the one I am accustomed to, it is similar to the electronics industry in that both are manufacturing industries supporting the Japanese economy. I feel extremely honored to have been entrusted with this kind of duty. For Japan as a country with few natural resources, the manufacturing industry is an important industry and the role that it plays is enormous. However, the operating environment surrounding the manufacturing industry is witnessing increasingly intense competition amid growing uncertainty in the global economy. As is well known, quick management decisions are required based on an assessment of the risks and benefits.

I am determined to contribute to management that is even more transparent from a big-picture perspective and an outside, objective perspective of shareholders and others. I hope to earn the support of shareholders going forward.

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 systems for ensuring the appropriateness of the Group's entire operations. The Board of Directors annually evaluates the state and management of internal control systems over the past year and based on this evaluation revises basic policy to continually augment the internal control system.

Shionogi makes sincere efforts to ensure the reliability of financial reporting in order to maintain management transparency and integrity. To comply with the internal control report system under the Financial Instruments and Exchange Act, Shionogi is moving ahead with measures to build and improve internal controls over financial reporting for the Shionogi Group as a whole. At the same time, it is working to improve the quality of management control.

Risk Management

Shionogi recognizes the intrinsic risk factors in each of its organizational units associated with activities, determines response strategies in line with the degree of risk related to each factor, and takes measures to avoid or mitigate those risks. Response policies for 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, corporate scandals, and other situations requiring emergency responses, Shionogi has formulated a Crisis Management Policy, as well as separate sets of compendium for critical measures pertaining specifically to disasters, pandemics, and corporate scandals. In accordance with these compendiums, Shionogi is promoting crisis management processes that emphasize respect for human lives, demonstrate consideration for and contributions to local communities, and mitigate potential damage to corporate value.

Moreover, Shionogi has made efforts to formulate a business continuity plan and establish a system for each risk factor in order to fulfill its mission as a pharmaceuticals manufacturer of ensuring the stable and continuous provision of essential medicines.

Framework for Information Disclosure

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

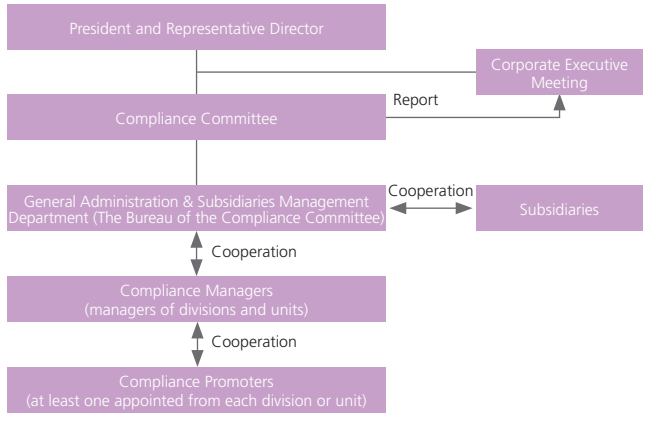
Thorough Compliance

Shionogi promotes compliance in all departments and units, including domestic and overseas subsidiaries, through measures centered on those of the Compliance Committee, which is chaired by the president and for which the General Administration & Subsidiaries Management Department functions as the bureau of the committee.

In order to further enhance the assurance of compliance of which Shionogi's broad definition does not mean only compliance with laws and regulations but also requires ethical behavior, the Company established the Shionogi Group Compliance Policy in April 2012. The Company engages in the following types of activities every year 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, including the preparation of compliance risk management action plans, the promotion of enlightenment activities for compliance consciousness based on these action plans, the preparation of reports regarding the implementation of such activities and improvement measures in order to ensure thorough compliance.
2. Besides drafting compliance measure proposals, the Bureau of the Compliance Committee provides support for promotion activities of the entire Shionogi Group through such measures as those to implement and facilitate compliance education programs for executives and all Shionogi Group employees, prepare and distribute Shionogi's Compliance Handbook, disseminate messages and reminders regarding compliance, conduct employee attitude surveys, and feed back survey results internally.
3. Shionogi has established an internal reporting system comprising an internal reporting desk in the General Administration & Subsidiaries Management Department, and an external reporting desk through outside legal counsel. The Company makes efforts to ensure this system is well-known and used, and works to promote the early discovery as well as the prevention and amelioration of compliance violations utilizing the system.
4. Shionogi has established an information management system based on its Information Security Policy and employs this system to manage information assets. Concerning the protection of personal information, the Company has established a standing committee headed by the General Manager of the Legal Affairs Department that takes various measures to assure the appropriate usage of and to prevent 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 questions and complaints, and helping employees who handle personal information to participate in educational programs.

Compliance Promotion Structure (As of April 2012)



Shionogi's Business Activities

In order to achieve growth by realizing the Company Policy globally, the Shionogi Group must work as one to pursue, produce and promote better medicines more efficiently and quickly. By leveraging the respective strengths of its business activities in R&D, manufacturing and sales and ensuring the close cooperation of these functions, Shionogi will respond flexibly to changes in the external business environment and, at the same time, push ahead toward achieving the goals of its Third Medium-Term Business Plan.

Research and Development

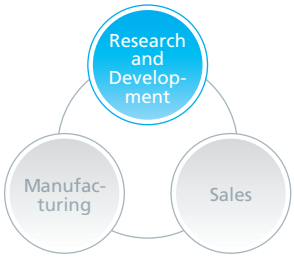
See page 20

Manufacturing

See page 28

Sales

See page 30



Research and Development
Research

Feature

Shionogi works daily on the business of drug discovery research, with a view to consistently creating quality pharmaceuticals that will support attainment of the goals laid out in the Third Medium-Term Business Plan, and lay the foundations for medium- to long-term growth. Shionogi's biggest strength in the pursuit of drug discovery research is the effectiveness of its "small molecule SAR engine," which boasts top-level research productivity. This can only be achieved through a rapid cycle involving the tightly coordinated combination of sophisticated chemical synthesis technologies and pharmacological and ADMET evaluation. It is not enough to improve research productivity simply by keeping each drug discovery function up to date; it also requires sustained and close interdisciplinary collaborative efforts between researchers, which in effect enables us to improve our drug discovery processes. As a part of our Medium-Term Business Plan, our goal is "achieving world-class quality and productivity in drug discovery research," along with two numerical performance targets—to select four or more new molecular entities (NMEs) per year as development candidates with a success rate of 50% or more in POC studies. To this end, we are focusing our efforts on the following three areas: enhancement of early phase research portfolio; improvement of predictive performance for clinical efficacy; and centralization of functions and strengthening of flexibility.

Currently, our drug discovery program has three main pillars: infectious disease, metabolic syndrome, and pain. In addition to these therapeutic areas, we are extending our focus to therapeutic areas such as allergy, cancer, and Alzheimer's disease, in which we are actively searching for opportunities for collaboration through external alliances.

ADMET (Absorption, Distribution, Metabolism, Excretion, Toxicity)
POC (Proof of Concept)
POC studies are human clinical trials designed to demonstrate early signs of a product's efficacy.

Fiscal 2011 Achievements and Fiscal 2012 Targets

Drug Discovery

In fiscal 2011, Shionogi advanced three compounds to clinical development: the analgesic agent for neuropathic pain, S-117957 (research and development with Purdue L.P.); the cancer peptide vaccine, S-488210 (in-licensed from OncoTherapy Science, Inc.); and the Gram-negative bacterial infection treatment, S-649266 (research and development with GlaxoSmithKline plc). We were also successful in discovering four new development candidates: a chronic pain treatment with a new mechanism of action, an anti-obesity drug, an anti-allergy agent, and an atopic dermatitis treatment, NF-κB decoy oligodeoxynucleotide (collaboration with AnGes MG, Inc.). This was the result of a finely balanced research combination, which consisted of small molecule drug discovery—harnessing our drug discovery engine—and a large molecule research program that makes the most of collaboration with bioventures such as OncoTherapy Science, Inc. and AnGes MG, Inc. In fiscal 2012, we will commit ourselves again to provide four or more high-quality development candidates over the course of the year.

Enhancement of Early Phase Research Portfolio

Shionogi is a pioneer in fostering open innovation to find drug discovery seeds with academia, believing that this holds the key to unearthing innovative new drugs matching unmet medical needs. In fiscal 2011, Shionogi continued to collaborate with academia in finding novel drug seeds, through the Shionogi Innovation Center for Drug Discovery on the campus of Hokkaido University Graduate School of Medicine, the Shionogi Science Program Shionogi's drug discovery competition, and the FLASH drug discovery initiative with the Osaka University Graduate School of Medicine. As a result of these collaborative efforts with academia, we initiated four novel research programs in fiscal 2011. Through open innovation with overseas academia to discover seeds for drug discovery, Shionogi has also launched the SHIONOGI Science Program in the UK, with a view to commencing joint research in fiscal 2012.

Improvement of Predictive Performance for Clinical Efficacy

In the PET Molecular Imaging Center at the Osaka University Graduate School of Medicine established in fiscal 2010, we continue to engage in molecular imaging research. In fiscal 2011, the center created a new PET imaging probe which was then evaluated in various animal models. In fiscal 2012, we will be constructing an early-stage exploratory testing framework at Osaka University Hospital, with a view to conducting microdosing clinical studies using the new probe.

Centralization of Functions and Strengthening of Flexibility

The new research facility (SPRC4) completed in July 2011 forms the core of the Shionogi Pharmaceutical Research Center (SPRC), which has brought Shionogi's previously geographically dispersed research functions under one roof. Taking advantage of this integration, we will make full use of our interdisciplinary collaborative network, which not only facilitates our drug discovery programs but also stimulates our researchers' creativity. Under this new working environment, we will continue to pursue world-class research productivity.

FLASH (PHarma-Link between Academia and SHionogi)

Intellectual Property

Shionogi has a global intellectual property strategy forged on close links between its R&D strategy and business strategy.

By linking its intellectual property and R&D strategies, Shionogi is able to accurately confirm other companies' patents, working closely with researchers to identify and obtain substance patents. With an eye to growing its presence in emerging markets, the Company has stepped up patent filings in such countries. While providing support from an intellectual property perspective for open innovation and industry-academic collaboration, Shionogi also continues working to reserve suitable patent rights for drug discovery targets and basic research technologies. To counter the emergence of generics after substance patents expire, the Company seeks to maximize patent protection periods and protect patent revenues by actively obtaining patents regarding indication, crystalline form, manufacturing method, formulation and so forth. Through such activities, Shionogi filed approximately 80 patent applications in fiscal 2011, of which about 40% (original invention filings) were filed overseas. The Company periodically reviews its patent portfolio, taking cost into account. As of March 31, 2012, Shionogi held approximately 240 patents in Japan and about 120 patent families (registered patents based on original invention filings) overseas.

In connection with its business strategy, Shionogi recognizes that patents in the pharmaceutical industry are extremely high in value. The Company takes every care to conduct intellectual property due diligence at in-licensing new products, and to prevent potential infringement of the other company's patents at the commercialization of our developing candidate. As part of its business strategy, Shionogi is expanding its footprint in the US and Chinese markets; there, too, the Company provides intellectual property support for business activities and generic drug countermeasures. Shionogi is also engaged in brand design activities as a means of combatting counterfeiting, and, in fiscal 2011, the Company filed 32 applications for trademark registration, and 12 applications for design registration.

Since May 2008, Shionogi had been the defendant in a patent litigation relating to genetically modified mice, but in February 2012, the plaintiff surrendered its entire claim and accordingly Shionogi can no longer be found liable for any damages. This represents full and final resolution of this matter (see table below).

Main patent litigations in which the Shionogi Group is an interested party, either pending or recently resolved (as of August 2012).

Country	Product or Technology	Counterparty	Court Filing Date	Current Status
US	*Crestor* Patent holder: Shionogi	Plaintiffs: Shionogi, AstraZeneca Defendants: Apotex, Inc., Aurobindo Pharma Limited, Cobalt Pharmaceuticals, Inc., Mylan Inc., Par Pharmaceutical Companies, Inc., Sandoz Inc., Sun Pharmaceutical Industries Ltd., Teva Pharmaceutical Industries Ltd.	December 2007	In June 2010, the court rendered a judgment that the Company's patent was effective and enforceable. Decision pending from appeals court.
Japan	Technology relating to genetically modified mice Patent holder: Institut Pasteur	Plaintiff: Cellectis SA Defendant: Shionogi	May 2008	In February 2012, Cellectis surrendered its claim, meaning Shionogi is not required to pay any damages whatsoever.
US	*Fortamet* (Shionogi Inc. product) Patent holder: Andrx Corp.	Plaintiffs: Shionogi, Andrx Corp. Defendants: Lupin Ltd., Mylan Inc.	January 2009	Court decision pending on ANDA complaint. In December 2011, the court granted a preliminary injunction stopping the sale of a generic version by Lupin. However, the appeals court admitted Lupin's motion to suspend the preliminary injunction. The plaintiffs are now deciding whether to appeal.
Canada	*Crestor* Patent holder: Shionogi	Plaintiffs: Shionogi and AstraZeneca Defendants: Novopharm Limited (Now Teva Canada Limited) and Apotex, Inc.	September 2009	A settlement was reached and actions terminated.
US	*Crestor* Patent holder: Shionogi	Plaintiffs: Shionogi and AstraZeneca Defendant: Watson Pharmaceuticals, Inc.	October 2010	Decision pending
US	*Doribax* (Japan product name: *Finibax*) Patent holder: Shionogi	Plaintiffs; Shionogi, Peninsula Pharmaceuticals, Inc. (Now, Cerexa, Inc., a wholly-owned subsidiary of Forest Laboratories, Inc.), Janssen Pharmaceuticals, Inc. Defendant: Sandoz Inc.	December 2011	Decision pending

Feature: The Opening of a New Research Facility, SPRC4

Consolidating Knowledge, Aiming for

In fiscal 2011, with a view to realizing world-class research productivity by further strengthening cooperation within our organization, Shionogi integrated drug discovery functions previously dispersed among four sites in Osaka and Shiga Prefectures into the Shionogi Pharmaceutical Research Center (SPRC) in Toyonaka City, Osaka, which is composed of a new pharmaceutical research facility (SPRC4) and three existing buildings (SPRC1, 2, and 3). Completed in July 2011, SPRC4 will form the core of SPRC. It contains drug discovery research laboratories built to the highest standard in Japan, with cutting-edge laboratory equipment and information technology. The facility features many initiatives to foster exchange and mutual collaboration among researchers, and reduce the environmental footprint. In this manner, the SPRC is designed to be environmentally friendly, while at the same time enhance intellectual productivity.

To foster proactive interaction and mutual collaboration among researchers, the basic concept is that close interdisciplinary communication with different scientific backgrounds in daily operations is the key to innovation, so the facility features various layouts designed to stimulate creativity and flexible thinking. Based on this concept, we introduced "Galleria" as an open office area, along with many communication spaces artfully located in almost every working unit to encourage researchers to interact casually. The laboratories also have a higher degree of freedom in their layout that will enable us to flexibly deal with future changes in the research environment, such as installing new equipment depending on the situation.

From an environmental point of view, the facility employs state-of-the-art environmental technologies, such as a "triple skin structure" that supports an approximately 40% reduction in the heat load from outside in research areas; a "cold radiation panel air conditioning system" utilizing geothermal energy and taking advantage of the relatively stable temperature of the earth; and "exhaust heat recovery systems" and "variable air volume (VAV) fume hoods" that contribute to greater energy efficiency in research areas. For these efforts, the SPRC4 was designated as a "Fiscal 2009 Model Project for Promoting CO_2 Reduction in Housing and Buildings," for being an "environmentally conscious laboratory" by the Ministry of Land, Infrastructure, Transport and Tourism.

Shionogi believes the improved research efficiency and knowledge integration resulting from full-scale operation of the SPRC (with SPRC4 as its core) will produce synergistic benefits and shorten the new drug development cycle. We will continue to commit drug discovery research which is the foundation for Shionogi's future growth with the slogan "Progress in SPRC (Science, Productivity, Relationship and Creativity)" in our mind.

Top-level Research Productivity

Cutting-edge Drug Discovery Techniques Require State-of-the-art Laboratory Equipment

In SPRC4, we are conducting exploratory drug discovery research, chemical synthesis, pharmacological research in each therapeutic area, and drug formulation research. In chemical synthesis laboratories, we put a higher priority for laboratory design on safety, and biochemistry laboratories are arranged functionally with all manner of measuring instruments. SPRC4 is also furnished with a range of cutting-edge laboratory equipment, including high-throughput screening instruments to aid in the search for new drug seeds, and reactors that can safely perform scale-up synthesis of candidate compounds. In this manner, SPRC4 can drive a range of drug discovery research from drug discovery target identification to the synthesis and evaluation of candidate compounds.

25-Liter Reactor System
The mini-plant 25-liter reactor system differs from conventional devices in its ability to perform the processes of reaction, extraction and solvent evaporation in a hermetically sealed manner, thereby enabling researchers to safely perform medium-scale synthesis of candidate compounds.

High-content Screening System
This system enables high-throughput screening of compounds against novel drug targets through evaluation of morphological and/or bio-molecular changes in living cells through microscopic image analysis.

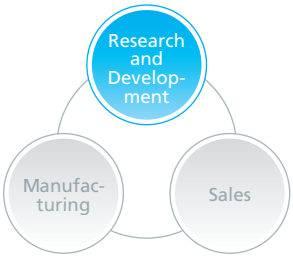
"Galleria": a Space Where Inspiration Can Be Found

A major feature of SPRC4 is the space known as Galleria. In a conventional research center, office space is separated, and sufficient for a few individuals to perform desk work. In SPRC4, however, the office space is concentrated in the center of each floor, and is entirely open, with no partitions. On each floor, some 160 researchers share the office space. In addition to desks for each researcher, there are several meeting areas and relaxation corners, while a wellhole space between the third and fifth floors conveys a feeling of unity between upper and lower floors. Shionogi believes that drug discovery research can only be achieved by collaboration among researchers specializing in different fields. To this end, we have created an environment where researchers can launch into debate the minute they have an idea. Several key researchers committed to the design of SPRC4, in the view that inspiration borne out of casual conversation can become the driving force for tomorrow's new drugs.

Responses From Researchers

Researchers engaged in the various areas of research have begun to realize the potential advantages of gathering together at the SPRC, and many have voiced their opinion.

- The greatest advantage lies in being able to walk to meetings with other researchers.
- Complete separation of laboratories and office space helps us to change our mindset and concentrate on each task such as experiments and data management.
- We enjoy networking through the "Happy Hour" poster symposium, which helps us to communicate beyond departments and positions.
- We are satisfied with a facility that enables us to have impromptu consultations and meetings, without the need for formal assemblies.
- Compared with the old research facility, SPRC has better equipment and more individual working space, allowing us to carry out research activities in a safer and more efficient manner.



Research and Development

Development

Feature

Under the Third Medium-Term Business Plan, the purpose of Shionogi's development activities is to "globally develop more than five late-stage products," and "make submissions for overseas regulatory approval of four compounds originating from Shionogi or Japanese research institutes, and launch more than one product." While Shionogi has already achieved a high success rate in domestic clinical development, we think that to further grow our presence in overseas markets, we must cultivate strength elsewhere and lay the groundwork for speedy and efficient global development.

In the late stages of clinical development, a tripolar structure encompassing Japan (Asia), the US and Europe will become increasingly important from the dual standpoints of recruiting a sufficient number of cases and identifying countries where the products can be launched. The Company wishing to pursue speedy global development needs a broad array of strategies. In addition to meticulous profiling of candidate compounds—including identification of distinguishing factors—it must also whittle down compounds in late-stage development to determine which should be given priority, and then selectively allocate resources to these compounds and form partnerships where necessary. By strengthening global portfolio management and placing even further emphasis on efficiency in spending as well as task and time management, Shionogi aims to hasten the launch of its products in overseas markets, bringing to people around the world the kind of effective medicines badly needed by patients, their families, and medical professionals.

Global Development Strategy

We aim to globalize our new drug development capabilities by creating a network of development bases across Japan, the US and Europe.

Establishment of Shionogi Limited as a European Development Base

Shionogi established Shionogi Limited, a 100% owned subsidiary, in London to lead our development activities in Europe. Shionogi Limited will initially drive the Phase I trial of S-222611 (anti-tumor agent) and the Phase I/II trial of S-488210 (cancer peptide vaccine) in Europe. In addition, Shionogi Limited will (1) support the joint venture with ViiV Healthcare LLC, which is in charge of marketing *dolutegravir* (integrase inhibitor for HIV), (2) manage the Shionogi Science Program, a research alliance program with European academic research centers, and (3) identify alliance partners in Europe.

Shionogi Limited initially will have 14 employees including local hires and inter-company transfers.

Opening ceremony (From left: Takashi Takenoshita, CEO, Shionogi Limited; and Isao Teshirogi, Ph.D, President and CEO)

Fiscal 2011 Achievements and Fiscal 2012 Targets

The anti-HIV agent *dolutegravir* is being developed in a joint venture (JV) between Shionogi and ViiV Healthcare LLC, itself a JV between GlaxoSmithKline plc and Pfizer Inc. It is currently the subject of global Phase III trials. In comparison with earlier integrase inhibitors, *dolutegravir* has stronger anti-HIV activity and a superior resistance profile. It is attracting worldwide attention as the only once-daily integrase inhibitor that does not require a booster. The JV, Shionogi-ViiV Healthcare LLC, is developing *dolutegravir* for use both as a monotherapy and as part of a combination preparation, with a view to filing for regulatory approval in fiscal 2012.

In April 2012, Shionogi filed a new drug application in the US for the selective estrogen receptor modulator *ospemifene*, which we licensed in from QuatRx Pharmaceuticals Company and are developing for the treatment of vulvar and vaginal atrophy.

In fiscal 2011, we also initiated Phase IIb studies in Japan and the US on S-297995, for the alleviation of opioid-induced adverse effects, while commencing Phase IIb studies in Japan on S-555739 for allergic rhinitis, and S-888711 for thrombocytopenia.

Regarding the cancer peptide vaccines licensed in from OncoTherapy Science, Inc. (OTS), Shionogi extended its contract in March 2012. As a result, Shionogi added new cancer peptide vaccines to the five different types included in the previous licensing agreement, expanding its relationship with OTS to encompass worldwide rights to develop, manufacture and market peptide vaccines discovered by OTS for all indications. Shionogi therefore plans to step up global business development in this area going forward.

Now that Shionogi Limited has been established in the UK as a development foothold in Europe, we have created a tripolar development structure spanning Japan, the US, and Europe; Shionogi USA, Inc. (now Shionogi Inc.) is the other overseas arm of this tripolar structure. Using this tripolar development structure, Shionogi plans to select the best region globally depending on the clinical trial stage, enabling more efficient and rapid development taking into account the healthcare environment and market dynamics in each country.

In China, the world's most populous country, Shionogi acquired C&O, a company with extensive experience in developing pharmaceutical products and dealing with the relevant authorities. In fiscal 2012, we will select compounds originated in-house for development in China, but our long-term goal is to put the necessary infrastructure in place to develop pharmaceutical products across Asia—not just in China, but also in Taiwan, South Korea, Hong Kong and elsewhere.

In Japan, fiscal 2011 saw Shionogi win approval for use of the injectable analgesic for cancer pain, *OxiFast*, in the relief of moderate to severe pain in patients suffering from various types of cancer. *Cymbalta*, an antidepressant developed in collaboration with Eli Lilly Japan K.K., also secured approval for the additional indication of diabetic neuropathic pain. Moving ahead to fiscal 2012, *Finibax*, a carbapenem antibiotic originated by Shionogi, received approval for the additional indications of pediatric use and purulent meningitis. We also submitted a new drug application for the antihypertensive, S-474474, an *irbesartan/trichlormethiazide* combination. Further to that, Shionogi signed a licensing agreement with Shire plc for two drugs used in the treatment of attention deficit hyperactivity disorder. These drugs are marketed in the US as *Vyvanse* and *Intuniv*, and form part of Shionogi's strategy for contributing widely to the treatment of central nervous system disorders.

Target Milestones for FY2012

Code No.	Indication	Progress Targets
S-349572 (dolutegravir)	HIV infection	Global: NDA filing
S-297995	Alleviation of opioid-induced adverse effects	Japan: Phase IIb LPO*2, key-opening Meeting with each regulatory agency
S-555739	Allergic rhinitis	Japan: Phase IIb LPO*2, key-opening US: Phase IIa FPI*3
S-888711	Thrombocytopenia	Japan: Phase IIb initiation
S-707106	Type 2 Diabetes	Go/No-go decision
S-288310	Bladder cancer	Japan: Go/No-go decision based on Phase I/II results
S-488410	Esophageal cancer	Japan: Go/No-go decision based on Phase I/II results
S-488210	Head and neck squamous cell carcinoma	EU: Phase I/II FPI*3
S-646240	Age-related macular degeneration	Japan: Phase IIa FPI*3
S-265744 LAP*1	HIV infection	US: Phase I completion, Phase II initiation
S-649266	Bacterial infections	Japan: Phase I completion US: Phase I initiation

*1 LAP: Long acting parenteral formulation
*2 LPO: Last patient out
*3 FPI: First patient in

Pipeline

Areas	Code No. (Generic name) [Product name]	Category (Administration)	Indication
Infectious Diseases	S-4661 (Doripenem hydrate) [Finibax®]	Carbapenem antibiotic (Injection)	Pediatric infection
	S-349572 (Dolutegravir)	Integrase inhibitor (Oral)	HIV infection
	S-265744 LAP*	Integrase inhibitor (Injection)	HIV infection
	S-649266	Cephem antibiotic (Injection)	Infection
Metabolic Syndrome	S-474474 (Irbesartan/trichlormethiazide combination)	Angiotensin receptor blocker/diuretic combination (Oral)	Hypertension
	S-2367 (Velneperit)	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity
	S-707106	Insulin sensitizer (Oral)	Type 2 Diabetes
	S-234462	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity
Pain	S-811717 (Oxycodone hydrochloride)	Natural opium alkaloids (Injection)	For the treatment of moderate to severe pain in patients with cancer pain
	LY248686 (Duloxetine hydrochloride) [Cymbalta®]	Serotonin and noradrenaline reuptake inhibitor (Oral)	Diabetic peripheral neuropathic pain
			Fibromyalgia
	S-297995 (Naldemedine)	Peripheral opioid receptor antagonist (Oral)	Alleviation of opioid-induced adverse effects
	S-117957	Analgesic agent for neuropathic pain (Oral)	Neuropathic pain
Peptide Vaccine	S-288310	Cancer peptide vaccine (Injection)	Bladder cancer
	S-488410		Esophageal cancer
	S-488210		Head and neck squamous cell carcinoma
	S-646240	Peptide vaccine (Injection)	Age-related macular degeneration
Other	Ospemifene	Selective estrogen receptor modulator (Oral)	Post-menopausal vaginal atrophy
	PSD502 (Lidocaine/prilocaine)	Eutectic mixture of anesthetics (Metered-dose topical aerosol spray)	Premature ejaculation
	S-555739	Prostaglandin D2 receptor antagonist (Oral)	Allergic disease
	S-888711 (Lusutrombopag)	Small molecule TPO mimetic (Oral)	Thrombocytopenia
	S-524101	Sublingual tablet of house dust mite allergen extracts for immunotherapy	Allergic rhinitis caused by house dust mite allergen
	S-222611	HER2/EGFR dual inhibitor (Oral)	Malignant tumor
	S-877489	DA and NE reuptake inhibitor/releaser of DA, NE (Oral)	Attention deficit hyperactivity disorder
	S-877503	Alpha-2A-adrenergic receptor agonist (Oral)	Attention deficit hyperactivity disorder

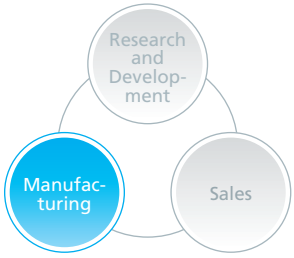
*Long acting parenteral formulation

Out-Licensing Activity	S-4661 (Doripenem hydrate)	Carbapenem antibiotic (Injection)	Infection
	S-0373	Non-peptide mimetic of TRH (Oral)	Spinocerebellar ataxia

(As of August 2012)

	Territories	Stage					Origin	Development
		Phase I	Phase IIa	Phase IIb	Phase III	Submission/ Approval		
	Japan					Approval (May 2012)	In-house	In-house
	Global						Shionogi-ViiV Healthcare LLC (USA)	Shionogi-ViiV Healthcare LLC
	USA							
	Japan						In-house	Shionogi/GlaxoSmithKline (UK)
	Japan					Submission (July 2012)	Irbesartan: Sanofi (France) Trichlormethiazide: Shionogi	In-house
	Japan						In-house	
	USA							
	USA							
	Japan					Approval (January 2012)	Napp Pharmaceuticals Limited (UK)	In-house
	Japan					Approval (February 2012)	Eli Lilly and Company (USA)	Shionogi/Eli Lilly Japan K.K.
	Japan							
	USA						In-house	In-house
	Japan							
	USA						Shionogi/Purdue Pharma L.P. (USA)	Shionogi/Purdue Pharma L.P.
	Asia						OncoTherapy Science, Inc. (Japan)	In-house
	Japan							
	Europe							
	Japan							
	USA					Submission (April 2012)	QuatRx Pharmaceuticals Company (USA)	Shionogi/QuatRx Pharmaceuticals Company
	USA						Plethora Solutions Holdings PLC (UK)	Shionogi/Plethora Solutions Holdings PLC
	Japan						In-house	In-house
	USA							
	Europe	POM (Proof of Mechanism)						
	Japan							
	USA, Europe							
	Japan						Stallergenes SA (France)	
	Europe						In-house	
	USA						Shire plc (Ireland)	Shionogi/Shire plc
	Japan							
	USA					Note	In-house	Johnson & Johnson (USA)
	Japan							Kissei Pharmaceutical Co., Ltd. (Japan)

Note: NDA submission (June 2007) Hospital-acquired (nosocomial) pneumonia including ventilator-associated pneumonia



Manufacturing

Feature

At Shionogi, we are working to bolster our existing manufacturing infrastructure in order to ensure a timely global launch for in-house products. To that end, we have set three objectives: to devise manufacturing technologies that are without peer and employ these techniques in product development; to achieve world-class productivity; and to build worldwide production bases and cultivate the necessary human resources.

Pharmaceutical companies must guarantee the efficacy, safety, and quality of their products; the manufacture and sale of pharmaceutical products therefore involves a rigorous application process and establishment of information management systems. In order to meet these strict requirements, Shionogi has established a quality assurance system enabling it to supply products that are safe and of reliable quality, while also undertaking the post-launch filing of partial change applications, and performing the information management necessary to satisfy regulatory authorities.

We are also redoubling our efforts to use CMC (Chemistry, Manufacturing and Control) technology in the timely launch of newly developed candidates—including global development compounds—and in further raising quality, thereby ensuring that patients around the world have access to Shionogi products as soon as humanly possible.

Learning From Disaster Recovery Efforts

Thanks to the support and encouragement received from all quarters in the wake of the Great East Japan Earthquake, the Kanegasaki Plant in Iwate Prefecture was able to resume operations successfully. More than a year later, employees at the Kanegasaki Plant are more determined than ever to prevent product shortages, to ensure that Shionogi products reach the people that need them. Every care is being taken to further increase the potential of the plant as a whole, whether it be effective utilization of newly built facilities, or initiatives supporting globalization and energy conservation.

Drawing on the lessons learned in recovery, we have launched a project to rebuild utilities to supply energy to the entire Kanegasaki Plant, such as a cogeneration system, as an additional step in providing a stable supply of pharmaceuticals. Since the earthquake, the Settsu Plant in Osaka Prefecture also bases production on the status of power supply, pursuing various energy-saving initiatives including a reduction in power usage at peak times.

The Kanegasaki Plant sustained extensive damage in the Great East Japan Earthquake of March 2011, but has been successfully restored.

Section 1, Manufacturing Operations, Kanegasaki Plant
Minoru Saitou

The plant was subject to tremors of unprecedented scale, causing liquid to spill from pipes in the equipment for which I am responsible. This equipment deals with hazardous materials in large volume, and a fire could have affected the plant's very survival. In a single-minded mission to stem the leakage, I donned a compressed air cylinder and plunged into the pitch-black windowless room, working feverishly in a very tense atmosphere, with no knowledge of when aftershocks might hit.

I will never forget the days of struggle leading up to the plant's re-opening, especially the hours immediately after the earthquake. At the same time, though, I feel that the earthquake helped cement the bonds between Shionogi employees. I take great pleasure now in being able to supply products imbued with the spirit of the "Shionogi family" to countries around the world.

Fiscal 2011 Achievements and Fiscal 2012 Targets

In inspections undertaken by the European Medicines Agency (EMA) and US Food and Drug Administration (FDA) at the beginning of 2012, Shionogi's various manufacturing facilities and offices received high marks, attributable to the strong ties between our manufacturing and quality assurance systems. This is indicative of a high-quality pharmaceutical production capability that is of a world-class standard.

In March 2012, Shionogi completed a new facility for active pharmaceutical ingredients (APIs) used in clinical trials at the Kanegasaki Plant in Iwate Prefecture, in line with the goal (under the Third Medium-Term Business Plan) of consolidating production of beta-lactam antibiotics. CMC research with a view to commercial manufacture of cephem antibiotics targeting Gram-negative bacteria (a joint R&D project with GlaxoSmithKline plc) is proceeding apace, as is construction of a new formulation and packaging facility scheduled for completion in September 2012. The day is fast approaching when these new facilities will be fully operational. Building on the full-scale start to production of clinical trial samples at the Settsu Plant in Osaka Prefecture, we have also embarked on construction of a D&M facility in Tokushima Prefecture that will be used for APIs in late-stage trials and manufacturing commercial APIs. The aim is to construct a seamless CMC system encompassing every stage from clinical trial samples to commercial products.

As far as our quality assurance system is concerned, Shionogi is implementing various measures in cooperation with the relevant organizations and related companies, from the dual standpoint of working more quickly and efficiently, and reducing risk. We are also working to drastically reduce the post-marketing surveillance period for *Cymbalta*, and to get management actively involved in quality assurance as suggested in the ICH Q10 model for pharmaceutical quality control. With the cooperation of Shionogi Inc. we are putting together a risk management plan for *ospemifene*, while also laying the groundwork for product launch at our Chinese subsidiary, C&O. We plan to stay in close communication with our overseas subsidiaries, with a view to stepping up our push toward globalization.

At Shionogi, we will continue doing our utmost to ensure a stable supply of quality products, by strengthening both manufacturing technologies and our quality assurance system.

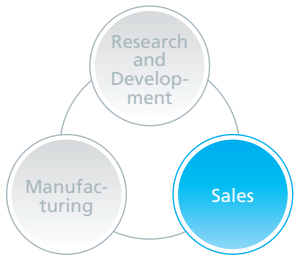
Section 5,
Manufacturing
Operations,
Kanegasaki Plant
Kouji Ishikawa

When I visited a temporary clinic on the Sanriku Coast after the earthquake, I was struck by the sight of relief supplies (pharmaceuticals) badged with Shionogi's FUNDOH logo. For me this moment reaffirmed Shionogi's mission to supply patients with the drugs they need. The formulation and packaging facility I have charge of was damaged and affected by lifeline disruptions in the form of power outages, water stoppages and fuel shortages, and by the major aftershock that struck late at night on April 7, 2011 in the midst of the recovery effort. Circumstances remained difficult, but my fellow employees all share a sense of responsibility, and worked day and night, throwing everything into the plant's restoration. As a result, we were able to resume production without running out of stock. We will continue pulling together to ensure that Shionogi pharmaceuticals are always available to those who need them.

Corporate Quality
Assurance Department
Takeshi Takata

Disruption of the Kanegasaki Plant's tightly controlled manufacturing environment was beyond anything I could have imagined. I travelled from the head office to the affected area determined to ensure "no product shortages," "resumption of manufacturing as soon as possible," and "keeping product quality at the pre-quake level." At each stage of the recovery effort, I performed a strict evaluation of quality assurance processes, working with the plant's quality assurance staff to ensure, for example, the sterility of domestic and overseas shipments. By cooperating, we managed to overcome any difficulties. Drawing on my experience after the earthquake, I now strive daily to make the quality assurance system between the head office and our plants even more robust.

Going forward, we will continue to work as one with the plant employees to ensure a stable supply of high-quality products.



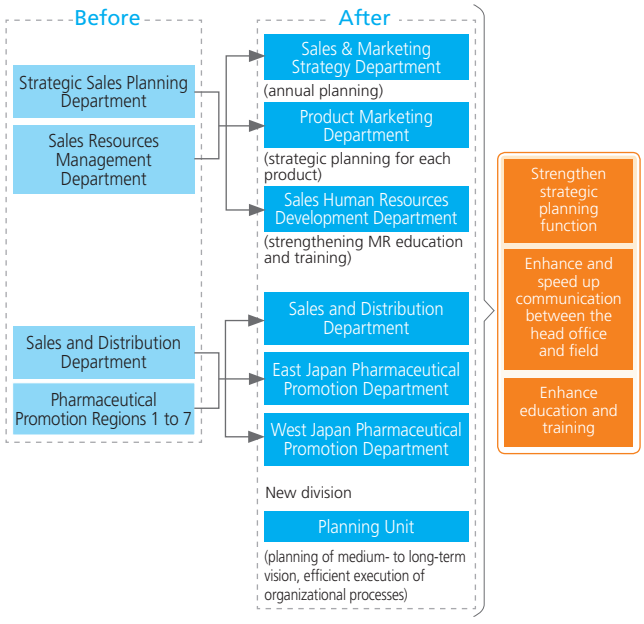
Sales

Feature (Domestic Sales)

In the spirit of "striving constantly to provide medicine of the best possible kind essential for protection of the health of the people," Shionogi's approach to sales is distinguished by a unique sales program called "detail and trace." At Shionogi, we use the word "detail" to describe the activity whereby MRs (medical representatives) inform medical professionals about the Company's pharmaceuticals in a detailed and timely fashion. The word "trace" is employed to describe the cycle in which MRs perform follow-up visits to determine whether this information and the drug in question have proven beneficial to patients, providing new information based on the patient's disease and condition. Through a combination of these two activities, Shionogi has been able to set itself apart from other companies.

Major Organizational Reform

In January 2012, the Company undertook major organizational reforms with a view to strengthening support for MRs and in doing so further enhancing the "detail and trace" approach to sales that sets Shionogi apart. By creating an organization that supports and strengthens MRs more efficiently, Shionogi has been able to further enhance each MR's skills, as well as devise effective sales strategies for the medium to long term, and provide information in a manner reflecting smooth communication between departments. Through greater clarification of target doctors and medical facilities and concentration of resources, and by harnessing head office functions to improve support for those in the field, we will pursue our goals of focusing on new strategic products, strengthening sales to hospitals, and improving productivity per MR.

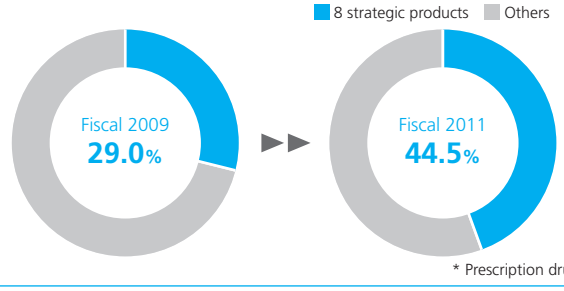


Fiscal 2011 Achievements and Fiscal 2012 Targets (Domestic Sales)

Achieving the goals set in the Third Medium-Term Business Plan will require strategic marketing and sustained growth in sales of our eight strategic products: *Crestor*, *Irbetan*, *Cymbalta*, *Finibax*, *Pirespa*, *Differin*, *OxyContin*/*OxiNorm*/*OxiFast*, and *Rapiacta*. In fiscal 2011, sales of these eight strategic products increased 25.6% year on year, with the launch of an additional dosage and administration regimen for *Finibax* benefiting patients with serious or intractable infections, and direct-to-consumer educational campaigns—including one about cholesterol involving TV commercials and a website launch—leading to improved consultation rates. Prescription drug sales as a whole also registered steady growth, rising 3.4%.

Fiscal 2012 is an extremely important year for Shionogi, being the halfway point of the Third Medium-Term Business Plan. The Human Health Care Division will ramp up efforts to grow sales of Shionogi's eight strategic products, with the new organization contributing to effective strategic planning and efficient deployment of business resources. The Company has the perfect opportunity to contribute to the health of even more patients, through the February 2012 approval of *Cymbalta* for the additional indication of diabetic peripheral neuropathic pain, which will aid in providing information to internal medicine specialists, and the May 2012 launch of *OxiFast*. We think Shionogi's domestic sales force will come into its own in fiscal 2012, as all the requisite building blocks—a sales program grounded in years of tradition, a new organization better equipped to execute that program, and concentration of resources on eight strategic products—are now in place.

Increase in Sales* Weighting of 8 Strategic Products



Overseas Business Activities

With an eye to delivering Shionogi products and their huge potential around the world, in January 2012 the company established an Overseas Business Division, charged with overseeing business at the US, Chinese and Taiwanese subsidiaries, and promoting export growth. In the US, the much-anticipated development compound *ospemifene* is poised to launch, paving the way for Shionogi to carve out a new market and further expand its operation. In China, there remains ample scope to promote and grow sales of Shionogi antibiotics, through C&O, which the Company made a subsidiary in 2011.

Through our operations in Taiwan and other Asian markets, we see an opportunity to contribute to the health of even more patients.

The Company Policy of Shionogi espouses the universal truths and raison d'etre of a pharmaceutical company. In line with that policy, the Company will execute its business in a manner designed to fulfill its social mission of benefiting those who suffer from disease around the world and matching drug potential to medical needs.

Performance in Each Region

General Manager
Gao Bin

Shionogi's China Business (C&O)

Shionogi's China Business Team consists primarily of C&O, acquired in October 2011. Shionogi has seconded five employees to C&O, charged with working in partnership with local employees to maximize income from the Chinese market.

Founded in 1995, C&O is an integrated pharmaceutical company engaged in R&D, manufacturing, and distribution of prescription pharmaceuticals products. Its head office and main sales office are located in Shenzhen, there are R&D centers in Nanjing and Shanghai, and there is a manufacturing plant in Nanjing. Some 1,200 employees across China operate under the basic philosophy of "Wishing a long life, creating our brilliant future hand in hand." The company's mainstay products are antibiotics—spearheaded by *Flumarin*—and in fiscal 2011 sales came to roughly ¥5.5 billion. China is pursuing a number of healthcare reforms, including transitioning to a new GMP system, and issuing guidelines for the proper use of antibiotics. C&O views these changes in the business climate as an opportunity for growth, and is working as one to supply the nation with pharmaceuticals that offer an even higher level of satisfaction.

President & CEO
John Keller, Ph. D.

Shionogi's US Business (Shionogi Inc.)

Shionogi Inc. provides Shionogi with the ability to independently develop, register, and commercialize our own products in the US, the world's largest pharmaceutical market. Shionogi Inc. has over 20 products on the market and has compounds in every phase of clinical development. In 2011, we took several steps to tailor our portfolio and to optimally align ourselves with Shionogi's global strategic focus areas, establishing a pain franchise and divesting multiple non-core products, and we continue to be highly active in business development. In April 2012, we submitted a New Drug Application to the FDA for *ospemifene*, a potential treatment for vulvar and vaginal atrophy in post-menopausal women, the first new chemical entity filed by Shionogi in the US and a key driver of our future growth. We work in close collaboration with the management team and with every division in Japan, as well as with each of our fellow "global business foothold" companies, all of us united by the "One Global Mission of Shionogi": Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve.

General Manager
Masami Morita

Shionogi's Taiwan Business (Taiwan Shionogi)

The Taiwan Business Team has the longest history of all overseas bases within the Shionogi Group. It is spearheaded by Taiwan Shionogi, which fully understands and executes the Shionogi corporate philosophy. In order to grow sales of Shionogi products in Taiwan, four Shionogi employees (three based in Taipei and one from the head office) and approximately 50 local MRs are currently marketing to university hospitals and regional core hospitals across four precincts (two in Taipei, along with Taichung and Kaohsiung). In line with its special focus on infectious disease, the team is marketing products such as *Flumarin* and *Finibax*. The company's mainstay product, *Flumarin*, is currently Taiwan's top-selling injectable cephem antibiotic.

Drawing on its 50-year relationship with Shionogi, its implicit understanding of Shionogi's basic philosophy, and its marketing strength in Taiwan, the Company will continue pursuing growth in domestic operation while also contributing to expansion of the entire overseas business, serving as a model for collaboration between Shionogi and overseas subsidiaries.

Major Products

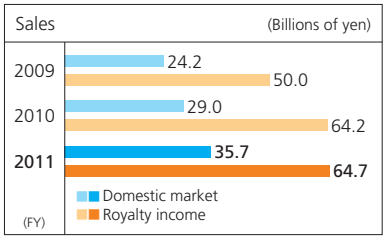
Prescription Drugs

In fiscal 2012, which marks the third year of Shionogi's Third Medium-Term Business Plan, we are targeting further growth through strategic expansion of sales for the eight core products underpinning our first basic strategy.

Crestor® tablet

(Hyperlipidemia treatment)

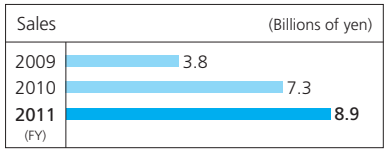
Evidence from many clinical studies in Japan and overseas indicates that the statin therapy *Crestor*, developed internally by Shionogi, is a leader among dyslipidemia treatments. It is the most-prescribed statin therapy in Japan. *Crestor* has been proven highly effective in lowering LDL cholesterol, thereby helping more dyslipidemia patients to reduce their risk of atherosclerotic diseases, and affording physicians and patients alike a greater sense of satisfaction and reliance.



Irbetan® tablet

(Antihypertensive)

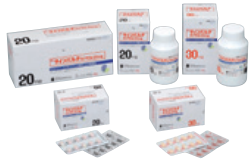
Irbetan is a long-acting angiotensin II receptor blocker (ARB) suited for use as a first-line therapy for hypertension. In addition to its superior antihypertensive effect, *Irbetan* is also a first-choice treatment for the growing number of Japanese suffering from a combination of hypertension and metabolic syndrome. As a second-generation ARB, *Irbetan* is the subject of much anticipation, and is also referred to as "metabosartan."

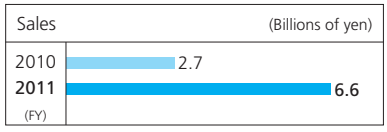


Cymbalta® capsule

(Treatment for depression, depressive condition, and diabetic neuropathic pain)

A serotonin and noradrenaline reuptake inhibitor, *Cymbalta* received US regulatory approval in 2004 and as of October 2011 had been approved in 101 countries as an antidepressant, and in 98 countries as a treatment for diabetic neuropathic pain (DNP). It is expected to be a useful drug formulation for relieving the symptoms of depression and enabling those who suffer to achieve remission, recovery and a return to society. *Cymbalta* now offers a new treatment option to those suffering from pain accompanying diabetic neuropathy, and is recommended as the first-line treatment for DNP in domestic and international guidelines.

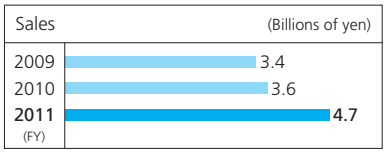




Finibax® for intravenous drip infusion, Finibax® solution kit for intravenous drip infusion

(Carbapenem-type antibiotic)

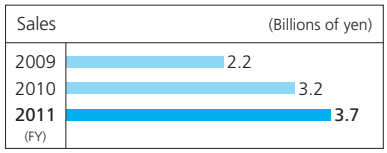
Developed in-house by Shionogi, *Finibax* is a carbapenem-type antibiotic for injection with broad antibacterial activity against various bacteria. In 2011, *Finibax* received approval in Japan for an additional dosage (3g as a maximum daily dose), and in May 2012 it also won approval for pediatric use and an additional indication for purulent meningitis. This has given rise to increasing expectation surrounding this product as a treatment for serious and intractable infections.



Differin® gel

(Acne vulgaris treatment)

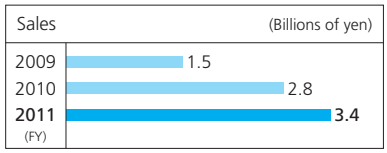
Differin gel, which received an A grade recommendation for treating comedo as well as light to severe symptoms of inflammatory skin rashes in guidelines on the treatment of acne vulgaris, is Japan's first novel topical acne vulgaris treatment with retinoid-like activity. We hope it will return smiles to the faces of acne sufferers.



Pirespa® tablet

(Idiopathic pulmonary fibrosis treatment)

Offering the effect of inhibiting pulmonary fibrosis, *Pirespa* is the only drug that is indicated for idiopathic pulmonary fibrosis. In 2008, Shionogi became the first company in the world to obtain manufacturing and marketing approval of the drug in Japan. In South Korea, licensee ILDONG PHARMACEUTICAL Co., Ltd. has obtained the orphan drug designation and received an approval.



OTC Drugs

OxyContin® tablet, OxiNorm® powder, OxiFast® injection

(Cancer pain analgesic)

The World Health Organization recommends treating cancer-related pain with oral analgesics that include immediate-release and sustained-release formulations of the same active ingredient. In May 2012, Shionogi launched *OxiFast*, expanding administration methods according to the patient's condition. A combination of Shionogi's 12-hour sustained-release *OxyContin* tablet, immediate-release *OxiNorm* powder and injectable *OxiFast* should relieve cancer pain more effectively.

Sales	(Billions of yen)
2009	8.5
2010	9.6
2011 (FY)	**8.9**

Popon®-S Plus

(Multiple vitamins & minerals supplement, Designated class 2 OTC drug)

Popon-S Plus is a comprehensive multiple vitamins & minerals supplement containing 11 vitamins with 3 minerals. With iron, folic acid and calcium—all of which are in high needs for modern-day people—it provides nutritive support for maintaining and improving everyday health.

Cinal® L White tablet

(Vitamin C supplement, Class 3 OTC drug)

Cinal L White tablet is a sugar-free Vitamin C supplement, containing 1000 mg of Vitamin C and 240 mg of L-cystein, in six tablets. Vitamin C inhibits the production of melanin, and L-cyctein improves metabolism of skin cells. *Cinal L White* Tablet helps to prevent blemishes, freckles, and pigmentation caused by sunburn.

Popon® VL intestinal remedy

(Intestinal remedy, Class 3 OTC drug)

Popon VL is a chewable-type intestinal remedy combining *bifidobacterium longum* with two types of lactomin (*lactobacillus gasseri* and *lactobacillus acidophilus*), along with three types of vitamins. With easy-to-take lemon-yogurt flavor, it helps to create a favorable intestinal environment for stomach health.

Diagnostics

MI02 Shionogi® BNP, Shionospot® BNP

(Human brain natriuretic peptide kit)

Because blood levels of the hormone BNP (human brain natriuretic peptide) rise when heart functions are even lightly impaired, BNP is a useful indicator when diagnosing and assessing cardiac insufficiency. With recent therapeutic guidelines citing testing of BNP blood levels as a useful means of screening people with hypertension for signs of cardiac insufficiency, BNP has gained a strong reputation at the frontlines of medicine.

Allerport® TARC

(Th2 chemokine/TARC kit)

TARC (thymus and activation-regulated chemokine) is believed to play a key role in the pathogenesis of atopic dermatitis, as serum levels of TARC are observed rising in step with worsening symptoms. Action to normalize serum levels of TARC has proven highly effective in treating atopic dermatitis and for this reason such levels are regarded in clinical settings as an objective indicator of the condition. As a reagent used to measure serum levels of TARC, *Allerport* TARC can be used to support treatment of atopic dermatitis.

TARC

A chemokine (leukocyte chemoattractant) that induces selective chemotaxis of certain leukocytes.

Quick Chaser® Flu A,B

(Influenza virus diagnostic kit)

Quick Chaser Flu A,B is a reagent for determining whether a patient is infected by the influenza virus, featuring a product design that is easy for patients and medical professionals to understand. Together with *Rapiacta*, *Quick Chaser* Flu A,B is helping to improve patients' quality of life through the early detection and treatment of influenza virus infection.

Allerport® HRT (Histamine release test kit)

Launched in May 2011, *Allerport* HRT (Histamine Release Test) is a reagent for use in automated assays measuring the histamine released due to allergens, of which 32 are now listed as causing food allergies in the Japanese Pediatric Guideline for Oral Food Challenge Test in Food Allergy.

Rapiacta® bag, Rapiacta® vial

(Antiviral drug for influenza)

Rapiacta was launched in January 2010, as the world's first influenza treatment administrable through a single-dose intravenous drip infusion. As an intravenous injection, *Rapiacta* can be used to treat all age groups, from babies to the elderly, and can be administered in clinics and hospitals to seriously ill patients as well as patients who have difficulty swallowing tablets, regardless of whether they are outpatients or hospitalized. These attributes aid it in fulfilling the mission of an anti-influenza drug, that of protecting the life of the patient.

Sales	(Billions of yen)
2009	0.6
2010	0.3
2011 (FY)	**1.4**

Fundamental Policy on CSR

The Shionogi Group's purpose, as expressed in the beginning of the Company Policy instituted in 1957, is "to strive constantly to supply the best possible medicine to protect the health and well-being of the patients we serve." This eternal and unwavering corporate philosophy is a statement of our vision and value to society. Our operations as a pharmaceutical company inherently contribute to society, and we believe that implementing this philosophy promotes the fulfillment of our social responsibilities as a corporation. To help realize the Company Policy, we have created Action Guidelines, which all Shionogi employees share and embrace as norms for daily activities. These guidelines also describe 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, other investors, and society as a whole. We are confident that this contribution, in turn, leads to the Company's development and to the personal improvement of Shionogi employees as fellow human beings.

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.

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 its products 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.

Relationships with Patients and Medical Professionals

Information Provision Through Inquiries

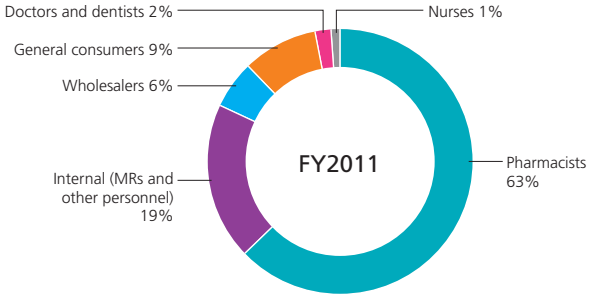
For inquiries related to its products, Shionogi has toll-free telephone numbers and websites for medical professionals, patients, and consumers of over-the-counter products. This enables us to quickly provide accurate information regarding the quality, efficacy, and safety of our products.

In fiscal 2011, the total number of inquiries we responded to was approximately 77,700, which was about the same as fiscal 2010. Inquiries relating to *Rapiacta* increased sharply, with approximately 1,300 inquiries recorded in February 2012 alone. By responding accurately and quickly to inquiries in such emergent circumstances during the flu season in Japan, we helped patient treatment.

The Drug Information Center is the contact point for our customers. We collect valuable information through inquiries, and share this with the relevant departments in the company to work on improving the quality of our products by rectifying any problems and strengthening risk management.

Looking ahead, Shionogi will continue to provide information promptly and accurately in order to contribute to the health of as many patients as possible while further promoting the optimized use of information.

Breakdown of Customer Inquiries



Measures to Improve Quality of Life

Supporting Dermatological Treatment for Acne

Acne vulgaris afflicts many people, and, as it mainly appears repeatedly on the face and can leave scars, significantly affects quality of life (QOL). Yet despite these consequences, few sufferers seek the attention of a dermatologist, and instead turn to skincare products and commercially available treatments. Indeed, the notion that acne is a medical condition requiring medical attention is not a common one.

Shionogi continues to provide acne patients with accurate information and encourages them to seek dermatological treatment to restore their confidence and improve their QOL.

Fiscal 2012 will see Shionogi address the situation that acne reoccurs. Patients often have a fixed notion that their acne isn't bad enough to see a doctor. But we aim to dispel this belief by creating the awareness that any acne that reoccurs is acne that should be seen by a doctor. We will thus step up this awareness campaign to encourage more acne patients to get examined by a dermatologist based on the correct understanding that early medical treatment can improve patients' QOL.

Cancer Pain Management Outreach

Japan reported that two thirds of those experiencing pain from cancer did not seek relief. Oral therapeutic narcotics can eliminate pain in many cases. Therefore, Shionogi has been running a media campaign that includes newspaper advertisements to communicate the message that patients do not have to simply tolerate pain. This initiative has proved successful in tangible terms over the past five years, achieving high awareness of its message and increasing visits to our cancer pain therapy website.

Shionogi has participated in the Cancer Pain Relief Consortium (http://www.toutu.jp/, Japanese only), a collaborative initiative of industry entities that promotes pain care through a variety of activities, since its founding in April 2008. In November 2011, Shionogi hosted a seminar to announce the results of a project about pain in cancer treatment to increase awareness of pain care for cancer sufferers. Shionogi also supports a project promoted by the Ministry of Labour, Health and Welfare called the Orange Balloon Project, which disseminates palliative care information. These and other ongoing initiatives seek to increase overall social interest in cancer pain therapy and improve QOL.

With April 2012 marking the sixth year of publicity in this arena, Shionogi is determined to continue taking diverse steps to help eliminate cancer patients' pain as swiftly as possible.

Source: MMJ June 2008, Vol. 4, No. 6, p. 534

Business Partner Relations

Shionogi's procurement activities take place globally, and encompass not only the medicines essential for the protection of people's health, but also items used in the development, manufacture and sale of those medicines—including raw materials, devices and equipment, and consumables.

In order to develop and manufacture pharmaceutical products which are beneficial, and to supply them in a continuous, stable and safe manner, we take the view that all parties across the supply chain (including suppliers of raw materials and finished products, as well as contract manufacturers) are indispensable business partners, with whom we will cultivate relationships of mutual trust in a joint pursuit of sustained growth.

In addition, for achieving consistency in our procurement practices, we have established the "Shionogi Group's Procurement Policy." We also ask our business partners to understand the intent of this procurement policy—in its focus on good quality and stable supply, strict compliance with laws and regulations, environmental consideration, and never having dealings with companies that do business in an anti-social manner. Thus, together with our business partners, we strive to provide solutions for social and environmental issues.

Relationship with Employees

Human Resource Development

Shionogi's basic stance on human resource development is that people are the source of the Company's competitiveness. Based on this stance, we believe that the sum or synergies of the growth of individual employees will be a source of strength for the organization and Shionogi and our growth. In line with this thinking, human resource development at Shionogi is composed of an organic mix of elements, including on-the-job training, off-site training, and personal development. In terms of scope, the strands of human resource policy at Shionogi cover a wide range: from company-wide programs, business division-specific content and overseas postings to intra-company rotation for career development. Furthermore, besides education and training programs, Shionogi also implements a regular "youthful employee interview" program to provide guidance for younger employees.

Human Resources System

The evaluation system at Shionogi places great emphasis on how well employees fulfill their individual roles. Employees are scored based on their assigned roles, the size of that role, and their displayed ability levels. The next step in improving their abilities involves assigning to them greater roles to help them grow further through performing new tasks. The end result is a continuous and positive cycle of improvement. This approach aims to motivate employees through the setting and completion of key targets, and thereby improve their skills.

Fair and Equitable Personnel Evaluations

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 benefits. In view of this, Shionogi is clarifying evaluation standards, disclosing information to employees on a fair and equitable basis, and providing extensive educational programs for evaluators. In these and other ways, Shionogi is increasing the transparency and objectivity of its evaluation methodology. In addition, by gathering appropriate feedback on evaluation results, the Company is working to increase employee satisfaction in the evaluation system and to operate the system in a manner that effectively promotes human resource development.

Occupational Safety and Health

In order to realize its basic stance, 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 is promoting a 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 (99.3% of employees have had checkups), and encourage employees to receive testing for adult-onset and gynecological illnesses. Based on the results, industrial physicians, nurses and other health maintenance staff undertake detailed follow-up work regarding each individual employee with a pre-existing or newly diagnosed condition. To address mental health, Shionogi has a specialized physician working full-time as an industrial physician and has established a counseling system that includes a counseling room and an outside employee assistance program (EAP). 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 staff health care, and external resource-based care).

EAP (Employee Assistance Program)

This program provides support for employee's mental health in order to avoid the onset of depression or other conditions caused by complex human relationships in the workplace and other reasons. This program is provided in cooperation with outside groups.

	FY2008	FY2009	FY2010	FY2011
Number of occupational illnesses/injury incidents	12	16	10	17
Occupational illness/injury incident frequency rate	0.108%	0.22%	0.209%	0.62%
Occupational illness/injury incident severity rate	0.0002%	0.001%	0.0007%	0.0005%

Employment of Persons with Disabilities

To help normalize the lives of persons with disabilities, Shionogi has been making proactive, ongoing efforts to hire such persons. To date, Shionogi has received recognition from the Osaka Employment Development Association as a distinguished employer. This association has also presented disabled Shionogi employees with longtime service awards that reflect the Company's high retention rate for employees with disabilities.

Human Rights Initiatives

The Shionogi Group Compliance Policy and Shionogi Charter of Conduct articulate the Company's stance on human rights. In line with these policies, Shionogi implements various human rights initiatives such as running training programs and establishing a consultation service. 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.

Community Relations

Socie—Our Social Contribution Support Association

Shionogi established Socie in 1997. The Company, its employees and the employee labor union cooperate in supporting Socie members' voluntary social contribution activities. Socie provides assistance for disasters in Japan that are specified in Japan's Disaster Relief Act, as well as to regions overseas that are affected by earthquakes, storms, volcanic eruptions and other disasters. It also makes annual donations to various groups.

Socie donated ¥20 million through the Japanese Red Cross Society to support relief efforts for victims of the Great East Japan Earthquake that struck in March 2011, and to promote recovery of the affected regions. Shionogi also donated ¥100 million to the prefectural governments of Iwate, Miyagi, and Fukushima prefectures.

In addition, Shionogi supports the voluntary social contribution activities of employees by helping raise their consciousness of volunteer work with time off for leaves of absence for such activities or for bone marrow donation.

The Cell Science Research Foundation

The Cell Science Research Foundation was established on March 17, 1988 to mark the 110th anniversary of Shionogi's establishment. It was established to contribute to efforts to find the causes of and understand diseases and to prevent and treat conditions by advancing research at the cellular level in the life sciences field, and developing young researchers in Japan and promoting international exchange. In fiscal 2011, the foundation provided 10 research grants, and provided support for 6 young researchers to study in Japan and overseas, and for 4 international forums for researchers.

Hoansha Foundation

The Hoansha Foundation was established on March 5, 1954 with a bequeath from Gisaburo Shiono, the Company's second president. This foundation conducts activities with the aim of contributing to advances in pharmaceutical science by providing grants for research that contributes to this end. In fiscal 2011, the foundation provided grants to 20 projects from across Japan and 2 special grants for projects from the Kansai region. It also held presentations to announce the results of research.

A presentation for announcing research grants

Investor Relations

Shionogi endeavors in various ways to improve communications with all our shareholders. Top management holds semiannual and annual financial results briefings and first- and third-quarter conference calls for domestic institutional investors and analysts. We also convene annual briefings on research and development (R&D), which is vital for pharmaceutical manufacturers, reporting on R&D progress, discussing future milestones, presenting new development compounds and providing other useful information. We also distribute audio recordings of financial results and R&D briefings on our website.

We welcome individual visits from Japanese and overseas institutional investors and analysts and respond to their questions, and actively participate in brokerage-run conferences. In addition, top management visits overseas investors. In fiscal 2011, we visited investors in the US, the UK and Asia. The opinions and questions we hear in the course of our investor relations activities from shareholders and other investors are fed back to relevant internal parties on a quarterly basis and used in management. In addition, we endeavor to quickly disclose, through our website and in other ways, all corporate data, such as progress in R&D projects and new product launches, that are needed to earn an appropriate share price.

The R&D meeting was held in March 2012

Efforts to Preserve the Environment

Efforts to Preserve the Environment

In promoting its business activities, the Shionogi Group is aware that, as a company, it has an important social responsibility to give appropriate consideration to the global and local environments and to ensure that happens. Based on this thinking, to lessen the environmental impact of all of our business activities, we established "The Shionogi Group's Basic Environmental Policy." In line with this policy, we conduct a range of environmental preservation activities that give consideration to global environmental protection, resource protection and harmony with the natural environment.

The Shionogi Group's Basic Environmental Policy

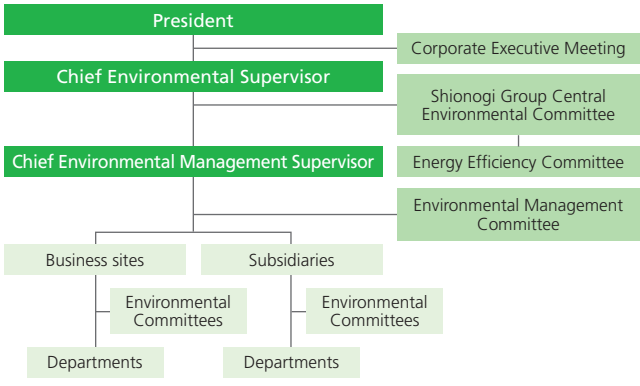
1. **Environmental Management System**
   The Shionogi Group will promote high-quality environmental protection activities by assigning the Director in charge of the environment to the post of Chief Environmental Supervisor and clarifying organizational responsibilities and authority for environmental 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, Ph.D.
President and Representative Director
Shionogi & Co., Ltd.

Environmental Management Organization

The Shionogi Group promotes environmental preservation activities under the Group-wide supervision of the Chief Environmental Supervisor and the Chief Environmental Management Supervisor. All major business sites and affiliates 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 (International Standard for Environmental Management Systems)

Shionogi has acquired ISO 14001 certification for 4 manufacturing and research divisions with a high environmental impact (Kuise Site, Settsu Plant, Kanegasaki Plant and SPRC) as well as Shionogi Analysis Center Co., Ltd. In fiscal 2011, we changed the environmental management system and how it is operated following the integration of R&D divisions into SPRC. Also, domestic production subsidiary Shionogi Pharma Chemicals has maintained its ISO 14001 certification. To ensure proper adherence to ISO 14001, each business site appoints internal auditors to conduct internal audits. At the same time, we train and certify internal auditors in the ISO 14001 standard and offer advanced training courses so as to further improve their capabilities.

Environmental Audits

The Shionogi Group conducts environmental audits at all manufacturing plants, research laboratories and domestic production subsidiaries to confirm compliance with environment-related laws and regulations, proper environmental risk management, and the status of environmental management systems. In fiscal 2011, an environmental audit was conducted at Shionogi Pharma Chemicals.

Compliance with Laws and Regulations

Environment-related regulations cover waste management, energy management, air pollution and water contamination prevention, chemical substance management, and other areas. Shionogi identifies laws and regulations governing its activities, and shares pertinent information with all business sites, as well as conducts education programs and creates manuals to ensure legal compliance. It also periodically evaluates whether each law or regulation is being properly followed. In fiscal 2011, there were no environment-related legal actions or fines.

Environmental Education and Training

We educate new recruits and transferees who are handling tasks with a large environmental impact before they commence their work. This program covers general environmental education, waste management, chemical substance handling and other subjects. In this way, we ensure that each employee understands the importance of environmental activities. Also, to be


A disaster drill at SPRC

Topic

Shionogi's Settsu Plant has cooperated with the Osaka Prefectural government's efforts to create a green city. Among other activities, the plant is greenifying walls as well as extending and greenifying walkways facing these walls along the Osaka central loop line. It also helped to convert areas surrounding a bus stop into a community park, and refreshed the bus stop itself.

prepared for an emergency situation such as an earthquake, fire or other disasters or hazardous substance leak, we specify response procedures and a communication and reporting system, as well as conduct emergency response drills.

Interaction with Local Communities

We believe that interaction with local communities is vital as a corporate citizen. Based on this belief, each business site cleans the areas around its grounds and removes illegal advertising. The Kanegasaki Plant cuts grass in Kanegasaki and holds meetings for locals to report on environmental activities. Furthermore, the Aburahi Facilities has trained local junior high school students on managing botanical gardens under a work experience program.

Targets of Phase 4 of the Shionogi Group Environmental Protection Plan

The Shionogi Group has up to now made an effort to improve its environment performance in R&D, manufacturing, sales and other areas, setting targets for categories such as energy-saving measures, global warming countermeasures, resource conservation, waste reduction, and enhanced chemical substance management. At present, we are striving to reduce the Group's entire environmental impact by implementing initiatives under Phase 4 of the Shionogi Group Environmental Protection Plan (fiscal 2011 to fiscal 2015).

1. **Promote measures to conserve energy and counter global warming**
   - Reduce CO_2 emissions by 23% compared to the fiscal 2005 benchmark year (fiscal 2020).
   - Reduce the Basic Unit for Energy by an annual average of 1%.
   - Promote the introduction of highly energy-efficient equipment and facilities.
2. **Strengthen conservation of resources and waste disposal measures**
   - Reduce the amount of waste generated by 10% compared to the fiscal 2010 benchmark year (20% reduction by fiscal 2020).
   - Promote zero emissions*.
3. **Strengthen management of chemical substances**
   - Reduce atmospheric emissions of dichloromethane in the manufacture of active pharmaceutical ingredients (APIs) by 50% compared with the fiscal 2010 benchmark year.
   - Control the use and atmospheric emission of chemical substances.
   - Promote the proper treatment and management of polychlorinated biphenyls (PCBs).
4. **Promote understanding of biodiversity**
   - Properly preserve and expand endangered plant species in the Company's botanical gardens.
   - Conduct education on biodiversity and related laws and regulations.
5. **Promote the introduction of low-emission vehicles**
   - Use only hybrid or electric vehicles for cars lent to MRs (except in cold regions)

* Waste sent to landfills for final disposal divided by total waste generated of no more than 1% is defined as zero emissions. We are working to reduce the volume of waste sent to landfills.

Reducing Environmental Impact

Fiscal 2011 Environmental Protection Plan Targets and Results

Measures to conserve energy and counter global warming

In fiscal 2011, we worked to reduce CO_2 emissions in various ways, including replacing freezers, air conditioners, and power supply and lighting equipment with energy-saving models, and improving compressed air pipes. In addition, the Energy Efficiency Committee promoted energy conservation and CO_2 countermeasures across the Company by reviewing medium- to long-term plans, drafting management standards, and evaluating procedures, among other actions. Moreover, in response to an electricity supply shortage caused by a halt to nuclear power generation in Japan, we adjusted air conditioning temperature settings, particularly in summer and winter months, at all business sites. We also removed some lighting equipment to save power.

At the Kanegasaki Plant, we are planning to switch from heavy oil to LNG by fiscal 2014 for powering boilers and co-generation systems in order to sharply reduce CO_2 emissions.

	FY2005 Actual	FY2011 Actual	FY2011 Targets
CO_2 emissions (tons)	95,679	92,558	93,677
Basic Unit for Energy reduction rate vs. FY2009 (%)	–	3.3	5.1

* The Basic Unit for Energy is an indicator of energy efficiency. The value is calculated by dividing energy usage by production volume, total floor area, etc.

Resource conservation and waste disposal measures

In addition to reducing the amount of waste generated by changing manufacturing processes and methods of disposing of waste liquid, as well as by reducing the water content ratio of sludge, we are conserving resources and dealing with waste by promoting the 3Rs—reduce, reuse, and recycle—such as by recycling waste liquid, waste plastic, metals and paper. In fiscal 2011, we achieved our target for the volume of waste generated. However, we were unable to achieve our landfill disposal rate target due to the Great East Japan Earthquake's impact.

	FY2010 Actual	FY2011 Actual	FY2011 Targets
Waste generated (tons)	4,961	4,744	4,928
Landfill disposal rate (%)	2.0	2.7	1.4

Management of chemical substances

Shionogi is properly managing chemical substances while working to control atmospheric and wastewater emissions by setting voluntary standards. In addition to properly managing waste containing PCBs, we file reports every year as required by law. Regarding equipment containing high PCB concentrations, we register disposal with Japan Environmental Safety Corporation. Furthermore, at the Kanegasaki Plant, we reduced atmospheric emissions of dichloromethane by maintaining dichloromethane collection equipment and taking other actions; we reduced emissions by 21.7% compared with fiscal 2010.

Biodiversity

The Company engages in environmental activities with an awareness of biodiversity. We educate employees with a video about the subject, as well as conduct research in conformity with the Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms and the Invasion of Alien Species Act. Furthermore, the Aburahi Facilities increased the variety of endangered plants in our botanical gardens.

Introduction of low-emission vehicles

In order to reduce CO_2 and exhaust gas emissions by raising fuel efficiency, we are making progress introducing hybrid vehicles for MRs. In fiscal 2011, hybrid vehicles accounted for 48.9% of all such vehicles (excluding cold regions of Japan), up 9.2 percentage points from fiscal 2010.

Third-party Opinion

Experts at the Institute for Environmental Management Accounting (IEMA) provide us with their opinion on our efforts to improve the reliability and transparency of disclosure of our environmental activities. We also receive advice on our environmental friendliness, environmental management status, and future activities.

Ten-year Consolidated Financial Highlights

Shionogi & Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			
	2003	2004	2005	2006
For the years ended March 31:				
Net sales	¥285,232	¥200,485	¥199,365	¥196,389
Cost of sales	153,402	79,856	74,069	68,708
Selling, general and administrative expenses	112,564	100,337	96,567	98,455
Operating income	19,266	20,292	28,729	29,226
Income before income taxes and minority interests	9,139	5,178	31,655	38,798
Net income	5,904	2,204	18,942	22,735
Research and development expenses	31,284	29,808	29,409	32,257
Capital investments	8,871	5,853	5,001	11,132
Depreciation and amortization	10,185	9,705	9,412	8,653
As of March 31:				
Property, plant and equipment, net	¥ 75,585	¥ 71,993	¥ 68,191	¥ 64,251
Total assets	371,704	376,161	396,999	427,683
Total long-term liabilities	49,145	49,005	27,783	38,371
Total net assets	274,996	292,387	300,065	337,434
Per share amounts:				
Net income	¥ 16.66	¥ 6.06	¥ 54.64	¥ 66.55
Net assets	789.91	844.53	879.79	989.76
Dividends	8.50	8.50	12.00	16.00
Other:				
Equity ratio (%)	73.9	77.7	75.5	78.8
Return on equity [ROE] (%)	2.1	0.8	6.4	7.1
Payout ratio (%)	51.0	140.3	22.0	24.0

Notes: 1. U.S. dollar figures have been calculated, for convenience only, at the rate of ¥82.13 = US$1.00, the approximate rate of exchange on March 31, 2012.
2. From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former shareholders' equity, valuation and translation adjustments, and minority interests as total net assets. Figures for fiscal years through the year ended March 31, 2006 have been calculated in conformity with the new standard.

Millions of yen						Thousands of U.S. dollars
2007	2008	2009	2010	2011	**2012**	**2012**
¥ 199,759	¥ 214,268	¥227,512	¥ 278,503	¥282,350	**¥ 267,275**	**$3,254,292**
67,542	68,594	70,929	76,264	81,737	**77,753**	**946,706**
103,354	105,275	124,568	149,801	153,721	**142,519**	**1,735,286**
28,863	40,399	32,015	52,438	46,892	**47,003**	**572,300**
31,723	39,963	30,786	58,541	33,135	**41,495**	**505,236**
18,595	25,064	15,661	38,626	20,027	**27,102**	**329,989**
37,456	40,290	52,822	51,808	50,921	**53,599**	**652,612**
11,107	13,069	10,875	12,547	17,967	**13,233**	**161,123**
8,798	10,666	13,468	18,048	17,966	**16,282**	**198,247**
¥ 67,815	¥ 70,378	¥ 71,812	¥ 62,448	¥ 70,221	**¥ 74,282**	**$ 904,444**
429,569	413,704	501,853	540,762	523,242	**522,162**	**6,357,750**
36,282	29,024	114,955	131,956	115,326	**92,900**	**1,131,134**
345,752	342,236	310,094	341,976	328,096	**347,198**	**4,227,420**
					Yen	U.S. dollars
¥ 54.61	¥ 74.21	¥ 46.75	¥ 115.33	¥ 59.80	**¥ 80.93**	**$ 0.99**
1,014.73	1,020.31	924.43	1,019.71	979.69	**1,027.83**	**12.51**
16.00	22.00	28.00	36.00	40.00	**40.00**	**0.49**
80.4	82.7	61.7	63.2	62.7	**65.9**	
5.4	7.3	4.8	11.9	6.0	**8.1**	
29.3	29.6	59.9	31.2	66.9	**49.4**	

Management's Discussion and Analysis

Overview of Results

In the fiscal year ended March 31, 2012 (fiscal 2011), consolidated net sales decreased year on year. The Shionogi Group expanded consolidated sales of prescription drugs in the Japanese market. However, sales in the US dropped sharply due to an increase in allowance for sales returns and a provision for Medicaid rebates, which are charged to pharmaceutical companies under the US system of healthcare subsidies for low-income patients. On the other hand, operating income and ordinary income increased slightly due to factors including lower sales expenses due to the Great East Japan Earthquake, as well as Group-wide expense reduction activities aimed at improving productivity. Net income increased substantially year on year, mainly reflecting the absence of extraordinary expenses totaling ¥18.3 billion that were recorded in the previous fiscal year, including a loss relating to disasters caused by the Great East Japan Earthquake, business structure improvement expenses in US operations, and impairment losses.

The Great East Japan Earthquake that occurred in March 2011 significantly impacted the Group, including production activities at the Kanegasaki Plant and sales activities in East Japan. Recovery was largely complete about six months after the earthquake as a result of Group-wide efforts to quickly restore operations.

Net Sales and Earnings

Net Sales

Net sales declined 5.3% year on year to ¥267,275 million.

1. Domestic Sales of Prescription Drugs

   Sales of the eight strategic products, centered on the three core strategic products of the hyperlipidemia treatment, *Crestor*, the hypertension treatment, *Irbetan*, and the antidepressant drug, *Cymbalta*, increased 25.6% to ¥73.2 billion. This compensated for lower sales of existing products and contributed to an overall increase in domestic sales of prescription drugs.

2. Exports and Overseas Subsidiaries

   At Shionogi Inc., actual product returns exceeded estimates at the beginning of the fiscal year. Shionogi Inc. therefore took this opportunity to revise its process for calculating the necessary allowance for product returns in the future and to recalculate Medicaid rebates. These initiatives were part of Shionogi Inc.'s significant revision of its assumptions for providing for product returns and rebate payments.

   As a result, increases during fiscal 2011 in the allowance for sales returns and the provision to reserve for Medicaid rebates increased sales deductions, which was a factor in the decrease in sales. However, these increases secured the allowances and reserves that enable the Shionogi Group to accommodate changes in its US business.

   In addition, in October 2011, Shionogi completed the acquisition of China-based pharmaceutical company, C&O, which contributed to consolidated results in fiscal 2011.

3. Royalty Income

   AstraZeneca's global sales of *Crestor* expanded steadily in 2011. However, royalty income from *Crestor* has only increased slightly in yen terms because of the appreciation of the yen. Total royalty income decreased slightly year on year to ¥68.7 billion.

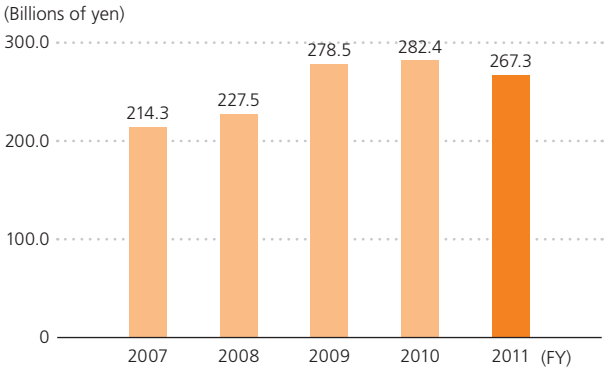
Gross Profit

The cost of sales decreased by ¥3,984 million in year-on-year terms to ¥77,753 million.

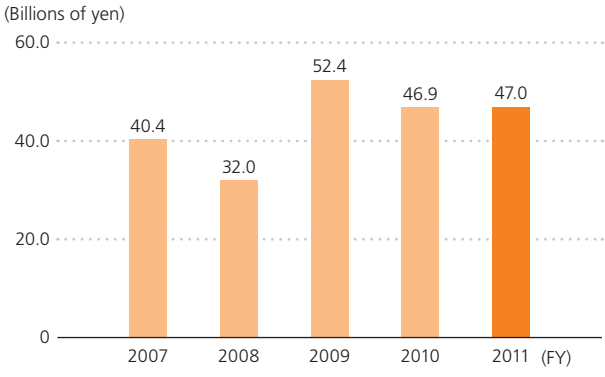
The cost of sales ratio increased from 28.9% to 29.1%, reflecting the booking of sales deductions at Shionogi Inc. and lower profitability in export products due to the yen's appreciation and other factors.

As a result, gross profit declined 5.5% year on year to ¥189,522 million.

Net Sales



Operating Income



Operating Expenses and Operating Income

Selling, general and administrative (SG&A) expenses, excluding research and development expenses, declined 13.5%, reflecting a 15-month transitional fiscal year due to a change in the fiscal year-end at Shionogi Inc. in fiscal 2010, lower sales expenses in the first half of fiscal 2011 due to the impact of the Great East Japan Earthquake, and Group-wide expense reduction activities. As a result, SG&A expenses as a whole declined 7.3%, leading to a 0.2% year-on-year increase in operating income to ¥47,003 million.

Other Income (Expenses)

In fiscal 2011, Shionogi recorded net other expenses of ¥5,508 million. This compared with net other expenses of ¥13,757 million in fiscal 2010.

In fiscal 2010, Shionogi incurred extraordinary losses totaling ¥18.3 billion, including a loss relating to disasters caused by the Great East Japan Earthquake, business structure improvement expenses in US operations, and impairment losses. However, in fiscal 2011, there was a substantial improvement due in part to subsidy income for environmental measures at a new research facility.

Income Before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests increased 25.2% to ¥41,495 million. Including income tax adjustments, income taxes increased 10.0% to ¥14,392 million.

Net income increased 35.3% to ¥27,102 million. The net income ratio was 10.1%, compared with 7.1% in the previous fiscal year. Net income per share increased from ¥59.80 to ¥80.93.

Segment Information

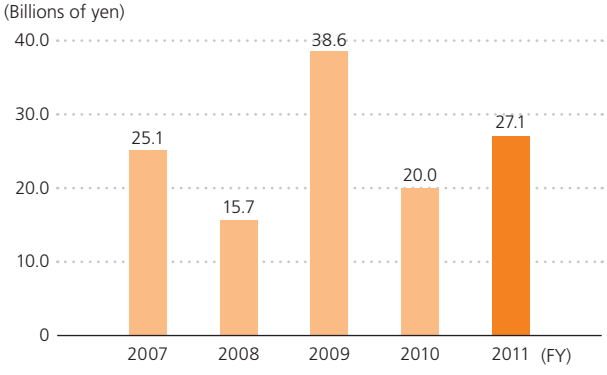
The Shionogi Group operates as a single business segment related to prescription drugs, involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. While Shionogi performs analysis of sales by product and evaluations of performance by Group companies, decisions on business strategy, and the allocation of management resources, especially the allocation of research and development expenses, are made on a Group-wide basis. Therefore, disclosure of segment information for the year ended March 31, 2012 has been omitted.

Research and Development Expenses

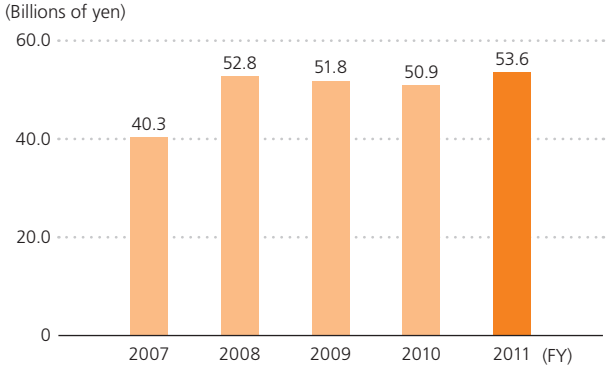
The Shionogi Group aims to achieve world-class research productivity and to quickly supply pharmaceuticals to global markets in conducting research and development (R&D) activities. The Group quickly identifies unmet medical needs and deploys various technologies, including small molecule drug discovery, one of the Shionogi Group's strengths, to continuously supply innovative pharmaceuticals to patients.

1. Research Activities
   In July 2011, the Shionogi Group completed its core drug discovery research facility on the grounds of the SPRC in Toyonaka City, Osaka Prefecture. The new facility consolidates drug discovery functions previously dispersed among four research facilities in Osaka and Shiga Prefectures. The Group aims to discover innovative new drugs at the SPRC by further strengthening cooperation in its organization and achieving top-class research productivity in fulfilling its deep commitment to providing even better pharmaceuticals worldwide from Osaka.
2. Development Activities
   In February 2012, the Shionogi Group established a wholly owned subsidiary, Shionogi Limited, in London, the UK, as a development base in Europe. It complements bases in Japan and the US, enabling faster and more efficient development by selecting the region for conducting clinical trials from regions worldwide depending on the stage.
3. In-licensing
   The Shionogi Group concluded a contract with Shire plc of Ireland to co-develop and co-commercialize in Japan two of Shire's drugs for attention deficit hyperactivity disorder (ADHD).

Net Income



R&D Expenses



The Group will make a broad contribution to treating patients with central nervous system disorders by providing ADHD patients in Japan with new treatment options.

As a result of these activities, overall Group R&D expenses for fiscal 2011 totaled ¥53,599 million.

Cash Flows

For fiscal 2011, net cash provided by operating activities decreased ¥1,804 million compared with the previous fiscal year to ¥54,724 million. Income before income taxes and minority interests increased ¥8,360 million, while depreciation and amortization and other non-cash charges including impairment loss decreased. Other factors included a decrease in the provision for loss on disaster attributable to the Great East Japan Earthquake and an increase in inventories.

Net cash used in investing activities increased ¥24,343 million compared with the previous fiscal year to ¥38,290 million. Factors included capital investments such as the construction of the new research facility at the SPRC and the use of cash in connection with the C&O acquisition.

Net cash used in financing activities increased ¥738 million compared with the previous fiscal year to ¥27,749 million as a result of factors including repayment of debt and payment of dividends.

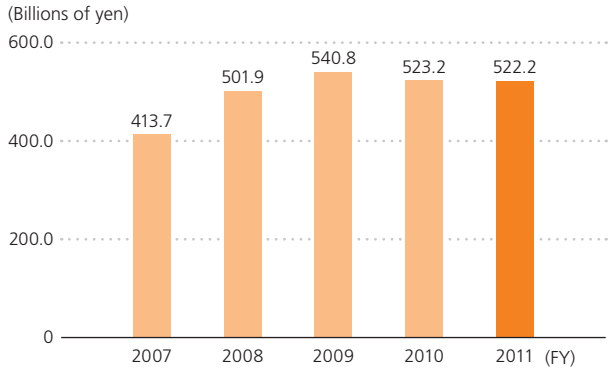
As a result, cash and cash equivalents at March 31, 2012 decreased ¥12,004 million from March 31, 2011 to ¥98,688 million.

Capital Investments

Capital investments by the Shionogi Group in fiscal 2011 totaled ¥13,233 million, down ¥4,734 million, or 26.3%, year on year.

The Shionogi Group invested ¥12,620 million on research facility expansion, including the construction of the new research facility at SPRC and a facility for producing active pharmaceutical ingredients for beta-lactam clinical trials at the Kanegasaki Plant. A total of ¥613 million was also invested at consolidated subsidiary Shionogi Inc. and elsewhere.

Total Assets



Assets, Liabilities and Net Assets

As of March 31, 2012, total assets stood at ¥522,162 million, ¥1,080 million, or 0.2%, less than at March 31, 2011. Current assets decreased ¥16,005 million, or 6.2%, year on year to ¥240,932 million, due mainly to a decrease in cash and cash equivalents because of the acquisition of C&O shares and other factors, and decrease in notes and accounts receivable—trade because of the revision of payment terms. Investments and other assets, net increased ¥10,864 million, or 5.5%, to ¥206,948 million because the acquisition of C&O increased goodwill and others.

Current liabilities increased ¥2,244 million, or 2.8%, to ¥82,064 million. Total long-term liabilities decreased ¥22,426 million, or 19.4%, to ¥92,900 million. The main reasons for the decrease in liabilities were a decrease in accrued income taxes and the repayment of long-term debt.

Net assets totaled ¥347,198 million, up ¥19,102 million, or 5.8%. The main reasons were a ¥13,704 million increase in total shareholders' equity due to the net result of the net income and dividends, and an increase in net unrealized holding gains on securities resulting from an increase in stock market prices compared with the previous fiscal year.

Reflecting these various factors, the ratio of total net assets to total assets increased from 62.7% to 65.9%.

Dividends

Shionogi aims to raise dividends steadily in line with performance while proactively making business investments to increase corporate value from a medium- to long-term perspective. The Group has adopted a consolidated dividend payout ratio of 35% as a performance target going forward.

Shionogi's Articles of Incorporation stipulate twice-yearly distributions of retained earnings as interim and final dividends wherever possible. The General Meeting of Shareholders must approve the final dividend, while the Board of Directors approves any interim dividend.

Net income for fiscal 2011 includes the effect of loss on disaster due to the Great East Japan Earthquake and one-time charges associated with changes to the method for calculating allowances for product returns and rebates and with business structure improvements at Shionogi Inc. However, given the solid progress of operations in Japan and other business activities and the policy of paying stable dividends, Shionogi set the year-end cash dividend at ¥20 per share for fiscal 2011, as planned. Together with the interim cash dividend, the total annual dividend was ¥40 per share. The consolidated dividend payout ratio was 49.4%.

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, 2012.

(1) Systemic and Regulatory Risk

In the 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.

Furthermore, the expiry of intellectual property rights (patents) of pharmaceuticals developed by Shionogi or the launch of sales of generics after such expiry could affect the results of the Shionogi Group.

(5) Risk of Dependence on Certain Products

The Shionogi Group obtains approximately 45% of its product sales and royalty income from two of its products, *Crestor* and *Flomox* (as of fiscal 2011). 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 pharmaceutical 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) Risk of Natural Disasters or Pandemics

The sudden occurrence of natural disasters or other unforeseen incidents or a pandemic could dictate the closure of plants, laboratories or other business sites, or the 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 of political 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 Main Financial Statements

Consolidated Balance Sheets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Assets			
Current assets:			
Cash and cash equivalents (Notes 7 and 10)	¥ 98,688	¥ 110,692	$ 1,201,607
Short-term investments (Notes 4 and 10)	6,296	5,802	76,659
Notes and accounts receivable (Note 10):			
Affiliates	880	939	10,715
Trade	64,688	68,559	787,629
Other	4,724	6,440	57,519
Allowance for doubtful accounts	(17)	(13)	(207)
	70,275	75,925	855,656
Inventories (Note 5)	50,121	47,339	610,264
Deferred income taxes (Note 12)	9,044	7,873	110,118
Other current assets	6,508	9,306	79,240
Total current assets	240,932	256,937	2,933,544
Property, plant and equipment:			
Land (Note 19)	9,856	9,915	120,005
Buildings and structures (Note 19)	120,207	99,491	1,463,619
Machinery, equipment and vehicles	82,433	82,798	1,003,689
Furniture and fixtures	37,381	33,999	455,144
Construction in progress	5,777	19,353	70,340
Accumulated depreciation	(181,372)	(175,335)	(2,208,353)
Property, plant and equipment, net	74,282	70,221	904,444
Investments and other assets:			
Investments in securities (Notes 4 and 10)	55,151	53,817	671,509
Investments in affiliates (Note 10)	8,418	6,837	102,496
Prepaid pension costs (Note 13)	22,809	23,331	277,718
Goodwill	63,573	58,831	774,053
Marketing rights (Note 11)	36,664	34,256	446,414
Long-term prepaid expenses	6,851	9,097	83,417
Deferred income taxes (Note 12)	6,238	2,462	75,953
Other assets (Note 11)	7,244	7,453	88,202
Total investments and other assets	206,948	196,084	2,519,762
Total assets	¥ 522,162	¥ 523,242	$ 6,357,750

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 10):			
Affiliates	¥ 1,231	¥ 1,365	$ 14,988
Trade	7,382	11,520	89,882
Construction	3,844	8,655	46,804
Current portion of long-term debt (Notes 6 and 10)	24,000	14,000	292,220
Allowance for employees' bonuses	6,746	7,059	82,138
Provision for sales returns	5,357	1,775	65,226
Accrued expenses	15,219	4,306	185,303
Accrued income taxes (Notes 10 and 12)	9,891	13,510	120,431
Other current liabilities (Note 7)	8,394	17,630	102,204
Total current liabilities	82,064	79,820	999,196
Long-term liabilities:			
Long-term debt (Notes 6 and 10)	69,000	93,000	840,131
Accrued retirement benefits for employees (Note 13)	8,793	8,573	107,062
Deferred income taxes (Note 12)	7,730	6,624	94,119
Long-term accounts payable—other	6,244	5,884	76,026
Other long-term liabilities	1,133	1,245	13,796
Total long-term liabilities	92,900	115,326	1,131,134
Contingent liabilities (Note 8)			
Net assets:			
Shareholders' equity (Note 9):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 351,136,165 shares in 2012 and 2011	21,280	21,280	259,101
Capital surplus	20,227	20,227	246,280
Retained earnings	353,676	339,970	4,306,295
Less treasury stock, at cost	(19,746)	(19,744)	(240,423)
Total shareholders' equity	375,437	361,733	4,571,253
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	7,729	3,733	94,107
Deferred loss on hedges (Note 23)	(141)	(289)	(1,717)
Translation adjustments	(38,809)	(37,081)	(472,531)
Accumulated other comprehensive loss, net	(31,221)	(33,637)	(380,141)
Share subscription rights	59	—	718
Minority interests	2,923	—	35,590
Total net assets (Note 22)	347,198	328,096	4,227,420
Total liabilities and net assets	¥522,162	¥523,242	$6,357,750

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Net sales (Notes 19 and 24)	¥267,275	¥282,350	$3,254,292
Cost of sales (Notes 14 and 19)	77,753	81,737	946,706
Gross profit	189,522	200,613	2,307,586
Selling, general and administrative expenses (Note 15)	142,519	153,721	1,735,286
Operating income	47,003	46,892	572,300
Other income (expenses):			
Interest and dividend income	1,634	1,683	19,895
Interest expense	(1,330)	(1,479)	(16,194)
Loss on disposal of property, plant and equipment	(330)	(371)	(4,018)
Gain on sales of land	587	4,067	7,147
Gain on sales of investments in securities (Note 4)	153	1,647	1,863
Gain on forgiveness of debt	—	280	—
Gain on recognition of negative goodwill	—	244	—
Impairment loss on fixed assets (Note 11)	(1,557)	(7,343)	(18,958)
Business structure improvement expenses (Note 16)	(844)	(4,829)	(10,276)
Loss on disaster (Note 17)	(1,166)	(2,826)	(14,197)
Bad debt expenses	—	(1,769)	—
Gain on government subsidy	501	—	6,100
Contract termination costs	(1,346)	—	(16,388)
Loss on devaluation of investments in securities (Note 4)	(426)	(172)	(5,187)
Other, net	(1,384)	(2,889)	(16,851)
	(5,508)	(13,757)	(67,064)
Income before income taxes and minority interests	41,495	33,135	505,236
Income taxes (Note 12):			
Current	20,339	20,207	247,644
Deferred	(5,947)	(7,129)	(72,409)
	14,392	13,078	175,235
Income before minority interests	27,103	20,057	330,001
Minority interests	(1)	(30)	(12)
Net income (Note 22)	¥ 27,102	¥ 20,027	$ 329,989

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Income before minority interests	¥27,103	¥ 20,057	$330,001
Other comprehensive income (loss) (Note 18):			
Net unrealized holding gain (loss) on securities	3,996	(6,629)	48,655
Deferred gain (loss) on hedges	148	(289)	1,802
Translation adjustments	(1,766)	(13,779)	(21,503)
Other comprehensive income (loss), net	2,378	(20,697)	28,954
Comprehensive income (loss)	¥29,481	¥ (640)	$358,955
Comprehensive income (loss) attributable to:			
Shareholders of Shionogi & Co., Ltd.	¥29,518	¥ (670)	$359,406
Minority interests	(37)	30	(451)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Translation adjustments	Total accumulated other comprehensive income (loss)	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2010	¥21,280	¥20,227	¥332,670	¥(19,733)	¥354,444	¥10,362	¥ —	¥(23,302)	¥(12,940)	¥—	¥ 472	¥341,976
Net income	—	—	20,027	—	20,027	—	—	—	—	—	—	20,027
Dividends	—	—	(12,727)	—	(12,727)	—	—	—	—	—	—	(12,727)
Purchases of treasury stock	—	—	—	(11)	(11)	—	—	—	—	—	—	(11)
Other changes	—	—	—	—	—	(6,629)	(289)	(13,779)	(20,697)	—	(472)	(21,169)
Balance at April 1, 2011	¥21,280	¥20,227	¥339,970	¥(19,744)	¥361,733	¥ 3,733	¥(289)	¥(37,081)	¥(33,637)	¥—	¥ —	¥328,096
Net income	—	—	27,102	—	27,102	—	—	—	—	—	—	27,102
Dividends	—	—	(13,396)	—	(13,396)	—	—	—	—	—	—	(13,396)
Purchases of treasury stock	—	—	—	(2)	(2)	—	—	—	—	—	—	(2)
Other changes	—	—	—	—	—	3,996	148	(1,728)	2,416	59	2,923	5,398
Balance at March 31, 2012	¥21,280	¥20,227	¥353,676	¥(19,746)	¥375,437	¥ 7,729	¥(141)	¥(38,809)	¥(31,221)	¥59	¥2,923	¥347,198

	Thousands of dollars (Note 3)											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Translation adjustments	Total accumulated other comprehensive income (loss)	Share subscription rights	Minority interests	Total net assets
Balance at April 1, 2011	$259,101	$246,280	$4,139,413	$(240,399)	$4,404,395	$45,452	$(3,519)	$(451,491)	$(409,558)	$ —	$ —	$3,994,837
Net income	—	—	329,989	—	329,989	—	—	—	—	—	—	329,989
Dividends	—	—	(163,107)	—	(163,107)	—	—	—	—	—	—	(163,107)
Purchases of treasury stock	—	—	—	(24)	(24)	—	—	—	—	—	—	(24)
Other changes	—	—	—	—	—	48,655	1,802	(21,040)	29,417	718	35,590	65,725
Balance at March 31, 2012	$259,101	$246,280	$4,306,295	$(240,423)	$4,571,253	$94,107	$(1,717)	$(472,531)	$(380,141)	$718	$35,590	$4,227,420

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Shionogi & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Operating activities			
Income before income taxes and minority interests	¥ 41,495	¥ 33,135	$ 505,236
Adjustments for:			
Depreciation and amortization	16,282	17,966	198,247
Impairment loss on fixed assets	1,557	7,343	18,958
Amortization of goodwill, net	3,426	4,390	41,714
Gain on sales of investments in securities	(153)	(1,647)	(1,863)
Loss on devaluation of investments in securities	426	172	5,187
(Decrease) increase in provision for loss on disaster	(1,492)	1,492	(18,166)
Increase in accrued retirement benefits for employees	741	1,576	9,022
Interest and dividend income	(1,634)	(1,683)	(19,895)
Interest expense	1,330	1,479	16,194
Other	2,337	(2,297)	28,454
Changes in operating assets and liabilities:			
Notes and accounts receivable	6,286	9,140	76,537
Inventories	(1,296)	1,722	(15,780)
Other current assets	8,914	3,082	108,535
Notes and accounts payable	(4,954)	(382)	(60,319)
Accrued expenses	8,854	(145)	107,805
Other current liabilities	(4,931)	3,491	(60,039)
Subtotal	77,188	78,834	939,827
Interest and dividends received	1,654	1,692	20,139
Interest paid	(1,230)	(1,493)	(14,976)
Income taxes paid	(22,888)	(22,505)	(278,680)
Net cash provided by operating activities	54,724	56,528	666,310

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Investing activities			
Increase in short-term investments	¥ (4,662)	¥ (15,626)	$ (56,764)
Proceeds from sales and redemption of short-term investments	7,962	19,376	96,944
Increase in investments in securities	(4,061)	(4,340)	(49,446)
Proceeds from sales and redemption of investments in securities	4,178	2,074	50,871
Purchases of property, plant and equipment	(18,313)	(11,274)	(222,976)
Purchases of intangible assets	(10,927)	(2,942)	(133,045)
Increase in investment in an affiliate	(3,578)	(2,349)	(43,565)
Acquisition of investments in subsidiaries resulting in change in scope of consolidation	(12,639)	—	(153,890)
Other	3,750	1,134	45,659
Net cash used in investing activities	(38,290)	(13,947)	(466,212)
Financing activities			
Repayment of long-term debt	(14,000)	(14,000)	(170,461)
Purchases of treasury stock	(3)	(10)	(37)
Cash dividends paid	(13,376)	(12,707)	(162,864)
Other	(370)	(294)	(4,505)
Net cash used in financing activities	(27,749)	(27,011)	(337,867)
Effect of exchange rate changes on cash and cash equivalents	(689)	(2,541)	(8,390)
Net (decrease) increase in cash and cash equivalents	(12,004)	13,029	(146,159)
Cash and cash equivalents at beginning of year	110,692	97,663	1,347,766
Cash and cash equivalents at end of year	¥ 98,688	¥110,692	$1,201,607

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Preparation

The accompanying consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and consolidated subsidiaries (collectively, the "Group") 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 preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include 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, 2011 to the 2012 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 four affiliate for the years ended March 31, 2012.

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.

The fiscal year end of eight overseas consolidated subsidiaries is December 31, which is different from that of the Company. These subsidiaries are consolidated by using the financial statements as of and for the year ended December 31.

The fiscal year end of C&O Pharmaceutical Technology (Holdings) Limited ("C&O") and its nine consolidated subsidiaries is June 30. In the year ended March 31, 2012, for consolidation purposes, financial statements for C&O and each of its subsidiaries are prepared as of and for the six-month period ended December 31, 2011. (Refer to Note 25 "Business Combinations.") As a result, adjustments have been made for any significant transactions taking 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.

Assets and liabilities of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses of the overseas consolidated subsidiaries are translated into yen at the average exchange rates. 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 accumulated other comprehensible income (loss) 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. Investments in investment partnerships are stated at the amount of net assets attributable to the ownership percentage of the Company.

(e) Derivatives

Derivatives are carried at fair value.

(f) Inventories

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

(g) 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 calculated principally 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.

(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.

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.

(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 is within the estimated average remaining years of service of the eligible employees.

(o) Provision for sales returns

The Company provides a reserve for sales returns at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on a product sales margin and historical sales return ratio. Certain consolidated subsidiaries provide a reserve for sales returns at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on total product sales and historical sales return ratio.

(p) Hedge accounting

The Company utilizes derivative transactions for mitigating the fluctuation risks of foreign currency assets, liabilities and forecast transactions and interest rates of loans. Hedging instruments are forward foreign currency exchange contracts, currency options and interest rate swap agreements. Hedged items are foreign currency assets, liabilities, forecast transactions and interest rates on loans from financial institutions.

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 (special accounting treatment).

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.

The Company evaluates effectiveness of its hedging activities as compared with the movements of cash flows of hedging instruments and the corresponding movement of cash flows of hedged items. However, with regard to the forward foreign exchange contracts accounted for by the allocation method and the interest-rate swaps accounted for by the special accounting treatment, the evaluation of effectiveness is omitted.

(q) 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 the period do not reflect such distributions. (Refer to Note 28.)

(Additional information)

Effective April 1, 2011, the Company and its domestic consolidated

subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

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 ¥82.13 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2012. 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. Short-Term Investments and Investments in Securities

(1) Marketable securities classified as held-to-maturity debt securities at March 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Government bonds and municipal bonds	¥—	¥—	¥—	¥—
Corporate bonds	—	—	—	—
Other	20	0	—	20
Total	¥20	¥ 0	¥—	¥20

	Millions of yen			
	2011			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Government bonds and municipal bonds	¥—	¥—	¥—	¥—
Corporate bonds	—	—	—	—
Other	20	0	—	20
Total	¥20	¥ 0	¥—	¥20

	Thousands of U.S. dollars			
	2012			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Government bonds and municipal bonds	$ —	$ —	$ —	$ —
Corporate bonds	—	—	—	—
Other	244	0	—	244
Total	$244	$ 0	$ —	$244

(2) Marketable securities classified as other securities at March 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	¥28,260	¥11,759	¥(1,673)	¥38,346
Government bonds, municipal bonds, etc.	14,850	425	—	15,275
Other securities	5,051	515	—	5,566
Total	¥48,161	¥12,699	¥(1,673)	¥59,187

	Millions of yen			
	2011			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	¥27,852	¥8,035	¥(2,960)	¥32,927
Government bonds, municipal bonds, etc.	19,106	417	(22)	19,501
Other securities	5,053	631	—	5,684
Total	¥52,011	¥9,083	¥(2,982)	¥58,112

	Thousands of U.S. dollars			
	2012			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value
Equity securities	$344,089	$143,175	$(20,370)	$466,894
Government bonds, municipal bonds, etc.	180,811	5,175	—	185,986
Other securities	61,500	6,270	—	67,770
Total	$586,400	$154,620	$(20,370)	$720,650

(3) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Proceeds from sales	¥4,179	¥2,075	$50,883
Gross realized gain	153	1,647	1,863
Gross realized loss	—	0	—

(4) Loss on devaluation of investments in securities

Loss on devaluation of investments in securities is recorded for securities whose fair value has declined by 30% or more if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers and other factors.

The Company recognized losses on devaluation of investments in securities of ¥426 million ($5,187 thousand) and ¥172 million for the years ended March 31, 2012 and 2011, respectively.

5. Inventories

Inventories at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise	¥ 4,230	¥ 4,155	$ 51,504
Finished goods	14,871	14,120	181,067
Semi-finished goods and work in process	19,601	19,389	238,658
Raw materials and supplies	11,419	9,675	139,035
	¥50,121	¥47,339	$610,264

6. Long-Term Debt

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unsecured loans from banks and financial institutions due through 2019 with an average interest rate of 1.5%	¥ 63,000	¥ 77,000	$ 767,077
Unsecured bonds due in 2012 with an average interest rate of 0.8%	10,000	10,000	121,758
Unsecured bonds due in 2014 with an average interest rate of 1.1%	20,000	20,000	243,516
	93,000	107,000	1,132,351
Less current portion	(24,000)	(14,000)	(292,220)
	¥ 69,000	¥ 93,000	$ 840,131

The aggregate annual maturities of long-term debt subsequent to March 31, 2012 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥24,000	$ 292,220
2014	39,000	474,857
2015	20,000	243,516
2016	—	—
2017	—	—
2018 and thereafter	10,000	121,758
	¥93,000	$1,132,351

7. Pledged Assets

Assets pledged as collateral at March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Cash and cash equivalents	¥7	$85

The corresponding liabilities secured by such collateral at March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Deposits received from employees (included in "other current liabilities")	¥7	$85

8. Contingent Liabilities

The Company was contingently liable for the guarantee of employees' housing loans of ¥12 million ($146 thousand) at March 31, 2012.

9. 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, 2012 and 2011 amounted to ¥5,388 million ($65,603 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.

In accordance with the Law, a stock option plan for three directors and nine corporate officers of the Company was approved at the annual general meeting of the shareholders of the Company held on June 24, 2011 ("the 2011 plan"). Under the terms of this plan, 52,200 shares of common stock were granted and vested immediately. The options became exercisable on July 12, 2011 and are scheduled to expire on July 11, 2041. Stock option expenses of ¥52 million ($633 thousand) were included in selling, general and administrative expenses for the year ended March 31, 2012.

Movement in the number of stock options after vesting for the 2011 plan of the Company during the year ended March 31, 2012 was summarized as follows:

	2011 plan
	Number of options
Outstanding as of April 1, 2011	—
Vested	52,200
Exercised	—
Forfeited	—
Outstanding as of March 31, 2012	52,200

The unit price of the stock options under the 2011 plan of the Company during the year ended March 31, 2012 is summarized as follow:

	2011 plan	
	Yen	U.S. dollars
Unit price of stock options:		
Exercise price as of March 31, 2012	¥ 1	$ 0.01
Average market price per share upon exercise	—	—
Estimated fair value of unit price at grant date	1,129	13.75

Valuation method for estimating fair value was the Black-Sholes model. The major assumptions used were as follows:

Major assumptions	Note	2011 plan
Estimated volatility	(a)	31.85%
Estimated remaining period	(b)	6.4 years
Estimated dividend	(c)	¥40 per share
Risk-free rate	(d)	0.637%

(a) Estimated volatility was computed by the actual stock price of the Company during the period from February 2005 to July 2011.
(b) Estimated remaining period was the average period of stock option holders until retirement in accordance with internal regulations.
(c) The estimated dividend was calculated at the actual amount for the year ended March 31, 2011.
(d) The risk-free rate was based on the average rate of compound interest yield bond, which redemption dates were within three months in the statistics data for long-term interest-bearing government bonds announced by Japan Securities Dealers Association.

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects only the actual number of forfeited stock options.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2012 and 2011 are summarized as follows:

	Number of shares			
	2012			
	April 1, 2011	Increase	Decrease	March 31, 2012
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	16,237,775	2,470	—	16,240,245

	Number of shares			
	2011			
	April 1, 2010	Increase	Decrease	March 31, 2011
Issued shares of common stock	351,136,165	—	—	351,136,165
Treasury stock	16,231,245	6,530	—	16,237,775

The Company purchased 2,470 shares and 6,530 shares of common stock from shareholders who had fractional shares of less than one unit for the years ended March 31, 2012 and 2011, respectively.

10. Financial Instruments

(1) Overview

(a) Policies for financial instruments

The Company obtains necessary funding principally by bank borrowings and bond issuance under the business plan for its main business, the production and sales of pharmaceuticals. Temporary surplus funds are managed by low-risk financial assets. Derivatives are utilized for mitigating risks described in the later part of this note and not utilized for speculative purpose.

(b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivable, are exposed to the credit risk of customers. Trade receivables denominated in foreign currencies are exposed to the fluctuation risk of foreign currencies. Short-term investments and investments in securities are exposed to fluctuation risk of market price.

Trade payables, notes and accounts payable, are due within one year. Certain trade payables denominated in foreign currencies for the import of raw materials are exposed to the fluctuation risk of foreign currencies. Loans and bonds are utilized principally for necessary financing under the business plan and those maturity dates are due in seven years, at the longest, subsequent to March 31, 2012.

Derivative transactions are made for hedging foreign currency fluctuation risk of trade receivables, trade payables and forecasted transactions denominated in foreign currencies by using forward foreign exchange contracts and currency option contracts and for hedging interest rate fluctuation risk of loans by using interest rate swap agreements. Refer to "Hedge accounting" in Note 2 "Summary of Significant Accounting Policies" for information on hedge accounting such as hedging instruments, hedged items, hedging policy and so forth.

(c) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the procedures determined in the Company, the Accounting and Finance Department and related sections of the Company periodically monitor the conditions of major customers, manage collection due dates and balances of each customer and try to identify credit risk of customers with worsening financial conditions at the early stage and mitigate the risk. Consolidated subsidiaries perform the similar credit management in accordance with the internal rules of the Company.

The Company enters into derivative transactions with financial institutions with high credit ratings to mitigate the counterparty risk.

The maximum amount of credit risk at balance sheet date is represented as the carrying value of financial assets exposed to the credit risk.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

The Company utilizes forward foreign currency exchange contracts and currency option contracts for hedging to mitigate fluctuation risk identified by each foreign currency of trade receivables payables and forecasted transactions. The Company also utilizes interest rate swap agreements to control the fluctuation risk of interest rates on loans.

The Company continuously reviews securities holdings by monitoring periodically the market and financial condition of the securities' issuers (companies with business relationships with the Group) and also reviews holding conditions for securities other than held-to-maturities by evaluating the relationship of those companies.

The Accounting and Finance Department enters into derivative transactions under the rules determined in the Company and utilizes forward foreign exchange contracts, currency option contracts and interest-rate swap agreements within the normal range of transactions. The Accounting and Finance Department manages information on transactions by reporting periodically to the Board of Directors' meetings. Consolidated subsidiaries do not utilize derivative transactions.

(iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

The Company manages liquidity risk with the Accounting and Finance Department preparing and updating cash flow plans on a timely basis and keeping necessary funds based on the reports prepared by each department.

(d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 23 do not necessarily indicate the market risk of the derivative transactions.

(e) Concentration of credit risk

At March 31, 2012 and 2011, 56 percent of outstanding trade receivables represented receivables due from a specific and large-scale customer.

(2) Fair value of financial instruments

Carrying values of financial instruments on the consolidated balance sheets as of March 31, 2012 and 2011, their fair values and their differences are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2012		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥ 98,688	¥ 98,688	¥ —
Notes and accounts receivable—trade and affiliates	65,568	65,548	(20)
Short-term investments and investments in securities and affiliates	60,389	60,389	—
Total assets	¥224,645	¥224,625	¥ (20)
Notes and accounts payable:			
Affiliates	¥ 1,231	¥ 1,231	¥ —
Trade	7,382	7,382	—
Current portion of long-term debt:			
Current portion of long-term loans	14,000	14,005	5
Current portion of long-term bonds	10,000	10,009	9
Accrued income taxes	9,891	9,891	—
Long-term debt:			
Bonds payable	20,000	20,360	360
Long-term loans	49,000	49,866	866
Total liabilities	¥111,504	¥112,744	¥1,240
Derivative transactions (*)	¥ (228)	¥ (228)	¥ —

	Millions of yen		
	2011		
	Carrying value	Fair value	Difference
Cash and cash equivalents	¥110,692	¥110,692	¥ —
Notes and accounts receivable—trade and affiliates	69,498	69,448	(50)
Short-term investments and investments in securities and affiliates	58,426	58,426	—
Total assets	¥238,616	¥238,566	¥ (50)
Notes and accounts payable:			
Affiliates	¥ 1,365	¥ 1,365	¥ —
Trade	11,520	11,520	—
Current portion of long-term debt:			
Current portion of long-term loans	14,000	14,004	4
Current portion of long-term bonds	—	—	—
Accrued income taxes	13,510	13,510	—
Long-term debt:			
Bonds payable	30,000	30,324	324
Long-term loans	63,000	63,480	480
Total liabilities	¥133,395	¥134,203	¥ 808
Derivative transactions (*)	¥ (485)	¥ (485)	¥ —

	Thousands of U.S. dollars		
	2012		
	Carrying value	Fair value	Difference
Cash and cash equivalents	$1,201,607	$1,201,607	$ —
Notes and accounts receivable—trade and affiliates	798,344	798,100	(244)
Short-term investments and investments in securities and affiliates	735,286	735,286	—
Total assets	$2,735,237	$2,734,993	$ (244)
Notes and accounts payable:			
Affiliates	$ 14,988	$ 14,988	$ —
Trade	89,882	89,882	—
Current portion of long-term debt:			
Current portion of long-term loans	170,462	170,522	60
Current portion of long-term bonds	121,758	121,868	110
Accrued income taxes	120,431	120,431	—
Long-term debt:			
Bonds payable	243,516	247,900	4,384
Long-term loans	596,615	607,159	10,544
Total liabilities	$1,357,652	$1,372,750	$15,098
Derivative transactions (*)	$ (2,776)	$ (2,776)	$ —

(*) Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

a) Methods to determine the fair value of financial instruments, short-term investments and investments in securities and derivative transactions

Assets

· Cash and cash equivalents
Since these items are settled in a short time period, their carrying value approximates fair value.

· Notes and accounts receivable-trade and affiliates
The fair value of accounts receivable that require a longer period for collection is determined based on the present value by each group of receivables classified by collection term computed by interest rates in consideration of the credit risk corresponding to the collection term. Since other accounts receivable are settled in a short time period, their carrying value approximates fair value.

· Short-term investments and investments in securities
With regard to short-term investments and investments in securities, fair value of debt securities is determined by quoted market price or price offered by financial institutions and that of equity securities is determined by quoted market price. Refer to Note 4 "Short-Term Investments and Investments in Securities" for the information of securities by holding purpose.

Liabilities

· Notes and accounts payable and accrued income taxes.
Since these items are settled in a short time period, their carrying value approximates fair value.

· Current portion of long-term loans and long-term loans
The fair value of the current portion of long-term loans and long-term loans is based on the present value of the total of principal and interest discounted by the estimated interest rates to be applied if similar new loans are made. Long-term loans with floating interest are hedged by interest rate swap agreements and accounted for as loans with fixed interest rates. The fair value of these long-term loans is based on the present value of the total of principal, the interest and cash flows of interest rate swap agreements discounted by the reasonably estimated interest rates to be applied if similar new loans are made.

· Current portion of long-term bonds payable and bonds payable
The fair value of the current portion of long-term bonds payable and bonds payable is based on quoted market prices.

Derivative transactions

Please refer to Note 23 "Derivative Transactions."

b) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unlisted equity securities	¥9,476	¥8,030	$115,378

Because no quoted market price is available and it is extremely difficult to determine the fair value, these financial instruments are not included in the preceding table.

c) The redemption schedule for monetary assets and marketable securities with maturities at March 31, 2012 and 2011.

	Millions of yen			
	2012			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 98,688	¥ —	¥ —	¥ —
Notes and accounts receivable—trade and affiliates	64,154	1,414	—	—
Short-term investments and investments in securities:				
Government and municipal bonds	4,000	2,000	8,000	—
Other bonds	20	—	—	—
Other securities with maturities dates	2,327	—	739	—
Total	¥169,189	¥3,414	¥8,739	¥ —

	Millions of yen			
	2011			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥110,692	¥ —	¥ —	¥ —
Notes and accounts receivable—trade and affiliates	66,745	2,577	176	—
Short-term investments and investments in securities:				
Government and municipal bonds	4,068	6,000	8,000	—
Other bonds	20	—	—	—
Other securities with maturities dates	1,654	—	748	—
Total	¥183,179	¥8,577	¥8,924	¥ —

	Thousands of U.S. dollars			
	2012			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$1,201,607	$ —	$ —	$ —
Notes and accounts receivable—trade and affiliates	781,127	17,217	—	—
Short-term investments and investments in securities:				
Government and municipal bonds	48,703	24,351	97,406	—
Other bonds	244	—	—	—
Other securities with maturities dates	28,333	—	8,998	—
Total	$2,060,014	$41,568	$106,404	$ —

11. Impairment Loss on Fixed Assets

Fixed assets for business use are grouped based on their corresponding, management segment, such as product lines. Assets available for rent and idle assets are grouped individually.

Impairment loss on fixed assets for the year ended March 31, 2012 was summarized as follows:

Location	Use	Classification	Millions of yen 2012	Thousands of U.S. dollars 2012
U.S.A.	In-process research and development expenses for compounds developing pharmaceutical	Other assets	¥1,557	$18,958

The Company concluded that no future value of use existed for certain pharmaceutical compounds, which had been recorded as in-process research and development expenses included in other assets. As a result, the Group reduced the related carrying value of in-process research and development expenses included in other assets to a recoverable value of zero and recognized impairment loss.

Impairment loss on fixed assets for the year ended March 31, 2011 was summarized as follows:

Location	Use	Classification	Millions of yen 2011
U.S.A.	Exclusive marketing rights for ethical pharmaceutical products	Marketing rights	¥7,135
U.S.A.	In-process research and development expenses for compounds developing pharmaceutical	Other assets	¥ 208

The Group decided to discontinue sales of certain ethical pharmaceutical products, for which the Company owns marketing rights. As a result, the Group reduced the related carrying value of marketing rights to a recoverable value of zero and recognized impairment loss.

The Company also concluded that no future value of future use existed for certain pharmaceutical compounds, which are recorded as in-process research and development expenses included in other assets. As a result, the Group reduced the related carrying value of in-process research and development expenses included in other assets to a recoverable value of zero and recognized impairment loss.

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, 2012 and 2011.

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, 2012 and 2011 differ from the above statutory tax rate for the following reasons:

	2012	2011
Statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	0.5	1.3
Dividends not taxable for income tax purposes	(0.5)	(0.8)
Amortization of goodwill	2.8	4.6
Inhabitants' per capita taxes	0.3	0.4
Tax credits	(12.5)	(13.5)
Difference in statutory tax rates of overseas subsidiaries	2.7	9.3
Consolidation adjustment for the sales of a consolidated subsidiary	1.2	(2.4)
Decrease in deferred tax assets due to change in statutory tax rates	(0.5)	—
Other	0.1	0.0
Effective tax rates	34.7%	39.5%

The tax effects of temporary differences at March 31, 2012 and 2011 which gave rise to significant deferred tax assets and liabilities are presented below:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Allowance for employees' bonuses	¥ 2,563	¥ 2,858	$ 31,207
Retirement benefits	304	1,125	3,701
Accrued enterprise taxes	882	1,111	10,739
Research and development costs	7,191	5,529	87,556
Provision for sales returns	2,034	676	24,766
Loss on revaluation of investments in securities	557	470	6,782
Tax loss carry forwards of a consolidated subsidiary	4,875	2,646	59,357
Accrued expenses and other current liabilities	2,821	2,333	34,348
Other	4,806	4,613	58,517
Valuation allowance	(405)	(441)	(4,931)
Total deferred tax assets	25,628	20,920	312,042
Deferred tax liabilities:			
Unrealized gain on other securities	(4,269)	(2,574)	(51,979)
Prepaid pension costs	(4,731)	(5,698)	(57,604)
Investments in securities	(2,263)	(2,581)	(27,554)
Reserve for advanced depreciation of fixed assets	(1,423)	(1,511)	(17,326)
Other	(5,390)	(4,845)	(65,627)
Total deferred tax liabilities	(18,076)	(17,209)	(220,090)
Net deferred tax assets	¥ 7,552	¥ 3,711	$ 91,952

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), Japanese corporation tax rates will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 1, 2012.

In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.6% to 38.0% for temporary differences expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities to 35.6% for temporary differences expected to be realized during the fiscal year beginning on April 1, 2015 and thereafter.

As a result of this change, net deferred tax liabilities (after netting deferred tax assets) decreased by ¥748 million ($9,108 thousand), income taxes—deferred decreased by ¥155 million ($1,887 thousand), deferred loss on hedges decreased by ¥5 million ($61 thousand) and net unrealized holding gain on securities increased by ¥599 million ($7,293 thousand) as of and for the year ended March 31, 2012.

13. Retirement Benefits

The following table sets forth the retirement benefit obligation, plan assets and the funded status of the Group's defined benefit pension plans at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Retirement benefit obligation at end of year	¥(82,912)	¥(84,847)	$(1,009,521)
Fair value of plan assets at end of year	78,629	79,143	957,372
Unfunded status	(4,283)	(5,704)	(52,149)
Unrecognized actuarial loss	21,487	26,070	261,622
Unrecognized prior service costs	(3,188)	(5,608)	(38,817)
Net retirement benefit obligation	14,016	14,758	170,656
Prepaid pension costs	22,809	23,331	277,718
Accrued retirement benefits for employees	¥ (8,793)	¥ (8,573)	$ (107,062)

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥ 1,919	¥ 1,902	$ 23,365
Interest cost	1,696	1,729	20,650
Expected return on plan assets	(2,140)	(2,227)	(26,056)
Amortization of actuarial loss	4,048	4,986	49,288
Amortization of prior service costs	(2,420)	(2,674)	(29,465)
Contributions to the defined contribution pension plan	896	1,033	10,909
Retirement benefit expenses	¥ 3,999	¥ 4,749	$ 48,691

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.8%	2.8%

14. Cost of Sales

Cost of sales included loss on devaluation of inventories of ¥1,143 million ($13,917 thousand) and ¥1,120 million for the years ended March 31, 2012 and 2011, respectively.

15. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2012 and 2011 amounted to ¥53,599 million ($652,612 thousand) and ¥50,921 million, respectively.

16. Business Structure Improvement Expenses

Business structure improvement expenses were attributable to the reorganization of subsidiaries of the Company in the United States.

17. Loss on Disaster

The Company recorded loss on disaster in connection with the impact of the Great East Japan Earthquake.

18. Consolidated Statements of Comprehensive Income

The following table presents the analysis of other comprehensive income (loss) for the year ended March 31, 2012.

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Net unrealized holding gain on securities:		
Amount arising during the year	¥ 5,542	$ 67,479
Reclassification adjustments for loss included in net income	177	2,155
Before tax effect	5,719	69,634
Tax effect	(1,723)	(20,979)
Total	3,996	48,655
Deferred gain on hedges:		
Amount arising during the year	527	6,417
Reclassification adjustments for gain included in net income	(269)	(3,276)
Before tax effect	258	3,141
Tax effect	(110)	(1,339)
Total	148	1,802
Translation adjustments:		
Amount arising during the year	(1,766)	(21,503)
Other comprehensive income	¥ 2,378	$ 28,954

19. Investment and Rental Properties

The Group owns office buildings including land for lease mainly in Tokyo and other areas.

Rental income, net of related expenses relevant to these real estate properties, amounted to ¥963 million ($11,725 thousand) and ¥1,258 million for the years ended March 31, 2012 and 2011. The rental income is principally recorded under net sales and the rental expenses are principally recorded under cost of sales.

The carrying value in the consolidated balance sheets and corresponding fair value of those properties were as follows:

Millions of yen

Carrying value			Fair value
April 1, 2011	Net change	March 31, 2012	March 31, 2012
¥5,643	¥(251)	¥5,392	¥19,257

Millions of yen

Carrying value			Fair value
April 1, 2010	Net change	March 31, 2011	March 31, 2011
¥6,234	¥(591)	¥5,643	¥21,510

Thousands of U.S. dollars

Carrying value			Fair value
April 1, 2011	Net change	March 31, 2012	March 31, 2012
$68,708	$(3,056)	$65,652	$234,470

Carrying value in the table above was presented as the amount of acquisition costs less accumulated depreciation and accumulated impairment loss.

Fair value at March 31, 2012 was primarily calculated based on real estate appraisal standards and, in some cases, the amounts adjusted using indices and other methods.

20. Related Party Transactions

Principal transactions between a subsidiary and a related party for the years ended March 31, 2012 and 2011 are summarized as follows:

Transaction with a director

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Shunjusha Co., Ltd.:			
Rent received—land and office building	¥ 51	¥ 49	$ 621
Rent expense—building	147	145	1,790
Management fee for leased property	3	3	37

Shunjusha Co., Ltd. is directly owned by a director and a relative of a director of the Company and is engaged in the real estate leasing business. The percentages of voting rights owned by these two people were 89.3% and 85.8% as of March 31, 2012 and 2011, respectively. Shunjusha Co., Ltd. is located in Chuo-ku, Osaka with a capital amount of ¥701 million ($8,535 thousand) as of March 31, 2012 and 2011, respectively.

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 outlined above as of March 31, 2012 and 2011.

21. Supplementary Cash Flow Information

On September 19, 2011, the Company acquired shares of C&O and initially consolidated the accounts of C&O and its consolidated subsidiaries as of December 31, 2012 and for the six-month period then ended. The assets and liabilities included in consolidation were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Current assets	¥ 5,386	$ 65,579
Non-current assets	5,634	68,599
Goodwill	8,196	99,793
Current liabilities	(1,461)	(17,789)
Non-current liabilities	(626)	(7,622)
Minority interests	(3,026)	(36,844)
Acquisition cost	14,103	171,716
Cash and cash equivalents of C&O	(1,336)	(16,267)
Accounts payable	(128)	(1,559)
Cash disbursement	¥12,639	$153,890

22. Amounts per Share

Amounts per share as of and for the years ended March 31, 2012 and 2011 were as follows:

	Yen		U.S. dollars
	2012	2011	2012
Net income	¥ 80.93	¥ 59.80	$ 0.99
Diluted net income	80.91	—	0.99
Net assets	1,027.83	979.69	12.51
Cash dividends applicable to the year	40.00	40.00	0.49

Net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of common shares outstanding during the year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options. 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.

Diluted net income per share for the year ended March 31, 2011 has not been presented since no potentially dilutive securities were issued.

The financial data used in the computation of basic net income per share and diluted net income per share for the years ended March 31, 2012 and 2011 in the table above was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Information used in computation of basic net income per share:			
Net income	¥27,102	¥20,027	$329,989

	Thousands of shares	
	2012	2011
Weighted-average number of shares of common stock outstanding	334,897	334,902
Increase in common stock	52	—
(Share subscription rights)	(52)	(—)

The financial data used in the computation of net assets per share at March 31, 2012 and 2011 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Total net assets	¥347,198	¥328,096	$4,227,420
Amounts deducted from total net assets	2,982	—	36,308
(Amounts attributable to share subscription rights in total net assets)	(59)	(—)	(718)
(Amounts attributable to minority interests in total net assets)	(2,923)	(—)	(35,590)
Net assets used in the calculation of net assets per share	¥344,216	¥328,096	$4,191,112

	Thousands of shares	
	2012	2011
Number of shares used in the calculation of net assets per share	334,895	334,898

23. Derivative Transactions

1. Derivative transactions for which hedge accounting does not apply

Information on derivative transactions for which hedge accounting does not apply omitted since all outstanding derivative positions qualified for hedge accounting.

2. Derivative transactions to which hedge accounting applies

(1) Currency-related transactions

Millions of yen

		2012		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	Fair value
Forward foreign currency exchange contracts Selling: USD	Forecasted transactions	¥22,996	¥5,749	¥(154)
Forward foreign currency exchange contracts Buying: USD	Forecasted transactions	¥ 1,643	¥ —	¥ (18)
Currency options Buying call options: USD	Forecasted transactions	¥21,354	¥ —	¥ 48
Currency options Selling put options: USD	Forecasted transactions	¥21,354	¥ —	¥ (89)
Currency options Selling call options: USD	Forecasted transactions	¥ 9,034	¥ —	¥ 20
Currency options Buying put options: USD	Forecasted transactions	¥ 9,034	¥ —	¥ (34)

Millions of yen

		2011		
		Contract value		
Transaction	Principal hedged item	Notional amount	Portion of notional amount over one year	Fair value
Forward foreign currency exchange contracts Selling: USD	Forecasted transactions	¥16,105	¥ —	¥481
Forward foreign currency exchange contracts Buying: USD	Forecasted transactions	¥ 1,626	¥ —	¥ 35
Currency options Selling put options: USD	Forecasted transactions	¥14,967	¥ —	¥ 73
Currency options Buying call options: USD	Forecasted transactions	¥14,967	¥ —	¥ 32

Transaction	Principal hedged item	Thousands of U.S. dollars 2012 Contract value: Notional amount	Contract value: Portion of notional amount over one year	Fair value
Forward foreign currency exchange contracts Selling: USD	Forecasted transactions	$279,995	$69,999	$(1,875)
Forward foreign currency exchange contracts Buying: USD	Forecasted transactions	$ 20,005	$ —	$ (219)
Currency options Buying call options: USD	Forecasted transactions	$260,002	$ —	$ 584
Currency options Selling put options: USD	Forecasted transactions	$260,002	$ —	$(1,084)
Currency options Selling call options: USD	Forecasted transactions	$109,996	$ —	$ 244
Currency options Buying put options: USD	Forecasted transactions	$109,996	$ —	$ (414)

Note: 1. Fair values are calculated based on the prices provided by counterparty financial institutions.
2. The currency option contracts are zero-cost options and no premium is received or paid.

(2) Interest rate-related transactions

Method of hedge accounting	Transaction	Principal hedged item	Millions of yen 2012 Contract value: Notional amount	Contract value: Portion of notional amount over one year	Fair value
Special accounting treatment	Interest rate swaps Pay: fixed/ Receive: floating	Long-term debt	¥25,000	¥25,000	(*)

Method of hedge accounting	Transaction	Principal hedged item	Millions of yen 2011 Contract value: Notional amount	Contract value: Portion of notional amount over one year	Fair value
Special accounting treatment	Interest rate swaps Pay: fixed/ Receive: floating	Long-term debt	¥25,000	¥25,000	(*)

Method of hedge accounting	Transaction	Principal hedged item	Thousands of U.S. dollars 2012 Contract value: Notional amount	Contract value: Portion of notional amount over one year	Fair value
Special accounting treatment	Interest rate swaps Pay: fixed/Receive: floating	Long-term debt	$304,395	$304,395	(*)

(*): Since interest rate swaps are accounted for by special accounting treatment (refer to Note 2(p)), their fair value is included in that of the long-term debt disclosed in Note 10 "Financial Instruments."

24. Segment Information

1. Segment information for the years ended March 31, 2012 and 2011

The Group operates as single business segment related to prescription drugs involving research and development, purchasing, manufacturing, distribution and related businesses for prescription drugs. While analyses of sales by products and evaluation of performance by group companies is performed, decisions of business strategy and allocation of management resources, especially allocation of research and development expenses, are made on a Group-wide basis. Therefore, disclosure of segment information for the years ended March 31, 2012 and 2011 was omitted.

2. Related information

(1) Information on sales by product and service

As the amount of sales to third parties of only one type of product and service in a single segment accounted for more than 90% of net sales in the consolidated statements of income for the years ended March 31, 2012 and 2011, information on sales by product and service for the years ended March 31, 2012 and 2011 was omitted.

(2) Geographical information

(a) Net sales

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Japan	¥184,085	¥177,915	$2,241,386
Europe	65,884	65,912	802,192
(U.K.)	(65,096)	(64,962)	(792,597)
North America	11,358	34,247	138,293
(U.S.A.)	(11,353)	(34,179)	(138,232)
Other	5,948	4,276	72,421
Total	¥267,275	¥282,350	$3,254,292

Net sales information above is classified by countries and or regions based on locations of customers. The main countries and regions included in each category are as follows:

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

(2) North America: United States of America and other

(3) Other: Asia and other

(b) Property, plant and equipment

As the balances of property, plant and equipment located in Japan accounted for more than 90% the balances of property, plant and equipment recognized in the consolidated balance sheet at March 31, 2012 and 2011, information of property, plant and equipment by geographical segment at March 31, 2012 and 2011 was omitted.

(3) Information by major customer

	Net sales			
	Millions of yen		Thousands of U.S. dollars	
Customer name	2012	2011	2012	Related segment name
SUZUKEN CO., LTD.	¥68,230	¥64,489	$830,756	Pharmaceuticals
AstraZeneca UK Ltd.	¥64,463	¥64,378	$784,890	Pharmaceuticals
TOHO PHARMACEUTICAL CO., LTD.	¥36,915	¥35,316	$449,470	Pharmaceuticals

3. Information regarding impairment loss on fixed assets, amount of amortization of goodwill and unamortized balance and gain on recognition of negative goodwill by reportable segments at March 31, 2012 and 2011 and for the years then ended

The Group is primarily engaged in research and development, merchandising, manufacturing and marketing of ethical pharmaceuticals and related businesses. Accordingly, information regarding impairment losses on fixed assets, amount of amortization of goodwill and remaining balance and gain on negative goodwill by reportable segment at March 31, 2012 and 2011 and for the years then ended were omitted.

25. Business Combinations

On September 19, 2011, the Company acquired a majority of the voting rights, 66% of shares, of C&O for ¥14,103 million ($171,716 thousand) in cash including relevant expenses directly attributable to the acquisition in the amount of ¥464 million ($5,650 thousand). C&O is engaged in research and development, production, import and sales of pharmaceuticals in China. C&O has a sales network that supplies products with strong brands including amoxycillin capsules to 300,000 clinics, hospitals and pharmacies nationwide. C&O is also focusing on the use of information-based marketing to sell new pharmaceuticals in-licensed from other countries, and is therefore skilled and experienced in developing new pharmaceuticals and dealing with the relevant authorities. The Shionogi Group decided that the acquisition of C&O was the best choice for moving into the Chinese market because C&O's capabilities and management policy matched the Shionogi Group's direction for business development in China.

The consolidated statement of income for the year ended March 31, 2012 included financial results of C&O and its consolidated subsidiaries for the six-month period ended December 31, 2011. The acquisition was accounted for using the purchase method of accounting. Goodwill of ¥8,196 million ($99,793 thousand) was recognized and is being over a during the period of 20 years.

The assets acquired and liabilities assumed as of the acquisition date are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 5,386	$ 65,579
Non-current assets	13,830	168,392
Total assets	¥19,216	$233,971
Current liabilities	¥ 1,460	$ 17,777
Non-current liabilities	626	7,622
Total liabilities	¥ 2,086	$ 25,399
Minority interests	¥ 3,026	$ 36,844

The effect on the consolidated statement of income for the year ended March 31, 2012, assuming that this acquisition had been completed at April 1, 2011, is as follows:

	Millions of yen	Thousands of U.S. dollars
	(Unaudited)	
Net sales	¥5,600	$68,185
Operating income	297	3,616
Income before income taxes and minority interests	456	5,552

These amounts were calculated based on the consolidated statement of operations of C&O with adjustment for the amortized amount of goodwill and intangible assets on the assumption that the business combination was completed at April 1, 2011.

26. Litigation

In December 2007, the Company brought a patent infringement action jointly with AstraZeneca against seven generic drug companies and additional two other companies later including Cobalt Pharmaceuticals, Inc. and Apotex, Inc., which had filed Abbreviated New Drug Applications ("ANDAs") for a generic drug version of Crestor in the United States, in order to appeal patent infringement including that the effective date of U.S. Food and Drug Administration ("FDA") approval of the above generic drug ANDAs would be no earlier than the expiration date of the patent owned by the Company in the United States.

In June 2010, the United States District Court for the District of Delaware rendered a judgment that the Company's patent was effective and enforceable, and prohibited eight generic drug companies from the manufacture and sales of said generic drugs prior to the expiration of the patent. In August 2010, seven generic drug companies appealed the above ruling to the United States Court of Appeals for the Federal Circuit. As a result, the Company had responded to this action, which was currently pending in court.

Further, in October 2010 in the Delaware District Court and again in November 2010 in the Nevada District Court, the Company brought a patent infringement action jointly with AstraZeneca against Watson Pharmaceuticals, Inc., which had filed an ANDA for a generic drug version of Crestor in the United States, in order to appeal patent infringement including that the effective date of FDA approval of the above generic drug ANDAs would be no earlier than the expiration date of the patent owned by the Company in the United States.

These infringement actions have been unified in the Delaware District Court and discovery proceedings were in progress.

In September 2009, the Company brought, jointly with AstraZeneca Canada, a patent infringement action against two companies, namely Novopharm Limited (currently Teva Canada Limited) and Apotex, Inc., which had filed ANDAs for a generic drug version of Crestor in Canada, in order to prevent said companies from selling generic drugs under the patent owned by the Company in Canada.

The Company had performed the necessary procedures in court, to request the relevant administrative authorities to stop the approval of ANDAs filed by the aforementioned two companies as well as seven other generic drug companies.

These actions were settled with all the generic drug manufactures which had filed ANDAs.

In December 2011, the Company brought, jointly with Peninsula Pharmaceuticals, Inc. and Janssen Pharmaceuticals, Inc., a patent infringement action in New Jersey District Court against Sandoz Inc., which had filed an ANDA for a generic version of Doribax (product name in Japan: Finibax) in the United States, in order to appeal patent infringement including that the effective date of FDA approval of the above generic drug ANDAs would be no earlier than the expiration date of the patent owned by the Company in the United States. The trail for this suit is currently pending in court.

In May 2008, a suit had been brought against the Company in Osaka District Court by Cellectis SA, which had the exclusive licensee of the patent owned by Institut Pasteur, claiming that the use of the technology relating to genetically modified mice for research would infringe the patent and demanding that the Company pay approximately ¥970 million.

In February 2012, Cellectis SA abandoned this case and the case was settled with the Company bearing no responsibility for payment.

In January 2009, Shionogi, Inc. brought, jointly with Andrx Corp., a patent infringement action in Delaware District Court against Lupin Ltd. and additionally Mylan Inc., which had filed ANDAs for generic versions of Fortamet in the United States, in order to appeal patent infringement including that the effective date of FDA approval of the above generic drug ANDAs would be no earlier than the expiration date of the patent owned by Andrx Corp. in the United States.

In September 2011, Lupin Ltd. began selling generic versions of Fortamet even though the Delaware District Court ruled in favor of Shionogi, Inc. Shionogi, Inc., therefore, filed a preliminary injunction in the Delaware District Court to stop sales of these generic versions in October 2011 and the injunction was granted in December 2011.

In response, Lupin Ltd. and Mylan Inc. filed an action for retrial in the Delaware District Court and filed an appeal in the Court of Appeals for the Federal Circuit. In February 2012, the claim of Shionogi, Inc. was granted by the Delaware District Court. However, the claim of Lupin Ltd. and Mylan Inc. to dissolve the preliminary injunction was subsequently granted by the Court of Appeals for the Federal Circuit in April 2012.

27. Subsequent Event

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, 2012, was approved at a shareholders' meeting held on June 27, 2012:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥20.00 = U.S.$0.24 per share)	**¥6,698**	**$81,554**

Independent Auditor's Report

The Board of Directors
Shionogi & Co., Ltd.

We have audited the accompanying consolidated financial statements of Shionogi & Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income (loss), changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shionogi & Co., Ltd. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 27, 2012
Osaka, Japan

Shionogi Group Directory

Major Business Locations

Head Office / Branch Offices

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

❷ **Tokyo Branch Office**
Shionogi Shibuya Bldg., 17-5, Shibuya 2-chome,
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Shin KBC Bldg., 1-35, Nagahama 1-chome, Chuo-ku,
Fukuoka City, Fukuoka 810-0072, Japan
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Development Office

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

Laboratories

❸ **Shionogi Pharmaceutical Research Center**
1-1, Futaba-cho 3-chome, Toyonaka, Osaka 561-0825, Japan
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Shionogi Innovation Center for Drug Discovery
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Tel: +81-11-700-4700

Plants

❹ **Settsu Plant**
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Tel: +81-6-6381-7341

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

Administration Offices

❻ **Kuise Site**
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Tel: +81-6-6401-1221

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Distribution Centers

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Shionogi Tokyo Distribution Center
1513, Funagata-Azaueharaichi, Noda, Chiba 270-0233, Japan
Tel: +81-4-7127-3000

Overseas Offices (Outside Japan)

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4F, No. 2, Sec. 2, Nanking East Road, Taipei 10457, Taiwan
Tel: +886-2-2551-6336

Shionogi & Co., Ltd. Shanghai Office
Far East International Plaza 3F, 306A, No. 319 Xian Xia Road,
Shanghai 200051, People's Republic of China
Tel: +86-21-6235-1311

Major Consolidated Subsidiaries

Shionogi Pharma Chemicals Co., Ltd.
224-20, Ebisuno Hiraishi, Kawauchi-cho, Tokushima 771-0132, Japan
Tel: +81-88-665-2312

Shionogi Analysis Center Co., Ltd.
1-3, Kuise Terajima 2-chome, Amagasaki, Hyogo 660-0813, Japan
Tel: +81-6-6381-7271

Saishin Igaku Co., Ltd.
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Shionogi Techno Advance Research Co., Ltd.
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❽ **Shionogi Inc.**
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❿ **Shionogi Limited**
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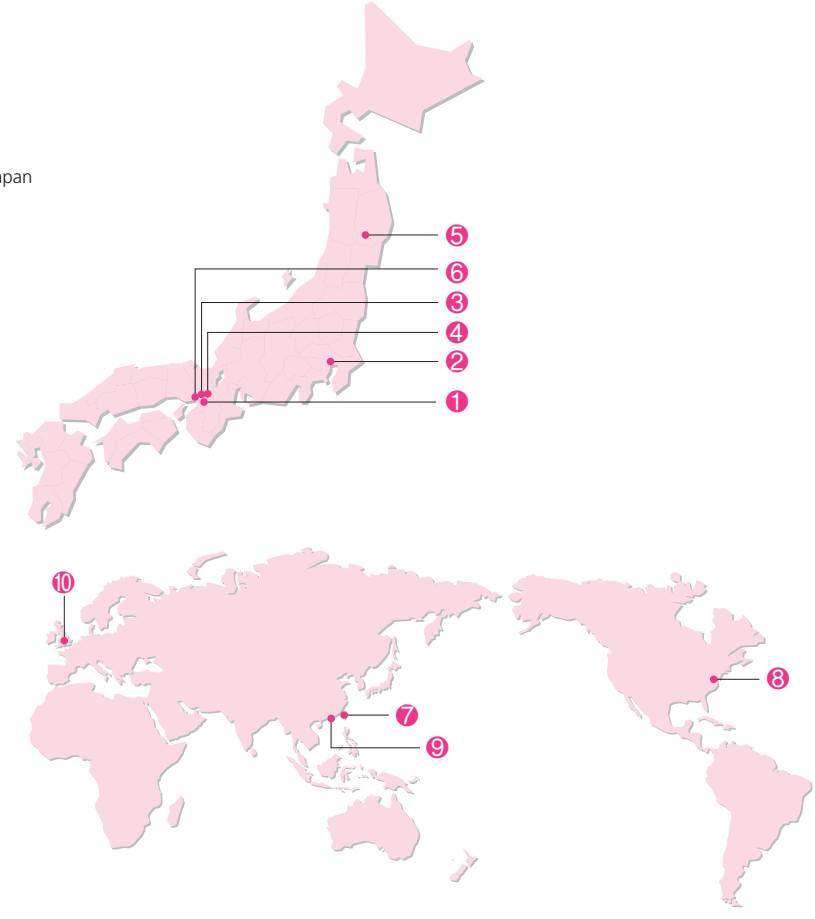


Corporate Information (As of March 31, 2012)

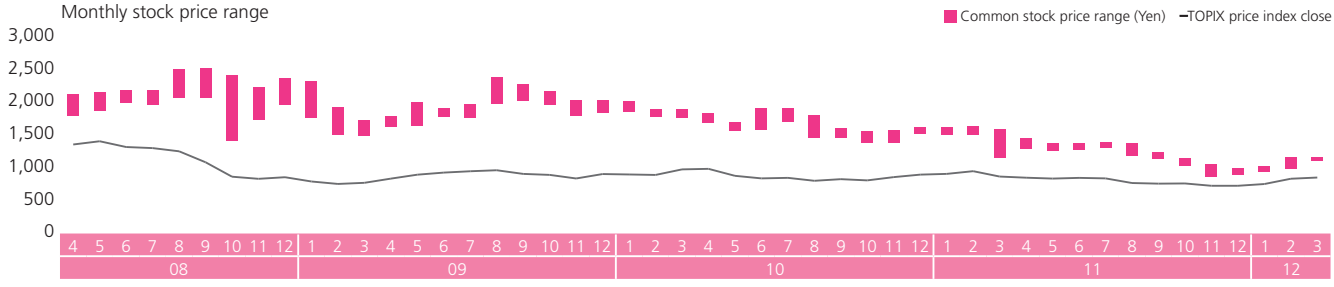
Company Name	Shionogi & Co., Ltd.
Established	March 17, 1878
Incorporated	June 5, 1919
Paid-in Capital	¥21,280 million
Website	http://www.shionogi.co.jp/index_e.html
Head Office	1-8, Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan Tel: +81-6-6202-2161 Fax: +81-6-6229-9596
Number of Employees	Consolidated: 6,132
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: ¥267,275 million (Year ended March 31, 2012)
Stock (Securities) Listings	Osaka, Tokyo (#4507)
Common Stock	Authorized: 1,000,000,000 shares Issued: 351,136,165 shares Number of shareholders: 44,594
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department, 5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

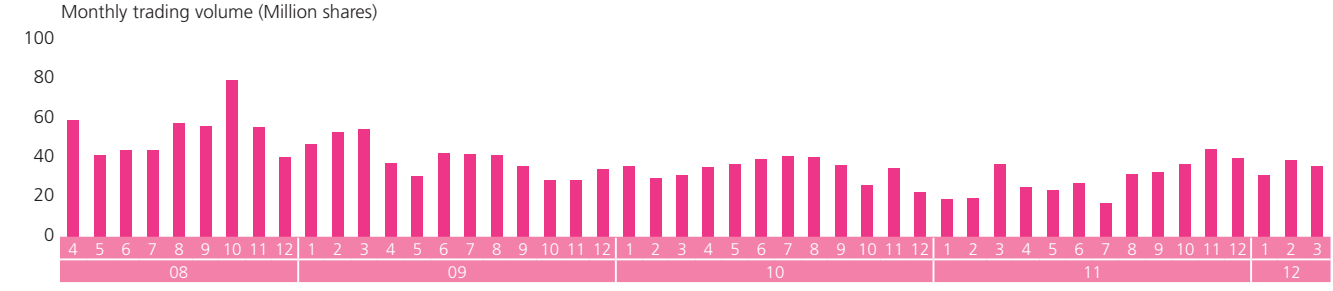
Major Shareholders

Name	Number of shares (Thousands)	Percentage of total shares
Japan Trustee Services Bank, Ltd. (trust account)	21,346	6.37
The Master Trust Bank of Japan, Ltd. (trust account)	20,286	6.05
Sumitomo Life Insurance Company	18,604	5.55
Nippon Life Insurance Company	13,138	3.92
JP Morgan Chase Bank 385147	10,966	3.27
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	9,502	2.83
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	2.83
Sumitomo Mitsui Banking Corporation	6,564	1.96
State Street Bank and Trust Company	6,412	1.91
Trust & Custody Services Bank, Ltd. (investment trust account)	5,512	1.64

(Notes) 1. The Company holds 16,240,245 shares of treasury stock. However, this shareholding is not included in the list of top-10 shareholders.
2. The percentage of total shares is calculated as a proportion of 334,895,920 shares, which is the total number of issued shares less treasury stock.

Stock Price Range and Trading Volume (Tokyo Stock Exchange)





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SHIONOGI & CO., LTD.