(Translation)
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Annual Securities Report

From April 1, 2022 to March 31, 2023

(The 158th Term)

Shionogi & Co., Ltd.
(E00923)

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This is an English translation of the Annual Securities Report filed with the Director of the Kanto Local Finance Bureau via Electronic Disclosure for Investors' NETwork ("EDINET") pursuant to the Financial Instruments and Exchange Act of Japan.

In this report, Shionogi & Co., Ltd. is hereinafter referred to as the "Company" and together with its consolidated subsidiaries as the "SHIONOGI Group" or "SHIONOGI".

The letters "FY" preceding a year refer to the twelve-month period ended March 31 of the fiscal year immediately following the fiscal year referenced. For example, "FY 2022" refers to the twelve-month period ended March 31, 2023. All other references to years refer to the applicable calendar year.

"¥" or "yen" refers to Japanese yen.

Part I. Company Information

I. Company Overview

1. Key Financial Data and Trends

(1) Consolidated Management Indicators

Fiscal year		IFRS				
		154th	155th	156th	157th	158th
Year end		March 2019	March 2020	March 2021	March 2022	March 2023
Revenue	Millions of Yen	367,960	333,371	297,177	335,138	426,684
Profit before tax	Millions of Yen	174,043	158,516	143,018	126,268	220,332
Profit attributable to owners of the parent	Millions of Yen	137,191	122,193	111,858	114,185	184,965
Comprehensive income attributable to owners of the parent	Millions of Yen	137,926	36,594	137,407	161,865	209,007
Equity attributable to owners of the parent	Millions of Yen	808,774	765,152	846,108	975,661	1,100,046
Total assets	Millions of Yen	938,540	873,695	998,992	1,150,601	1,311,800
Equity attributable to owners of the parent per share	Yen	2,598.16	2,518.74	2,806.67	3,236.21	3,737.76
Basic earnings per share	Yen	438.47	395.71	365.03	378.75	621.31
Diluted earnings per share	Yen	434.71	395.28	364.89	378.63	621.10
Ratio of equity attributable to owners of the parent to total assets	%	86.2	87.6	84.7	84.8	83.9
Return on equity attributable to owners of the parent	%	17.8	15.5	13.9	12.5	17.8
Price-earnings ratio	Times	15.6	13.4	16.3	19.9	9.6
Net cash provided by (used in) operating activities	Millions of Yen	165,000	131,940	109,039	102,068	177,867
Net cash provided by (used in) investing activities	Millions of Yen	(56,256)	(29,144)	(5,261)	(96,204)	(48,292)
Net cash provided by (used in) financing activities	Millions of Yen	(89,912)	(88,174)	(43,891)	(36,615)	(84,123)
Cash and cash equivalents at end of period	Millions of Yen	195,800	208,861	276,173	254,420	309,224
Number of employees	Persons	5,233	5,222	5,485	5,693	5,680
[Average number of temporary employees not included in the above]		[1,071]	[1,022]	[1,016]	[748]	[524]

Notes:

1. From the 155th fiscal period, consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").
2. The average number of temporary employees is shown in brackets and is not included in the number of employees.
3. In the 156th fiscal period, the Company finalized the provisional accounting treatment for the business combination of UMN Pharma Inc. and retroactively adjusted key financial data for the 155th fiscal year.
4. In the 158th period, the Company disposed of 3 million shares of the Company's stock to Sumitomo Mitsui Trust Bank, Limited's trust account with respect to Shionogi Infectious Disease Research Promotion Foundation (sub-trustee: Custody Bank of Japan, Ltd. (Trust Account)), and treated the said shares as its treasury shares. Therefore, the number of these shares has been deducted in the calculation of basic earnings per share, diluted earnings per share, and equity attributable to owners of parent per share for the 158th period.

Fiscal year		JGAAP	
		154th	155th
Year end		March 2019	March 2020
Net sales	Millions of Yen	363,721	334,958
Ordinary income	Millions of Yen	166,575	151,751
Profit attributable to owners of parent	Millions of Yen	132,759	121,295
Comprehensive income	Millions of Yen	126,626	94,497
Net assets	Millions of Yen	672,429	683,647
Total assets	Millions of Yen	778,741	773,650
Net assets per share	Yen	2,144.33	2,248.69
Earnings per share	Yen	424.31	392.80
Earnings per share (diluted)	Yen	420.67	392.38
Equity-to-assets ratio	%	85.7	88.3
Rate of return on equity	%	20.9	18.0
Price-earnings ratio	Times	16.2	13.5
Net cash provided by (used in) operating activities	Millions of Yen	145,684	129,138
Net cash provided by (used in) investing activities	Millions of Yen	(36,349)	(29,484)
Net cash provided by (used in) financing activities	Millions of Yen	(87,011)	(85,063)
Cash and cash equivalents at end of period	Millions of Yen	195,800	208,861
Number of employees [Average number of temporary employees not included in the above]	Persons	5,233 [1,071]	5,222 [1,022]

Notes:

1. The average number of temporary employees is shown in brackets and is not included in the number of employees.
2. Figures presented for the 155th fiscal period in accordance with Japanese GAAP have not been audited pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

(2) Non-Consolidated Management Indicators

Fiscal year		154th	155th	156th	157th	158th
Year end		March 2019	March 2020	March 2021	March 2022	March 2023
Net sales	Millions of Yen	327,991	293,865	260,986	285,948	369,499
Ordinary income	Millions of Yen	139,836	121,265	81,714	100,892	134,998
Net income	Millions of Yen	100,037	88,640	32,181	90,264	107,367
Share capital	Millions of Yen	21,279	21,279	21,279	21,279	21,279
Total number of issued shares	Shares	316,786,165	316,786,165	311,586,165	311,586,165	307,386,165
Net assets	Millions of Yen	533,261	530,482	536,405	590,430	612,890
Total assets	Millions of Yen	612,336	580,804	617,123	730,120	768,120
Net assets per share	Yen	1,711.39	1,744.81	1,778.50	1,957.59	2,060,64
Dividend per share (Interim dividend per share)	Yen	94.00 (44.00)	103.00 (50.00)	108.00 (53.00)	115.00 (55.00)	135.00 (60.00)
Earnings per share	Yen	319.73	287.05	105.02	299.41	358.54
Earnings per share (diluted)	Yen	316.98	286.74	104.98	299.31	358.42
Equity-to-assets ratio	%	87.0	91.3	86.9	80.8	79.8
Rate of return on equity	%	19.4	16.7	6.0	16.0	17.9
Price-earnings ratio	Times	21.4	18.5	56.7	25.1	16.7
Payout ratio	%	29.4	35.9	102.8	38.4	37.7
Number of employees [Average number of temporary employees not included in the above]	Persons	3,596 [338]	2,667 [121]	2,589 [134]	2,510 [137]	2,458 [140]
Total shareholder return (Comparison: Dividend-included TOPIX)	% %	126.5 (95.0)	100.4 (85.9)	114.0 (122.1)	144.8 (124.6)	119.0 (131.8)
Highest share price	Yen	7,796	7,133	7,183	8,439	7,640
Lowest share price	Yen	5,361	4,379	4,761	5,438	5,821

Notes:

1. The average number of temporary employees is shown in brackets and is not included in the number of employees.
2. The highest share price and the lowest share price are those on the Tokyo Stock Exchange First Section on and before April 3, 2022, and on the Tokyo Stock Exchange Prime Market on and after April 4, 2022.
3. As of the 156th fiscal period, the Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018).

2. Corporate History

March 1878	Gisaburo Shiono, Sr., launches Shiono Gisaburo Shoten as a natural drug wholesaler
1886 to 1897	The management of Shionogi decides to concentrate on imported western drugs, begins dealing directly with trading firms in Europe and the United States
February 1910	Constructed the Shiono Seiyakusho manufacturing plant
June 1919	Changed the organization to a joint stock company, changed the company name to Shionogi Shoten Co., Ltd. (capital of ¥1.5 million)
May 1922	Acquired the land and buildings of Kobe Acetic Acid Industry, establishing it as the Kuise Plant
July 1943	Changed company name to Shionogi Seiyaku K.K. (Shionogi & Co., Ltd.)
August 1945	Merged with Shionogi Kagaku, launched as the Ako Plant
January 1946	Established the Aburahi Laboratories in Shiga Prefecture
May 1949	Shionogi's shares listed on the Tokyo and Osaka Stock Exchanges
December 1963	Established Taiwan Shionogi & Co., Ltd. (now a consolidated subsidiary)
March 1968	Constructed the Settsu Plant in Osaka Prefecture
August 1976	Established Nichia Pharmaceutical Industries Ltd. (now consolidated subsidiary Shionogi Pharma Co., Ltd.)
March 1983	Constructed the Kanegasaki Plant in Iwate Prefecture
August 1998	Established Bushu Pharmaceuticals Ltd.
February 2001	Established Shionogi USA, Inc. (United States)
January 2008	Established Shionogi Analysis Center Co., Ltd. (now consolidated subsidiary Shionogi Pharma Co., Ltd.)
August 2008	Established Shionogi USA Holdings, Inc. (United States, now consolidated subsidiary Shionogi Inc.)
October 2008	Acquired shares of Sciele Pharma, Inc. (United States, trade name changed in January 2010 to Shionogi Pharma, Inc.)
March 2010	Transferred all shares of Bushu Pharmaceuticals Ltd.
October 2010	Established Shionogi Techno Advance Research Co., Ltd. (now a consolidated subsidiary)
April 2011	Shionogi Inc. absorbs Shionogi USA, Inc. and Shionogi Pharma, Inc. in a merger
July 2011	Constructed the Pharmaceutical Research Center in Osaka Prefecture to consolidate drug discovery research functions
October 2011	Acquired C&O Pharmaceutical Technology (Holdings) Limited (China, now a consolidated subsidiary)
February 2012	Established Shionogi Limited (United Kingdom, now consolidated subsidiary Shionogi B.V.)
March 2013	Established Beijing Shionogi Pharmaceutical Technology Limited (China, now a consolidated subsidiary)
December 2013	Established Shionogi Singapore Pte. Ltd. (Singapore)
January 2016	Established Shionogi Healthcare Co., Ltd. (now a consolidated subsidiary)
April 2016	Consumer Healthcare Business transferred to Shionogi Healthcare Co., Ltd.
April 2017	Established five companies through split of Shionogi General Service Co., Ltd.
April 2017	Established Shionogi Career Development Center Co., Ltd. (now a consolidated subsidiary)
October 2018	Established Shionogi Pharma Co., Ltd. (now a consolidated subsidiary)
November 2018	Established Shionogi B.V. (Netherlands, now a consolidated subsidiary)
March 2019	Shionogi B.V. absorbs Shionogi Limited in a merger
April 2019	Manufacturing and contract manufacturing of prescription drugs, etc., transferred to Shionogi Pharma Co., Ltd.
April 2019	Shionogi Pharma Co., Ltd. absorbs Shionogi Pharma Chemicals Co., Ltd. and Shionogi Analysis Center Co., Ltd. in a merger
October 2019	Established Stream-I, Inc. (now a consolidated subsidiary), a joint venture with M3, Inc.
December 2019	Acquired UMN Pharma Inc. (now a consolidated subsidiary)
May 2020	Acquired Tetra Therapeutics Inc. (now a consolidated subsidiary)
August 2020	Established Ping An-Shionogi (Hong Kong) Limited (Hong Kong, now a consolidated subsidiary)
October 2020	Shionogi Pharma Co., Ltd. acquires Nagase Medicals Co., Ltd.
November 2020	Established Ping An-Shionogi Co., Ltd. (China, now a consolidated subsidiary)
November 2021	Established Pharmira Co., Ltd. (now a consolidated subsidiary)
April 2022	Shionogi Pharma Co., Ltd.'s investigational drug manufacturing business partially transferred to Pharmira Co., Ltd.
April 2022	Shionogi Pharma Co., Ltd. absorbs Nagase Medicals Co., Ltd. in a merger.
April 2022	Moved from the Tokyo Stock Exchange's First Section to its Prime Market due to a revision of the Tokyo Stock Exchange's market classifications
July 2022	Shionogi Business Partner Co., Ltd. absorbs Shionogi Administration Service Co., Ltd., Shionogi Career Development Center Co., Ltd., and Shionogi Marketing Solutions Co., Ltd. in a merger.
August 2022	Established Yui Connection Co., Ltd. (now a consolidated subsidiary)

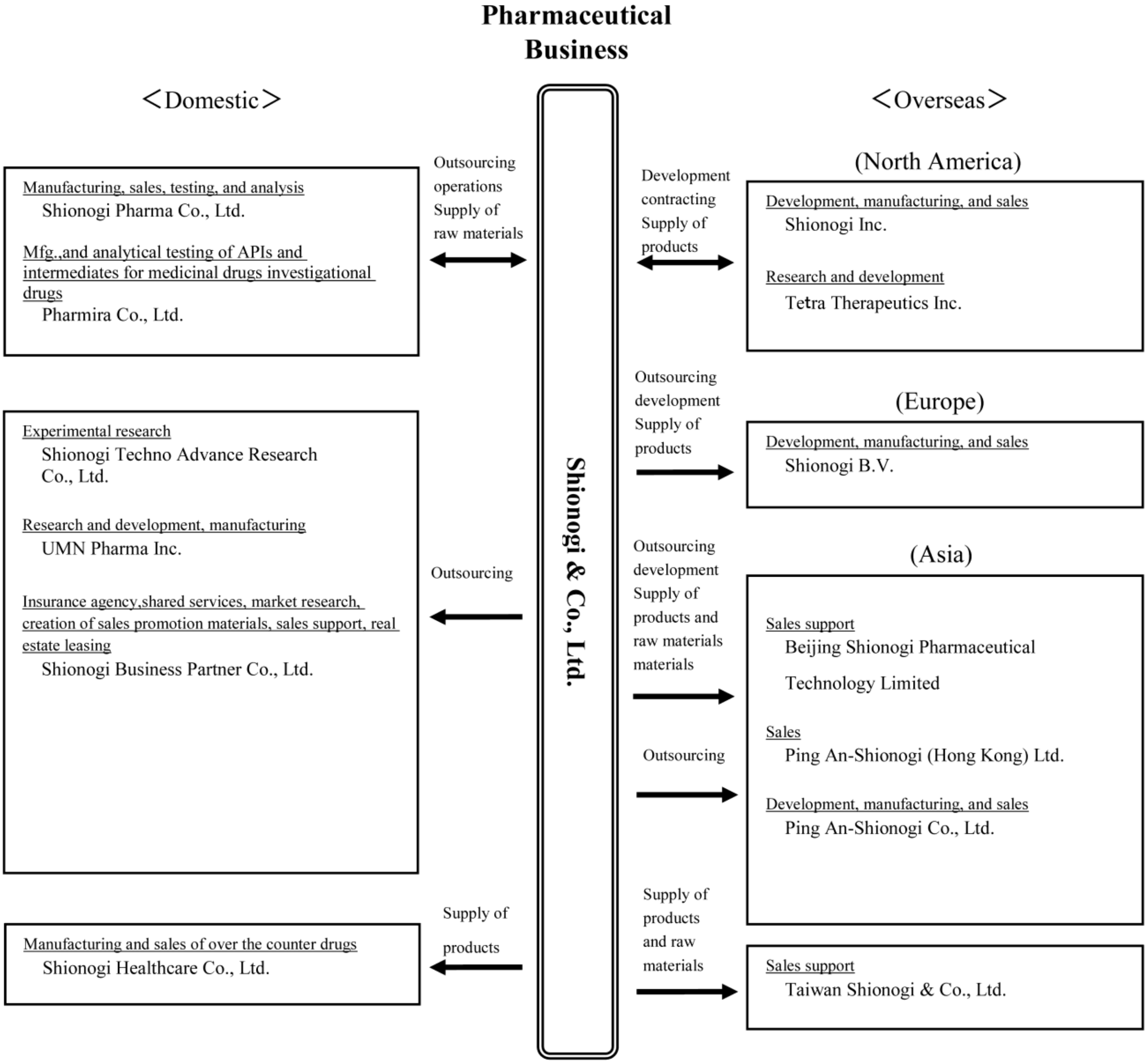
3. Business Line

As of March 31, 2023, SHIONOGI (the Company and its subsidiaries and affiliates) consists of the Company, 45 consolidated subsidiaries, three affiliates, and one joint venture. It has a single business segment, consisting of the research, development, purchase, manufacture, and sale of prescription drugs and related businesses.

Important companies are as follows.

The Company, Shionogi Pharma Co., Ltd., Shionogi Healthcare Co., Ltd., Shionogi Techno Advance Research Co., Ltd., Shionogi Business Partner Co., Ltd., UMN Pharma Inc., Pharmira Co., Ltd., Shionogi Inc., Tetra Therapeutics Inc., Shionogi B.V., Taiwan Shionogi & Co., Ltd., Beijing Shionogi Pharmaceutical Technology Limited, Ping An-Shionogi (Hong Kong) Ltd., Ping An-Shionogi Co., Ltd. and 36 other companies

The following is a diagram of the SHIONOGI's businesses and where the SHIONOGI's companies are positioned within these businesses



Notes: Due to insignificance of scale, 32 consolidated subsidiaries, 3 affiliates and 1 jointly controlled entity are not shown in this diagram.

4. Information on Subsidiaries and Affiliates

Consolidated subsidiaries

Name	Address	Capital (Millions of yen)	Main business	Ownership of voting rights (%)	Relationship
Shionogi Pharma Co., Ltd. (Note 2)	Osaka, Japan	90	Pharmaceutical Business	100.0	The Company outsources manufacture, testing, and analysis of pharmaceuticals. Concurrent directors, etc.........None
Shionogi Healthcare Co., Ltd.	Osaka, Japan	10	Pharmaceutical Business	51.0	The Company sells pharmaceuticals. Concurrent directors, etc.........None
Shionogi Techno Advance Research Co., Ltd.	Osaka, Japan	9	Pharmaceutical Business	100.0	The Company outsources experimental research support operations. Concurrent directors, etc.........None
Shionogi Business Partner Co., Ltd.	Osaka, Japan	10	Pharmaceutical Business	100.0	The Company outsources various service operations. Concurrent directors, etc.........None
Shionogi Pharmacovigilance Center Co., Ltd.	Osaka, Japan	10	Pharmaceutical Business	100.0	The Company outsources various service operations. Concurrent directors, etc.........None
UMN Pharma Inc.	Akita, Japan	90	Pharmaceutical Business	100.0	The Company outsources research and development operations for pharmaceuticals. Concurrent directors, etc.........None
Pharmira Co., Ltd.	Hyogo, Japan	85	Pharmaceutical Business	50.05	The Company outsources the development and manufacture of APIs and intermediates for prescription drugs, APIs for investigational drugs, etc. Concurrent directors, etc......... None
Shionogi Inc.	New Jersey, U.S.A.	USD 12	Pharmaceutical Business	100.0	The Company outsources development operations for pharmaceuticals. The Company sells pharmaceuticals. Concurrent directors, etc......... Yes
Tetra Therapeutics Inc. (Official name: Tetra Discovery Partners Inc.)	Michigan, U.S.A.	USD 37 thousand	Pharmaceutical Business	100.0	The Company outsources research and development operations for pharmaceuticals. Concurrent directors, etc.........None
Shionogi B.V. (Note 2)	Amsterdam, Netherlands	GBP 630 thousand	Pharmaceutical Business	100.0	The Company outsources development operations for pharmaceuticals. The Company sells pharmaceuticals. The Company borrows funds. Concurrent directors, etc......... Yes
Taiwan Shionogi & Co., Ltd.	Taipei, Taiwan, R.O.C.	TWD 92 million	Pharmaceutical Business	100.0	The Company sells pharmaceuticals and raw materials. Concurrent directors, etc......... Yes
Beijing Shionogi Pharmaceutical Technology Limited	Beijing, China	30	Pharmaceutical Business	100.0	The Company outsources market research operations for pharmaceuticals. Concurrent directors, etc......... Yes
Ping An-Shionogi (Hong Kong) Ltd. (Note 2)	Hong Kong, China	HKD 361,794 thousand	Pharmaceutical Business	51.0	The Company outsources sale of pharmaceuticals. Concurrent directors, etc.........None
Ping An-Shionogi Co., Ltd. (Note 2)	Shanghai, China	RMB 1,061,224 thousand	Pharmaceutical Business	51.0	The Company outsources the development, manufacture, and sale of pharmaceuticals. Concurrent directors, etc.........None

Notes:

1. The “Main business” presented is the name of the business segment.
2. Indicates companies classified as specified subsidiaries.
3. In addition to the above, there are 31 consolidated subsidiaries and one joint venture accounted for by the equity method. However, each of these has insignificant impact on the Company’s business and is immaterial on the whole.

5. Employees

(1) Consolidated companies

As of March 31, 2023

Name of business segment	Number of employees (Persons)
Pharmaceutical Business	5,680 [524]

Notes:

1. The number of employees presented is the number of full-time employees. The average number of temporary employees (re-employed mandatory retirees, contract employees, etc.) is shown in brackets and is not included in the number of employees.
2. SHIONOGI (the Company and its consolidated subsidiaries) has a single business segment, consisting of the research, development, purchase, manufacture, and sale of prescription drugs and related businesses. All of SHIONOGI's employees belong to the Pharmaceuticals Business.

(2) Non-consolidated (filing company data)

As of March 31, 2023

Number of employees (Persons)	Average age (Years old)	Average length of service (Years)	Average annual pay (Yen)
2,458 [140]	42.1	16.5	9,106,274

Notes:

1. The number of employees presented is the number of full-time employees. The average number of temporary employees (re-employed mandatory retirees, contract employees, etc.) is shown in brackets and is not included in the number of employees.
2. Average annual pay includes bonuses and non-standard wages.
3. The Company has a single business segment, consisting of the research, development, purchase, manufacture, and sale of prescription drugs and related businesses. All of the Company's employees belong to the Pharmaceuticals Business.

(3) Labor unions

The Company's labor union is called SHIONOGI Worker's Union, which, together with the labor unions of seven consolidated subsidiaries, organizes Federation of SHIONOGI Group Worker's Union. This federation is a subordinate member of the Federation of Pharmaceutical and Cosmetic Industry Labor Unions (Yakusho Rengo).

As of March 31, 2023, the Shionogi Labor Union has 2,484 members and Federation of SHIONOGI Group Worker's Union has 3,457 members.

Labor and management maintain a healthy relationship based on mutual trust.

(4) Percentage of female employees in managerial positions, rate of male employees taking childcare leave, and wage disparities between male and female employees

1) Filing company

Fiscal year under review				
Percentage of female employees in managerial positions (%) (Notes 1, 3)	Rate of male employees taking childcare leave (%) (Note 2)	Wage disparities between male and female employees (%) (Notes 1, 4)		
		All employees	Regular (permanent) employees	Part-time/fixed term employees
14.0	57.4	81.3	79.8	95.3

Notes:

1. Calculated based on provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015)
2. The rate of childcare leave, etc. taken specified in Item 1, Article 71-4 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of October 15, 1991) based on provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991)
3. The number of employees is counted as of April 1, 2023. Employees in managerial positions refer to those who have subordinates.

4. Calculated based on the conditions below

Target period: FY2022 (from April 1, 2022 to March 31, 2023)

Wages: Include standard pay, non-standard pay, and bonuses, but exclude retirement allowances

Regular (permanent) employees: Exclude those seconded from the Company to outside but include those seconded from other companies to the Company

Part-time/fixed-term employees: Include contract (*shokutaku*) employees, part-timers and re-employed workers (full-time and part-time) but exclude dispatched employees

2) Consolidated subsidiaries

Fiscal year under review					
Filing company and its consolidated subsidiaries	Percentage of female employees in managerial positions (%) (Notes 1, 3)	Rate of male employees taking childcare leave (%) (Note 2)	Wage disparities between male and female employees (%) (Notes 1, 4)		
			All employees	Regular (permanent) employees	Part-time/fixed term employees
Shionogi Pharma Co., Ltd.	11.3	44.0	74.8	75.6	73.7
Shionogi Healthcare Co., Ltd.	5.3	-	74.9	76.5	83.7
Shionogi Techno Advance Research Co., Ltd.	32.1	60.0	80.0	80.0	72.0
Shionogi Business Partner Co., Ltd.	16.3	-	75.6	73.6	48.7 (Note 5)

Notes:

1. Calculated based on provisions of the Act on the Promotion of Women’s Active Engagement in Professional Life (Act No. 64 of 2015)
2. The rate of childcare leave, etc. taken specified in Item 1, Article 71-4 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of October 15, 1991) based on provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991)
3. The number of employees is counted as of April 1, 2023. Employees in managerial positions refer to those who have subordinates.
4. Calculated based on the conditions below

   Target period: FY2022 (from April 1, 2022 to March 31, 2023)

   Wages: Include standard pay, non-standard pay, and bonuses, but exclude retirement allowances

   Regular (permanent) employees: Exclude those seconded from the Company to outside but include those seconded from other companies to the Company

   Part-time/fixed-term employees: Include contract (*shokutaku*) employees, part-timers and re-employed workers (full-time and part-time) but exclude dispatched employees
5. The disparity arose because contract (*shokutaku*) employees and re-employed workers after retirement, who are paid relatively high salaries, are only men, while women employees were only contract employees who were hired in the middle of the fiscal year.

II. Business Overview

1. Management Policy, Business Environment, Issues to Be Addressed, etc.

Matters discussed here that are not historical fact reflect the judgment of the SHIONOGI Group (the Company and its consolidated subsidiaries, hereinafter referred to as "SHIONOGI") as of the end of the consolidated fiscal year under review.

(1) Management policy, management strategy, etc.

■ Management basic policy

SHIONOGI's basic policy (SHIONOGI Group Heritage) is defined as "striving constantly to supply the best possible medicine (healthcare solutions) to protect the health and wellbeing of the patients we serve." For this purpose, SHIONOGI must create and manufacture better and better medicines, and to spread the word to more and more people about these so that they can take advantage of them. To accomplish this, SHIONOGI believes that the daily improvement of technology by all SHIONOGI people will lead to greater benefits for all stakeholders (customers, shareholders, business partners, society, employees, etc.)

■ Vision of what SHIONOGI wants to achieve by 2030

SHIONOGI is transforming its business with the SHIONOGI Group Vision of "Building Innovation Platforms to Shape the Future of Healthcare." SHIONOGI recognizes that its social mission is to address the growing concerns about rising social security costs and the increasing sophistication and diversification of medical needs, and to continue to contribute to the health of people and the realization of a sustainable society. Meanwhile, the prescription drug business is continually facing challenges for its sustainability because of the expiration of patents for mainstay products. SHIONOGI hopes to solve problems faced by patients and society in a more comprehensive manner through our self-transformation from a conventional drug discovery company focusing on offering prescription drugs to a "HaaS (Healthcare as a Service) company" that continuously renders new value to society. To this end, SHIONOGI must further evolve its strengths as a drug discovery-based pharmaceutical company based on innovation and advanced expertise, while increasingly catalyzing the formation of new healthcare platforms as an attractive company that is chosen by other companies and industries with different strengths.

SHIONOGI will work to realize the SHIONOGI Group Vision by accepting diversity, without fear of change, and by going beyond its conventional concept to transform.

■ Business environment and management strategy

SHIONOGI formulated the Medium-Term Business Plan "Shionogi Transformation Strategy 2030 (STS2030)" in FY2020, as a strategy to overcome the challenge posed by the patent expiration of its HIV products, which is expected to begin around 2028 (HIV Product Patent Cliff), and to achieve greater growth, and has been promoting initiatives to achieve the Plan.

Three fiscal years have passed since the formulation of STS2030. During this period, the environment surrounding the healthcare industry rapidly changed, reflecting factors including the growing global population, the increased aging of society due to the low birthrate in high- and middle-income countries, as well as environmental changes, such as climate change, that are occurring on a global scale, the associated changes in the prevalence of certain diseases and healthcare needs, the acceleration of digital transformation, the diversification of people's values, and the pandemic of the novel coronavirus (SARS-CoV-2), which was associated with the changes in the way drug discovery research and development is conducted and the approach in doing business globally. In addition, the business environment is becoming increasingly severe with pressure to curb drug cost increases in developed countries due to tighter healthcare insurance finances and, in the case of Japan, with the beginning of yearly NHI price revisions for prescription drugs in fiscal 2021. Furthermore, due to factors such as the escalating competition between superpowers over leadership in fields such as technology, the economy, and security, and the Russian invasion of Ukraine, new challenges have been emerging, including the risk of stagnated business development and the procurement and supply of pharmaceutical raw materials overseas.

Under these circumstances, SHIONOGI worked on the development of COVID-19 treatment drugs and vaccines, which progressed at an unprecedented speed from drug discovery to clinical research and to application for approval, to eventually obtain emergency approval. On top of such certain achievement that we have demonstrated, in order to further respond to social demands and achieve sustainable growth, we must elevate our foresight for changes, reduce business risks, leverage strengths, and consistently generate new business opportunities. Although the direction in which SHIONOGI heads will not change, we updated the STS2030 and formulated the STS2030 Revision in June 2023 to clarify the path toward achieving the STS2030 based on the results and lessons we learned from the initiatives over the past three fiscal years.

■ Relationship between SHIONOGI's material issues (materiality) and the STS2030 Revision

SHIONOGI aims to grow as a company that is needed by society by addressing social issues and responding to medical needs through its business activities, and to share the results with its stakeholders. In order to achieve this, SHIONOGI has reviewed the material issues that need to be addressed primarily after analyzing changes in the environment surrounding SHIONOGI and associated risks and opportunities, as well as the current status and issues of SHIONOGI, and classifies the material issues into three categories: 1) Material issues to create new value for customers and society; 2) Material issues to contribute to the realization of a sustainable society; and 3) A management foundation to support sustainable growth. Of these material issues, the elements that were identified as particularly essential, taking into consideration SHIONOGI's growth and demands from society up to 2030, have been incorporated in the STS2030 Revision strategies formulated in June 2023.

■ Process for identifying material issues

STEP 1: Assess opportunities and threats

- Organize opportunities and threats based on awareness of environmental changes both inside and outside the company.
- Assess the organized opportunities and threats from the three perspectives of society, business, and internal company matters.

STEP 2: Prioritize the identified matters

- Based on the implications of opportunities and threats, classify the matters into three element groups of those related to the creation of new value; contribution to a sustainable society; and management foundation.
- Under the leadership of the Corporate Planning Department and the Sustainability Management Department, assess the matters in each of the three element groups from the two perspectives of impact and feasibility.

STEP 3: Conduct hearings with stakeholders

- Conduct hearings with investors, experts and other external stakeholders, and relevant internal departments, to confirm the adequacy of the materiality map created.

STEP 4: Identify material issues and conduct monitoring

- After examination on the adequacy of the material issues by the Corporate Executive Meeting and the Board of Directors, approve the annual plan for materiality identification and the sustainability activities to be carried out based on the materiality after discussions at the Corporate Executive Meeting.
- The Board of Directors regularly receives reports on the activities and provides advice for the promotion of the activities.

Material issues to be Addressed (Materiality)	Create value by solving healthcare social issues	Reduce negative impacts on customers and society	Foundations that support the realization of a sustainable society and the growth of SHIONOGI
	• Protect people from the threat of infectious disease • Contribute to a healthy and prosperous life • Contribute to sustainable social security • Improve access to healthcare	• Protect the environment • Respect human rights • Supply socially responsible products and services	• Securing human resources to support growth • Strengthening supply chain management • Adhere to compliance • Strengthening governance

(2) Priority business and financial issues to be addressed in the STS2030 Revision

Among the material issues, SHIONOGI places particular emphasis on "Protect people from the threat of infectious diseases," believing that the accomplishment of this task is the mission of SHIONOGI as a leading company in the field of infectious diseases. Based on this belief, in the STS2030 Revision, we aim to solve various healthcare issues in the field of infectious diseases and establish a sustainable business model. "Contribute to a healthy and prosperous life" is another materiality issue that we stress. Focusing not only on our conventional focus areas of "psychoneurological diseases" and "pain," but also on needs and diseases in the areas with high unmet needs, such as dementia and obesity, we will contribute to the realization of a society in which everyone can live life to the fullest on their own terms.

■ Creating value by solving social issues

(i) Protect people from the threat of infectious diseases

SHIONOGI has conducted research and development in infectious diseases for over 60 years, bringing a huge number of drugs for infectious diseases to market along the way. We believe that the strengths cultivated through many years of our activities, such as our deep understanding in the infectious disease area and our libraries of compounds and pathogens, will enable us to continue to provide solutions to unmet needs.

Placing the highest priority on relieving the world from the COVID-19 pandemic as soon as possible, we promoted the development of ensitrelvir (product name in Japan: Xocova), a COVID-19 treatment drug, and S-268019, a COVID-19 vaccine. In addition, we provided wastewater-based epidemiology surveillance service through AdvanSentinel Inc., a joint venture with Shimadzu Corporation, and developed products and services for the realization of total care for infectious diseases (comprehensive care for diseases including not only treatment but also pre-symptomatic care, prevention, diagnosis, and convalescence). We will continue efforts to build evidence for ensitrelvir and expand its application to children and prevention, thereby contributing to satisfying unmet needs. At the same time, by promoting total care of infectious diseases globally, we aim to achieve top-line growth and establish a sustainable business model.

Meanwhile, HIV, which is positioned as one of the world’s three major infectious diseases that requires continuous countermeasures, remains a very big threat and a challenge for global health. In order to respond to unmet needs in the HIV area, SHIONOGI will continue to work in cooperation with ViiV Healthcare Ltd. (hereinafter, “ViiV”) to promote market penetration of the two-drug combination of the once-a-day oral administration type and the long-acting injection, which can help improve the QOL of patients, as well as to develop self-administration-type injections and ultra long-acting injections (administered once every three months or less). Not only for HIV, we will also commit ourselves to other infectious diseases that require a long period of time for treatment, such as tuberculosis and malaria, thereby fulfilling our mission as a leading company in the field of infectious diseases.

Furthermore, we will work to establish a mechanism for solving the infectious disease issues that are difficult for SHIONOGI to tackle alone, together with society. Antimicrobial resistance (AMR), often called a silent pandemic, has been gradually gaining recognition as an urgent and global threat. However, despite concerns for the threat in the future, development of new treatment drugs is stagnant worldwide due to business risks such as the difficulty of drug discovery and the possibility of failing to recover investment. SHIONOGI has developed cefiderocol, the first siderophore cephalosporin antibiotic drug in the world, as a promising treatment option for AMR. At the same time, after engaging in dialogue with governments of several countries, it was selected as a target drug for pull incentives introduced on a trial basis in UK and Sweden. In addition, SHIONOGI has signed partnership agreements with GARDP (Global Antibiotic Research and Development Partnership) and CHAI (Clinton Health Access Initiative) for the purpose of improving access to antibiotic drugs of countries around the world, including Low- and Middle-income Countries.

(ii) Contribute to a healthy and prosperous life

Focusing not only on our conventional focus areas of “psychoneurological diseases” and “pain” but also on the needs/diseases in areas with high unmet needs, which are predicted to remain unsolved and continue to increase, such as dementia and obesity, we promote initiatives aiming at the realization of a society in which everyone can live life to the fullest and on their own terms.

In addition, to achieve further growth as an HaaS company, we have been advancing initiatives to provide solution platforms centered on prescription drugs, and to respond to the deeper needs of many more patients. So far, we have worked on the development of digital therapeutics apps for insomnia of SUSMED and for ADHD of Akili (SDT-001, approved in the U.S.), as part of our efforts to put into practice the HaaS initiative, which is to carefully listen to the needs of our patients. We were also able to made progress in improving the environment for the realization of HaaS through such initiatives as establishing Yui Connection Co., Ltd., which provides educational support services for school teachers to propose education plans appropriate for individual students, and collaborating with Pixie Dust Technologies, Inc. in improving cognitive function using sound stimulation. Going forward, we will not only provide treatment drugs but also solve problems of patients and their families, as well as those who support them, through the development and provision of innovative treatment options and services, thereby contributing to improving their QOL and productivity.

(3) Objective indicators for determining the achievement status of management goals

In the STS2030 Revision, three indicators for growth potential and three indicators for shareholder return have been set as the financial and management indicators to be achieved. The three indicators we set to measure growth potential are: revenue, as we prioritize the top-line growth; overseas sales CAGR (Compound Annual Growth Rate), as we aim to achieve growth globally; and EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). As the three indicators for shareholder return, we continued to set EPS, DOE, and ROE from the perspectives of business growth and financial measures.

By achieving top-line growth globally centered on infectious disease treatment drugs, such as ensitrelvir, we will achieve the targets of revenue and overseas sales CAGR for each fiscal year. At the same time, we will continue to explore opportunities for business development, such as M&As, in-licensing, and alliances to establish additional revenue drivers and proactively make investments worth the value using our solid financial base, thereby achieving the targets for the management indicators.

Key Performance Indicator (KPI)		FY2023 Target	FY2025 Target	FY2030 Target
Growth	Revenue	450.0 billion yen	550.0 billion yen	800.0 billion yen
	Overseas sales CAGR (Excluding royalty income)	—	50% (Starting from FY2022)	15% (Starting from FY2025)
	EBITDA	167.0 billion yen	200.0 billion yen	—
Shareholder return	EPS	Over 530 yen	Over 600 yen	—
	DOE	4.0%	4%	—
	ROE	Over 13.5%	Over 14%	—

2. Views and Initiatives Concerning Sustainability

SHIONOGI's views and initiatives concerning sustainability are as follows.

Matters discussed here that are not historical fact reflect the judgment of SHIONOGI as of the end of the consolidated fiscal year under review.

(1) Views concerning sustainability

SHIONOGI has identified the material issues（Materiality） for both SHIONOGI and society toward achieving both the growth of its business and the sustainability of society, while declaring its determination to contribute to the achievement of the SDGs in the SHIONOGI Group Vision. In addition, to fulfill its corporate responsibility for the economy, society, environment, etc, SHIONOGI is also focusing on strengthening ties with diverse stakeholders.

(2) Initiatives concerning sustainability

In order to achieve both the growth of business and the sustainability of society, besides the initiatives related to value creation as described in the previous section "Priority business and financial issues to be addressed in STS2030 Revision," we recognize that promoting initiatives toward realizing a sustainable society is important. At SHIONOGI, from the perspective of the importance for the company and the importance for society and the global environment, "climate change" and "securing human resources to support the growth" have been identified as the issues to be addressed with particular attention for achieving the growth of business and the sustainability of society, and initiatives toward solving these issues are being promoted. Initiatives related to sustainability and their progress are examined at the Corporate Executive Meeting and are then reported at the Board of Directors', where opinions and advice are provided by Directors and Corporate Auditors for further improvement.

(3) Climate change (disclosure based on the TCFD recommendations)

As a corporate group that employs natural capital to operate its business, SHIONOGI recognizes that realizing a sustainable society through the conservation of the global environment is an important responsibility that we must fulfill.

In March 2022, SHIONOGI announced its support for the TCFD recommendation and joined the TCFD Consortium. As actions in response to the TCFD recommendations, we have begun to identify climate change-related risks and opportunities that may affect our business activities and assess their financial impact, and promote appropriate information disclosure.

a. Governance

The progress of specific actions taken on climate change risks is managed by the integrated EHS* management function. The Senior Executive Officer and Senior Vice President Administration Division has been appointed as the Corporate Officer in Charge of EHS, who chairs SHIONOGI Companywide EHS Committee and the Energy Conservation Committee. Decisions made by each of these committees, which are held at least four times a year in total, are reported to the President and CEO. Among them, matters requiring higher-level deliberation are submitted to the Corporate Executive Meeting in advance to obtain a Board of Directors' resolution or other organizational decisions. Thus, we have established a governance system that enables deeper discussions.

* EHS: Environment, Health and Safety

b. Strategy

In FY2022, SHIONOGI conducted scenario analysis using two temperature zones of 1.5°C and 4°C, and examined its climate change strategy, including assessment and identification of climate change risks and opportunities, assessment of financial impacts, and formulation of policies to respond to the risks.

The results of the assessment of SHIONOGI's risks and opportunities related to climate change using the 1.5°C and 4°C scenarios are as shown in the table below. We have identified 1) the introduction of carbon pricing, 2) the impact of locally abnormal weather and temperature rise on raw material procurement, and 3) the rising sea levels as three risks/opportunities attributable to climate change with a relatively large financial impact. In the calculation made for assessment assuming that all the identified risks and opportunities are materialized, we have confirmed that the negative financial impact on core operating profit in 2030, the final year of the Medium-Term Business Plan STS2030, will be within around 10%. The STS 2030 Revision established in June 2023 is targeting greater expansion of revenue than the STS 2030. We have therefore judged that the resilience of our business against the possible future climate change scenarios is sufficiently secured.

Overview of the assessment of SHIONOGI's risks and opportunities related to climate change

Classification		Major risks and opportunities	Single-year financial impact for FY2030	
			1.5℃ scenario	4℃ scenario
Transition risks	Policy	Introduction of carbon pricing	Medium	Small
		Tougher energy-saving regulations	Small	Small
Physical risks	Acute	Impact on raw material procurement due to locally abnormal weather and temperature rise	Medium	Medium
		Damage to supply chain facilities due to intensifying storms and flood damages	Small	Small
	Chronic	Rising sea levels	Large	Large
Opportunities	Market	Cultivation of new markets and regions through research and development of new medicinal products	Small	Small
		Switching to ecofriendly low-carbon containers and packaging	Small	Small

* For more details, please see the website below.
https://www.shionogi.com/jp/ja/sustainability/environment/performance/climate/tcfd.html

c. Risk management

In the climate change scenario analysis, "transition risks," "physical risks," and "opportunities" are comprehensively identified as the impacts of climate change on business activities. After assessing the financial impact and business resilience of each of the identified items in both the 1.5°C and the 4°C scenarios, we determine response priorities, and formulate response policies and countermeasures. Regarding risks and opportunities, including climate change, that may have a material impact on the future business environment, we evaluate their materiality, probability of occurrence, etc. in our company-wide risk management framework, and manage the implementation of their countermeasures. These processes from the identification of risks to the formulation and promotion of countermeasures, and relevant important matters are reported to the Corporate Executive Meeting and the Board of Directors Meeting to obtain approval.

d. Metrics and targets

SHIONOGI EHS Action Targets, our medium to long-term targets, include greenhouse gas (CO_2) emissions reduction as an indicator for reducing climate-related risks. In addition, aiming to achieve carbon neutrality in 2050, we have set SBTs (Science Based Targets) as the greenhouse gas emissions reduction targets for FY2030. These targets were approved by the SBT Initiative in June 2021.

Item	Target (compared to FY2019)	FY2021 results (ton-CO_2)
In-house emissions (Scopes 1 and 2)	Reduce GHG emissions by 46.2% by FY2030	84,164
Supply chain emissions (Scope 3, Category 1)	Reduce GHG emissions by 20% by FY2030	68,059

* For progress in activities, please see the website below.
https://www.shionogi.com/jp/ja/sustainability/environment/performance/climate.html

(4) Securing human resources to support growth (expanding human capital)

a. Strategy

In order to improve SHIONOGI's corporate value over the medium to long term, it is essential to continue investment in human resources and expand its human capital. Under its human resource development philosophy "People are the source of competitiveness," SHIONOGI has established "SHIONOGI Way: Be the best you can be to take on new challenges" as its new vision for human resources, and is supporting the growth of individuals through autonomous learning and promoting the development and establishment of strong individuals and organizations capable of surviving global competitions.

As the awareness and needs of lifestyles and career development are becoming increasingly diversified, in order to increase employees' engagement in SHIONOGI and allow them to exercise the best performance that will contribute to the growth of SHIONOGI, it is important to establish a comfortable work environment to raise their motivation for work and promote initiatives to improve their health. SHIONOGI has so far promoted workstyle reform by introducing various systems and mechanisms, such as shortened working hours, a super flex time system, teleworking, a selective weekend system (three-day weekends), and permission of side work, to enable employees to work flexibly and promote their voluntary learning. To support maintenance and improvement of the health of employees, SHIONOGI promotes health and productivity management under the SHIONOGI Group Health Policy. In cooperation with the SHIONOGI Health Insurance Association, health-related issues are identified and various measures are implemented for the improvement of the issues.

Furthermore, a new human resources system focusing on challenges and job satisfaction is scheduled to be introduced in October 2023. In this system, the conventional rank system will be revised and employees will be evaluated based on their abilities, roles and achievements regardless of their age and position. This will allow those who have advanced skills to receive compensation appropriate for their expertise with no upper limits, and enable those with high management ability to be promoted to managers even though they are in their 20s.

b. Indicators and targets

Contents of indicators related to policies on human resource development and internal environment improvement, and targets and results presented using the said indicators

Category	Indicator	Target	Result
Securing diverse human resources	Ratio of female managers (Notes 2, 3)	Over 15%	14.2%
Foster an environment and culture in which everyone can work comfortably	Percentage of male employees taking childcare leave (Notes 2, 4)	Over 50%	53.3%
Develop exceptionally talented human resources	Percentage of employees using assistance programs for self-investment (Note 5)	Over 60%	44.6%
Healthcare and occupational safety and health	Health checkup coverage rate	100%	100%
	Stress check coverage rate	100%	91.3%
	Rate of employees with high stress found in stress checks	Less than 5.0%	4.3%
	Smoking rate (Note 6)	0%	5.0%

Notes:

1. Regarding indicators related to policies on human resource development, including securing diversity in human resources, and internal environment improvement, the Group manages data of relevant indicators and has taken specific actions. However, these actions are not taken at all of the Group's consolidated companies, and therefore it is difficult to present figures on a consolidated group basis. For this reason, the targets and results regarding the above indicators are those for consolidated Group companies in Japan.
2. The results at the filing company are provided in "I. Company Overview, 5. Employees, (4) Ratio of female employees in management positions, rate of male workers taking childcare leave, and difference in wages between male and female workers."
3. The number of employees is counted as of April 1, 2023. Employees in managerial positions refer to those who have subordinates.
4. Among the employees who have children born in the relevant fiscal year, the percentage of employees who have taken childcare leave is presented.
5. A program for union members to support their spontaneous learning (up to 250,000 yen per year). The result of FY2021 is presented.
6. The target for FY2024 is presented.

3. Business and Other Risks

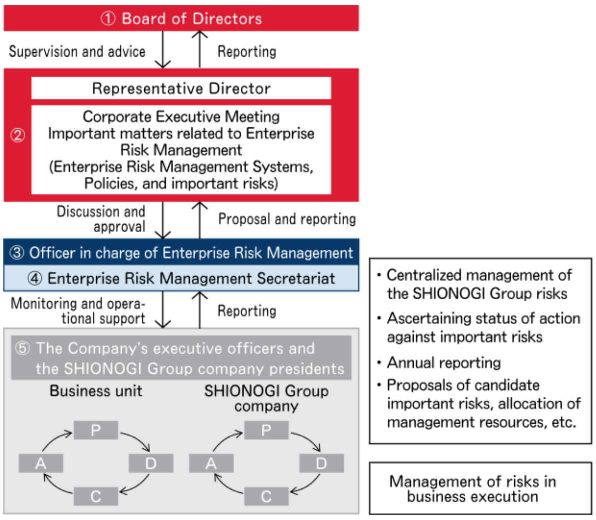
SHIONOGI takes appropriate actions to create business opportunities and avoid or mitigate risks. At the same time, it employs the Enterprise Risk Management (ERM) system, which oversees the entire Group's business risks, including risks of crises such as pandemics, natural disasters, terrorism, and cyberattacks, as an important mechanism for management strategy and management foundations.

The basic operation and management of the ERM is as follows: The Company and its Group companies identify and assess their business risks taking into consideration the degree of their impact on group management and their probability of occurrence, based on the risk management plan discussed and approved at the Corporate Executive Meeting and the Board of Directors, and take the initiative in implementing countermeasures. The Enterprise Risk Management Secretariat gathers risk information of the entire group, reports the status of countermeasures to the Corporate Executive Meeting and the Board of Directors, and reflects the opinions and advice received from Directors and Auditors in initiatives for improvement.

Regarding crisis risks, based on rules and under a comprehensive management system, including a business continuity plan, we promote management that focuses on respect for human life, consideration for local communities and contributions, and control of corporate value damage. In the event of a crisis, we will deal with it and overcome it promptly.

In addition, in order to enhance the effectiveness of risk management, we focus also on the development and operation of a system to ensure proper business operations based on the Basic Policy for Construction and Operation of the Internal Control System.

■ Risk management structure



		Role
①	Board of Directors	Provides supervision, advice, etc. on the planning, progress, and results of ERM promotion activities
②	Representative Director, Corporate Executive Meeting	The Corporate Executive Meeting, chaired by the Representative Director, President discusses important matters concerning SHIONOGI's ERM, which are approved by the Representative Director, President
③	Officer in charge of Enterprise Risk Management	The Corporate Supervisor is Chief Risk Management Officer (CRO), overseeing SHIONOGI's risk management and assuming responsibility for the promotion and operation of the ERM system.
④	Enterprise Risk Management Secretariat	The enterprise risk management secretariat consists of the Sustainability Management Department, the General Administration Department, and the Corporate Planning Department.
⑤	The Company's executive officers and the SHIONOGI Group company presidents	Each business unit and Group company is responsible for the execution of risk management in the execution of its operations

At SHIONOGI, the significant risks assessed as having the potential to have a material impact on its business performance and management are classified into “business strategy risks,” which are inherent in strategic decision making and may inhibit the implementation of strategies, and “business implementation risks,” which may affect the implementation of business operations that support management objectives. For each risk category, a risk owner is appointed to promote plans to utilize uncertainties as opportunities or reduce them. The status of progress in actions for each risk category is checked regularly (about twice a year) at the Corporate Executive Meeting, and corrections and improvements are made as necessary.

Matters and risks discussed here that are not historical fact reflect judgments made as of the end of the consolidated fiscal year under review.

1. Business strategy risks

(1) Global growth centered on the infectious disease area

<Overview>

In the infectious disease area, revenue is easily influenced by trends, and market predictability is lower than in other disease areas. Even successful drug development sometimes does not lead to recovery of investment. In addition, novel antibiotic drugs are focused on their use only when treatment options are limited to reduce the incidence of resistant bacteria, which makes market prediction difficult for antibiotic drugs.

SHIONOGI works to establish an optimal revenue model by combining initiatives for “infectious diseases that require a long period of time for treatment,” “vaccines,” and “acute infectious diseases,” thereby making its overall disease business sustainable.

SHIONOGI has so far launched many products overseas mainly through partnerships with partner companies, in which it has received a part of product sales as royalties. While maintaining good relationships with these partners, SHIONOGI should also enhance its overseas business development so that it can take the initiative in development, regulatory affairs, and marketing and sales, and other business activities for SHIONOGI products in Europe, the U.S., and Asia, as well as activities to improve access to medical services in Low-and Middle- income Countries.

However, if the initial development plan or sales strategy is delayed or fails, or if the expected discovery of treatment drugs or vaccines or sales revenue cannot be realized, it may significantly affect our performance.

<Major initiatives>

- Sales and promotion of proper use of COVID-19 and influenza drugs
- Development of COVID-19 and influenza preventive vaccines
- Research and development on long-acting treatment and preventive drugs to improve the QOL of people living with HIV
- Research and development on new treatment of infectious diseases with high unmet needs (tuberculosis, malaria, non-tuberculous mycobacterial diseases, etc.)
- Expansion of sales of cefiderocol, an antimicrobial resistance (AMR) drug
- Creation of products and services that realize total care for diseases, including pre-symptomatic care, prevention, diagnosis, and convalescence, in addition to treatment
- Implementation of global development and application for approval for products launched overseas, and improvement of overseas production, distribution, and sales systems
- Negotiations with governments and regulatory authorities of various countries on stockpiling and expansion of the subscription-type reimbursement model
- Participation in activities to improve access to medical services in Low-and Middle- income Countries.

(2) Expanding pipelines

<Overview>

Aiming to realize a society in which everyone can live life to the fullest and on their own terms, SHIONOGI engages in research and development on drugs and other healthcare solutions that will help solve problems of people.

Research and development of pharmaceuticals require a long period of time and a large amount of investment. There is also a possibility that the expected effects cannot be obtained in clinical trials, resulting in failure to obtain approval.

In this environment with high uncertainty, in order to raise the success rate of drug discovery and build attractive pipelines that satisfy medical needs, in addition to the research and development technologies SHIONOGI has cultivated for infectious diseases and small molecule drugs, it is crucial to acquire new modalities, utilize external networks, obtain growth drivers from outside through active investment, and develop human resources capable of handling these operations. It is also necessary to shift from the conventional business model relying heavily on revenue from pharmaceutical patents, and start providing vaccines and new healthcare services to solve diverse problems of patients and society. By balancing the prescription drug business and other businesses, fluctuations in revenue due to patent expiration can be mitigated.

<Major initiatives>

- Venturing into new modalities and technologies
- Promotion of co-creation with external parties
- Active investment in growth drivers such as in-licensing
- Human resource development to secure cutting-edge research and development capabilities
- Maintaining a high original pipeline ratio
- Development of innovative treatment options beyond conventional treatment drugs, such as digital apps
- Development of services necessary to create an environment in which all people can play active roles

(3) Human capital management

<Overview>

In order for SHIONOGI to transform its business model and achieve the growth targeted by the STS2030 Revision, each and every employee should constitute the “source of competitiveness” that leads the transformation, and SHIONOGI should be a group composed of such diverse human resources with unique strengths. To this end, we have set human capital management as a key theme in our business strategy toward achieving the Vision for 2030. By recruiting external human resources and promoting ability-based appointment, we will transform our personnel portfolio and realize a fusion of human resources with diverse values, thereby practicing the management philosophy. SHIONOGI has established “SHIONOGI Way: Be the best you can be to take on new challenges” as its new vision for human resources, and implement various measures to help employees to acquire both the abilities that all employees should have and the abilities that are required for individual roles. We will also enhance mid-career recruiting to acquire expertise that SHIONOGI lacks. In addition, by developing various systems and programs, we have been establishing an environment in which diverse people are able to enhance their engagement and play active roles.

However, if any obstructive factor, such as failure to implement measures or acquire human resources, delays SHIONOGI’s reform, it may have a significant impact on our performance.

<Major initiatives>

- Enhancing mid-career recruitment
- Revision of personnel system
- Workstyle reform to enable various characteristics to play active roles
- Holding events to encourage and praise those who take on challenges

(4) Realizing reform by DX

<Overview>

In the STS2030 Revision, SHIONOGI declares its commitment to digital transformation through various activities as a big theme, to accelerate decision making and realize new value creation based on data. As conventional business models are required to be transformed, the importance of digital transformation is obvious. If the efforts to realize DX become stalled, it may have a significant impact not only on the performance of SHIONOGI but also on the improvement of its corporate value.

<Major initiatives>

- Building global IT infrastructure
- Business model/operation reform through practicing AI drug discovery, market inventory prediction using AI, etc.
- Developing a medical device program (SaMD) for diagnosis and treatment of diseases, and disease detection algorithms
- Establishing a data utilization base that will improve work efficiency and realize new value creation
- Implementing measures to develop digital core human resources

2. Business execution risks

(1) Systems and governments

<Overview>

The Pharmaceuticals Business is subject to a range of regulations due to various government policies in each country. As pressure to curb drug costs increases in developed countries due to tighter health insurance finances, large financial outlays due to the COVID-19 pandemic may further intensify this pressure. In Japan, the health insurance system is undergoing reforms, with healthcare expenses expected to increase due to the further aging of the population. Beginning in FY2021, National Health Insurance (NHI) price revisions have been conducted every year. These government policy trends may affect SHIONOGI’s performance. In addition, changes in regulations in Japan and overseas related to the development and manufacture of pharmaceuticals may result in additional costs, non-compliance of products with regulations, or other similar situations. Furthermore, a range of regulations and systems that have been introduced to deal with COVID-19 may be phased out along with future developments in the pandemic. If these possibilities become real, the following impacts are expected.

・ Decline in the predictability of the prescription drug business
・ Determination of drug prices deviating from the created innovation value
・ Delay in research and development, or supply instability of drugs necessary for the pandemic of emerging and re-emerging infectious diseases

<Major responses and initiatives>

・ Creating in and sale of pharmaceuticals, etc., and promptly responding to them
・ Building evidence that demonstrates the value of its innovations
・ Promoting efforts to appeal to the value of innovations through the activities of industry associations
・ Obtaining the latest information on the NHI drug price system and various regulations on the research and development, manufacture, and sale of pharmaceuticals, etc., and promptly responding to them

(2) Adverse reactions etc.

<Overview>

Pharmaceuticals are approved and sold after rigorous review by competent authorities around the world. However, if an unforeseen adverse drug reactions side effect occurs after launch despite efforts to gather safety information and take necessary measures for ensuring safety and proper use of pharmaceuticals, the following impacts are expected.

・ Suspension of sales or product recall
・ Lawsuits filed for compensation for health damage
・ Impact on performance and reputation

<Major responses and initiatives>

・ Establishing and strengthening systems to properly gather, analyze, evaluate, and report information on side effects, etc.
・ Conducting education for all employees that leads to minimizing the spread and harm of side effects, etc.
・ Coverage by insurance for indemnity of medical damages from side effects, etc.

(3) Partnerships with other companies

<Overview>

The purpose of collaboration with business partners is to enable mutual provision of management resources and internal information, and to strengthen business by utilizing the strengths of both parties. However, it is associated with the risks below. There is also a risk of alliance with companies that are non-compliant with ESG issues, such as conservation of resources or the environment, safety, and human rights, which may lead to a decline in our corporate value.

・ Use of SHIONOGI's technologies and know-how by partners for purposes other than the purpose of the business alliance
・ Lawsuits due to unintended, unauthorized use of technologies of other companies or infringement of intellectual property by SHIONOGI
・ Leakage of confidential information by SHIONOGI
・ Decline in the brand image, reputation, or trust from investors due to leakage of confidential information by other companies or alliances with companies that are inconsistent with SHIONOGI's initiatives to secure resources or the environment, safety, and human rights

<Major responses and initiatives>

・ Enhancing communication with partners to eliminate misunderstanding and maintain or improve relationships of trust
・ Entering into a non-disclosure agreement incorporating potential risks
・ Entering into a contract that clarifies matters related to handling of intellectual property rights and compensation for damages
・ Avoiding litigation risks by conducting periodic inspection of intellectual property rights to identify problems and infringement risks
・ Establishment of an information management system by properly encrypting data, strengthening access control, preventing unauthorized access from outside using a firewall, and developing a security monitoring system
・ Minimizing information to be shared with partners and formulating rules for information sharing
・ Establishment of a system to monitor the status of use of shared information and access logs
・ Regular audits and evaluation of the information management system of partner companies
・Conducting due diligence from multiple perspectives on the reliability, financial condition, legal issues, etc. of partner companies
・ Conducting regular audits and evaluation of partnerships for the purpose of early detection of problems and points requiring improvement

(4) Quality

<Overview>

SHIONOGI manufactures products and outsources manufacturing under strict quality control that compliance with pharmaceutical-related laws and regulations, such as Good Manufacturing Practice (GMP) and the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) guidelines. It has also been inspected by competent agencies, such as the Ministry of Health, Labour and Welfare in Japan, the Food and Drug Administration (FDA) in the United States, and the European Medicines Agency (EMA), to obtain approval for production and sales. However, if a quality problem occurs, such as a quality defect or a non-conforming lot, possible impacts are as follows.

・ Reputational damage due to product-related rumors
・ Quality defect, shipment suspension, product recall, or administrative action due to a discrepancy between approval documents and actual manufacturing conditions
・ A product recall due to lack of data integrity or a significant indication in an inspection by a competent agency
・ Decline in credibility of the company

<Major responses and initiatives>

・ Establishment of the SHIONOGI Group Quality Policy
・ Holding educational events, etc. to increase employees' understanding of the importance of quality
・ Promoting activities to foster a "quality culture"
・ Management and supervision activities through audits of manufacturing facilities, etc.

(5) Supply chain management

<Overview>

If any problem occurs to the supply chain due to a natural disaster, such as a large earthquake, storm, flood, or pandemic, or a geopolitical or sustainability-related factor, such as relating to human rights or the environment, the possible impacts are as follows.

・ Suspension of plant operation
・ Difficulty in procuring raw materials and products
・ Significant impact on stable supply of pharmaceuticals

<Major responses and initiatives>

・ Inventory management based on own standards for inventory levels to be held
・ Establishment of a system for the manufacture of active ingredients contained in some products in Japan
・ Consideration of diversifying raw material procurement sources to ensure stable supply of products (selecting second vendors for raw materials with high geopolitical risk)
・ Establishing and periodically reviewing BCP items to be supplied on a priority basis
・ Conducting due diligence and audits on suppliers and requesting improvements

(6) IT security and Datainformation management

<Overview>

SHIONOGI holds a large amount of confidential information, including personal information, and uses various IT systems, including those of outsourced contractors. If its IT security is threatened by a willful or negligent act of an employee or contractor, or a cyberattack by a malicious third party, the possible impacts are as follows.

・ Difficulty in continuing business due to suspension of an important system
・ Leakage of confidential information, including personal information
・ Incurring of legal damages, such as claims for compensation for damages, and costs related to post-incident measures
・ Decline in business performance and reputational damage

<Major responses and initiatives>

・ Appointment of a CIO responsible for overall control of information management and who establishes policies to ensure information protection and information security, a CDO responsible for overall control of the use and management of data and documents, and a Global Head of IT responsible for operation of SHIONOGI's information technology, and the establishment of rules and regulations for information management based on laws, regulations, and guidelines
・ Establishment of the SHIONOGI Group Global Privacy Policy with regard to personal information
・ Conducting education to ensure that all employees of the Group are aware of the importance of information management and personal information and the need to comply with laws and regulations regarding the protection of personal information
・ Promoting a project to establish an IT-BCP system to be prepared for a cyberattack, a large-scale disaster, or any other crisis
・ Improving IT infrastructure, strengthening information security infrastructure, and improving the infrastructure's operations

・ Taking measures to prevent cyberattacks based on an actual attack on a location in Taiwan, including a fundamental review of the Group-wide network structure based on a global security assessment conducted for the entire Group, including overseas locations

(7) Environment and safety

<Overview>

In the course of business activities, such as pharmaceutical research, development, manufacturing, etc., events that affect the environment and/or ecosystems and the safety of workers may occur. If damage caused by such events emerges, the possible impacts are as follows.

・ Suspension of operation of facilities or equipment, or incurring of countermeasures or recovery costs
・ Lawsuits filed for compensation, or payment of compensation costs
・ Decline in business performance and reputational damage

<Major responses and initiatives>

・ Establishment of the SHIONOGI Group EHS Policy and the SHIONOGI Group EHS Code of Conduct to enhance governance
・ Establishment of a Group-wide environment, health and safety (EHS) management system
・ Strengthening the operation of ISO14001 and ISO45001, and the EHS management system in accordance with these standards at each business site
・ Ensuring compliance with relevant laws and regulations, and formulating stricter voluntary management standards and targets

(8) Compliance

<Overview>

SHIONOGI recognizes that compliance not only refers to the observance of laws, rules, and regulations but also includes compliance with social norms and ethical behavior as a company and a member of society. Under this awareness, violations of laws and regulations, deviations from social norms, and unethical behavior/actions in the course of business activities are considered as material risks. If any of such risk emerges, the possible impacts are as follows.

・ Deterioration of reputation
・ Loss of trust from stakeholders
・ Worsened business results and financial condition

<Major responses and initiatives>

・ Adding a compliance section to the SHIONOGI Group Code of Conduct and establishing the SHIONOGI Group Compliance Policy
・ Enhancing compliance awareness of all Group employees through Global Compliance Week and Quality Week
・ Restructuring of the compliance promotion system according to the structure of organizations
・ Operating internal reporting desks (inside and outside the Company) in accordance with the revised Whistleblower Protection Act
・ Meetings of the Compliance Committee chaired by the Representative Director, President and CEO (four times a year)
・ Reporting to the Board of Directors on the status of the Compliance Committee activities (twice a year)
・ Placing compliance as a top priority in business activities, and communicating the President’s messages about compliance (four times a year)
・ Conducting compliance awareness surveys among all employees, and providing feedback on analysis results for each organization

(9) Intellectual property

<Overview>

SHIONOGI’s products generate profits under the protection of intellectual property rights (e.g., patents), but there is a risk that various intellectual properties may not be sufficiently protected or that third parties’ intellectual property rights may be infringed.

If the intellectual property rights SHIONOGI owns are infringed by a third party, or SHIONOGI’s products infringe the intellectual property rights of a third party, the possible impacts are as follows.

・ Deterioration of business results and financial condition due to loss of expected revenue
・ Disputes or lawsuits for the protection of intellectual property rights
・ Payment of damages
・ Injunction against manufacture and sale of the product
・ Decline in the corporate brand and reputation

<Major responses and initiatives>

- Proper acquisition of intellectual property rights and establishment of a management system, and continuous surveillance on infringement of rights by third parties
- Conducting infringement prevention surveys in business activities
- Putting in place a system to prevent infringement by carrying out IP due diligence in in-licensing and out-licensing activities, etc.

Beyond the above significant risks, there are various other risks that may affect SHIONOGI's business performance and financial condition, such as those related to litigation, natural disasters and pandemics, and financial markets and foreign exchange trends. Those listed here do not represent all the risks for SHIONOGI.

4. Analysis of Financial Position, Operating Results, and Cash Flows by Management

The following is a summary of the SHIONOGI Group's (the Company and its consolidated subsidiaries) awareness, analysis, and discussion on its operating results, etc. from the management's perspective.

In addition, the SHIONOGI Group has a single business segment, consisting of the research, development, purchase, manufacture, and sale of prescription drugs and related businesses.

Matters discussed here that are not historical fact reflect the judgment of the SHIONOGI Group as of the end of the fiscal year under review.

(1) Awareness, analysis, and discussion on operating results, etc. for the fiscal year under review

i. Operating Results

a. Financial Position

As of March 31, 2023, total assets were 1,311,800 million yen, an increase of 161,198 million yen from a year earlier.

Non-current assets were 527,607 million yen, an increase of 36,211 million yen from a year earlier, mainly reflecting an increase in intangible assets, such as in-process research and development assets, and an increase in financial assets measured at fair value through other comprehensive income. Current assets were 784,192 million yen, an increase of 124,986 million yen compared to a year earlier, mainly as a result of changes in cash and cash equivalents and in fixed-term deposits of more than three months and bonds (included in "Other financial assets" in current assets), as well as changes in other current assets and in operating receivables.

Equity was 1,121,878 million yen, an increase of 128,592 million yen from a year earlier. This was due to the recording of profit, payment of cash dividends, purchase of treasury shares, and an increase in exchange differences on translation of foreign operations (included in other items of the owner's equity).

Liabilities totaled 189,921 million yen, an increase of 32,605 million yen from a year earlier.

Non-current liabilities were 31,369 million yen, a decrease of 1,550 million yen from a year earlier. Current liabilities were 158,552 million yen, an increase of 34,155 million yen from a year earlier, mainly due to an increase in income taxes payable.

b. Operating Results

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023), operating results were as follows.

Millions of yen

	Year ended March 31, 2023	Year ended March 31, 2022	Change	Percentage change (%)
Revenue	426,684	335,138	91,546	27.3
Operating profit	149,003	110,312	38,691	35.1
Core operating profit *	158,483	110,570	47,912	43.3
Profit before tax	220,332	126,268	94,064	74.5
Profit attributable to owners of parent	184,965	114,185	70,780	62.0

* The Company has established "core operating profit" as a profit indicator to present ordinary profitability. This has been adopted as the Company's proprietary earnings management indicator. Core operating profit is an adjusted profit in which non-recurring items (impairment losses, gain on sale of property, plant, and equipment, etc.) are deducted from operating profit.

Revenue was 426.7 billion yen, a 27.3 percent increase year on year, achieving a record high revenue. Revenue from domestic sales of prescription drugs, including sales of Xocova, was 179.7 billion yen, an increase of 101.7%. Revenue from overseas subsidiary sales and exports was 42.5 billion yen, a 23.7 percent increase due to growth in sales of cefiderocol* in Europe and the United States. Royalty income from the HIV franchise was 168.5 billion yen, a 3.2 percent decrease despite growth in sales of the out-licensed HIV franchise. This was due to the receipt of upfront money from ViiV paid by Giliad upon the settlement of patent infringement litigation in fiscal 2021.

Operating profit was 149.0 billion yen, a 35.1 percent increase. This was due to an increase in sales revenue despite an increase in research and development expenses due to investment in top priority issues, such as COVID-19 drugs and vaccines, and in core projects, as well as recording of an impairment loss due to the revision of the development plan for Zatolmilast for Alzheimer's disease. Core operating profit excluding the aforementioned impairment loss and other non-recurring items was 158.5 billion yen, an increase of 43.3 percent.

Profit before tax was 220.3 billion yen, a 74.5 percent increase.

Profit attributable to owners of parent was 185.0 billion yen, a 62.0 percent increase. The increase was the impact of a refund received in connection with a favorable decision in SHIONOGI's complaint for the rescission of tax reassessment by the Osaka Regional Taxation Bureau in the previous first quarter.

In the fiscal year ended March 31, 2023, SHIONOGI's proactive upfront investment in COVID-19-related projects became profitable, achieving the highest performance since its founding in terms of revenue and all profit items. In the fiscal year ending March 31, 2024, SHIONOGI will work to achieve top-line growth through global expansion of the infectious disease business and the establishment of new businesses and growth drivers for medium- to long-term growth as its top priority tasks.

* Sold under the product name Fetroja in the United States and Fetcroja in Europe

・ COVID-19-related products

SHIONOGI obtained approval for the production and sales of Xocova at the Pharmaceutical Affairs and Food Sanitation Council meeting held on November 22, 2022 based on the emergency approval system. Then, in order to promptly provide this drug widely for patients all over Japan, the Japanese government purchased about 2 million doses of Xocova based on a basic agreement on domestic supply of the drug concluded with the Ministry of Health, Labour and Welfare. After that, with the prospect for stable supply ensured, general distribution began on March 31, 2023. As a result, revenue from sales of COVID-19-related products reached 104.7 billion yen.

・ Domestic sales of prescription drugs

Domestic sales of prescription drugs decreased 15.8 percent year on year to 75.0 billion yen. Sales of Intuniv and Vyvanse were 19.2 billion yen (a 17.0 percent increase) and 1.4 billion yen (a 81.2 percent increase), respectively. On the other hand, revenue from sales of Cymbalta decreased 65.8 percent to 5.4 billion yen due to the launch of a generic version. Regarding influenza-related products, the number of subscriptions at medical institutions increased due to the spread of influenza for the first time in three years, and revenue increased to 4.2 billion yen. However, due to returns of Xofluza and Rapiacta, which occurred in the second quarter, revenue decreased 1.1 billion yen. Revenue from sales of infectious disease drugs excluding COVID-19-related products was 7.4 billion yen, a 37.2 percent decrease.

・ Exports/Overseas subsidiary sales

Revenue from overseas subsidiary sales and exports increased 23.7 percent to 42.5 billion yen. Revenue in the United States increased 12.2 percent to 15.4 billion yen despite the impact of a one-time payment received in connection with the transfer of the sales rights to FORTAMET in the previous first quarter, as sales of cefiderocol, which is effective for multidrug-resistant Gram-negative bacterial infections, continued to be strong and reached 10.0 billion yen, a 59.5 percent increase. In Europe, revenue increased 81.4 percent to 9.1 billion yen due to strong sales of cefiderocol. Regarding cefiderocol, sales began in Spain in fiscal 2022. SHIONOGI will drive growth in its European and North American businesses by continuing to expand cefiderocol sales to more countries and by expanding the number of countries adopting the subscription-type reimbursement model.* Revenue in China increased 17.7 percent to 12.0 billion yen despite the impact of lockdowns along with the spread of COVID-19, mainly due to increases in generic drugs and contract manufacturing at the Nanjing Plant.

* A model in which the country can receive antibiotics when needed by paying a fixed remuneration to the developing company irrespective of the amount of antibiotics prescription

・Royalty income and dividend income from ViiV

Royalty income from ViiV decreased 3.2 percent year on year to 168.5 billion yen due to the receipt of upfront payment as a result of the settlement of ViiV's patent infringement litigation against Giliad in fiscal 2021. Dividend income increased 370.8 percent to 61.2 billion yen due to an increase in dividends paid as a result of the ViiV's receipt of the upfront payment for the above litigation, and the delay in the dividend payment from ViiV, which was supposed to be received in the fourth quarter of the previous year, to the first quarter.

Royalty income from Roche increased to 0.9 billion yen due to the global spread of influenza for the first time in several years, associated with an increase in sales of out-licensed Xofluza. Royalty income from AstraZeneca increased 15.4 percent to 1.3 billion yen because royalty income on Crestor sales was received.

As a result, total royalty and dividend income for the fiscal year ended March 31, 2023 increased 21.4 percent to 235.9 billion yen.

・ Objective indicators for determining the achievement status of management goals

As described in "II Business Overview, 1. Management Policy, Business Environment, Issues to Be Addressed, etc.," the SHIONOGI Group revised the STS2030 and formulated the STS2030 Revision in June 2023.

In the STS 2030 Revision, three indicators for growth potential and three indicators for shareholder return have been set as the financial and management indicators to be achieved. The three indicators we set to measure growth potential are: revenue, as we prioritize the top-line growth; overseas sales CAGR (Compound Annual Growth Rate), as we aim to achieve growth globally; and EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). As the three indicators for shareholder return, we continued to set EPS, DOE, and ROE from the perspectives of business growth and financial measures.

By achieving top-line growth globally centered on infectious disease treatment drugs, such as ensitrelvir, we will achieve the targets of revenue and overseas sales CAGR for each fiscal year. At the same time, we will continue to explore opportunities for business development, such as M&As, in-licensing, and alliances to establish additional revenue drivers and proactively make investments worth the value using our solid financial base, thereby achieving the targets for the management indicators.

Key Performance Indicator (KPI)		FY2022 Result	FY2023 Target	FY2025 Target	FY2030 Target
Growth	Revenue	426.7 billion yen	450.0 billion yen	550.0 billion yen	800.0 billion yen
	Overseas sales CAGR (Excluding royalty income)	―	―	50%(Starting from FY2022)	15%(Starting from FY2025)
	EBITDA	177.9 billion yen	167.0 billion yen	200.0 billion yen	―
Shareholder return	EPS	621.31 yen	Over 530 yen	Over 600 yen	―
	DOE	3.9%	4.0%	4%	―
	ROE	17.8%	Over 13.5%	Over 14%	―

c. Analysis and discussion on cash flows and information on capital resources and liquidity of funds

Net cash provided by operating activities during the fiscal year ended March 31, 2023 was 177,867 million yen, an increase of 75,799 million yen year on year. Factors included an increase in other current assets, an increase in profit before tax, a decrease in trade receivables, and an increase in interest and dividend income.

Net cash used in investing activities was 48,292 million yen, a decrease of 47,911 million yen year on year. Factors included an increase in spending due to the acquisition of intangible assets, and changes in time deposits and securities for investment of surplus.

Net cash used in financing activities was 84,123 million yen, an increase of 47,508 million yen year on year. Factors included the purchase of treasury shares and an increase in dividend payment.

As a result, cash and cash equivalents on March 31, 2023 totaled 309,224 million yen, an increase of 54,803 million yen from a year earlier.

Cash flow indicators

	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023
Ratio of equity attributable to owners of parent to total assets	84.7%	84.8%	83.9%
Ratio of equity attributable to owners of parent to total assets on market value basis	179.6%	197.3%	134.1%
Interest-bearing liabilities/Cash flow ratio	0.1	0.1	0.1
Interest coverage ratio (times)	425.6	1,161.1	1,885.3

Notes: Ratio of equity attributable to owners of parent to total assets: Equity attributable to owners of parent/Total assets
Ratio of equity attributable to owners of parent to total assets on a market value basis: Total market value of stock/Total assets
Interest-bearing liabilities/Cash flow ratio: Interest-bearing liabilities/Net cash provided by operating activities
Interest coverage ratio: Net cash provided by operating activities/Interest expense

1. All indicators are calculated on a consolidated basis.
2. The total market value of stock is calculated based on the total number of shares outstanding excluding treasury shares.
3. Net cash provided by operating activities is as reported in the consolidated statements of cash flows.
4. Interest-bearing liabilities are liabilities stated on the consolidated balance sheets on which interest is paid.

i. Production, orders, and sales results

a. Production results

Production results for the fiscal year under review are as follows.

Name of business segment	Value (Millions of yen)	Year-on-year change (%)
Pharmaceutical Business	217,833	133.0

Note: Amounts are calculated based on estimated sale prices.

b. Goods purchase results

Production results for the fiscal year under review are as follows.

Name of business segment	Value (Millions of yen)	Year-on-year change (%)
Pharmaceutical Business	13,435	6.9

Note: Amounts are based on actual purchase value.

c. Order status

SHIONOGI’s production is planned and carried out mainly based on sales planning.

Although the Company and some of its consolidated subsidiaries manufacture products on a made-to-order basis, the amount of these orders received and the balance of these orders is immaterial.

d. Sales results

Production results for the current fiscal year are as follows.

Name of business segment	Value (Millions of yen)	Year-on-year change (%)
Pharmaceutical Business	426,684	27.3

Notes:

1. Sales amounts represent revenues from sales to external customers.
2. Sales by major customer and percentage of total sales are as follows.

Major customer	Previous fiscal year		Current fiscal year	
	Value (Millions of yen)	Percent of total (%)	Value (Millions of yen)	Percent of total (%)
ViiV Healthcare Ltd.	176,990	52.8	168,454	39.5
Ministry of Health, Labour and Welfare*	—	—	100,000	23.4

* Sales to the Ministry of Health, Labour and Welfare in the previous fiscal year are omitted as the percentage of total sales was less than 10 percent.

ii. Significant accounting estimates and assumptions used therein

SHIONOGI’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In preparing these consolidated financial statements, estimates considered necessary are made based on reasonable standards. For details of significant accounting policies, estimates, etc., please refer to “V. Financial Information, 1. Consolidated Financial Statements, etc., (1) Notes to the consolidated financial statements, 2. Basis of presentation, (4) Significant accounting determinations, estimates, and assumptions.”

5. Material Business Agreements, etc.

1. The Company's business agreements, etc. material to management for the fiscal year under review are as follows.

(1) In-licensing of technology, etc.

Major customer	Countries	Technology details	Regions	Consideration received	Contract term
MUNDIPHARMA B.V.	The Netherlands	Technology and trademark license for morphine sulfate controlled-release tablets	Japan	Fixed-percentage royalty	From July 1986
MUNDIPHARMA B.V.	The Netherlands	Technology and trademark license for oxycodone hydrochloride	Japan	Contract fee Fixed-percentage royalty Lump sum payment	From December 1992 to June 2025
SANOFI AVENTIS	France	Technology and trademark license for the anti-hypertension drug irbesartan	Japan	Contract fee Purchase of active ingredient	From March 1996 to 15 years from the date of approval of the product or the duration of the patent, whichever is longer Automatic renewal every five years thereafter
MARNAC, INC. /KDL, INC.	U.S. Japan	Technology for anti-fibrotic drug pirfenidone	Japan South Korea Taiwan	Contract fee	From November 1996
Bayer Yakuhin, Ltd.	Japan	Joint development/sales rights and trademark license for the anti-allergic drug loratadine	Japan	Product purchase	From January 1999 Automatic renewal every three years thereafter
BIOCRYST PHARMACEUTICALS, INC.	U.S.	Technology for anti-influenza virus drug peramivir	Japan Taiwan	Contract fee Fixed-percentage royalty	From February 2007 to 10 years from the release of the product or the duration of the patent, whichever is longer
OncoTherapy Science, Inc.	Japan	Technology for cancer peptide vaccines	Worldwide	Contract fee Fixed-percentage royalty	From February 2009 to 15 years from the date of initial product approval Automatic renewal every two years thereafter
STALLERGENES SA	France	Desensitization drug for allergic rhinitis caused by house-dust mites	Japan Taiwan	Contract fee Milestones Product purchase	From September 2010 to 15 years from the release of the product Automatic renewal every three years thereafter
Takeda Pharmaceuticals International AG *	Switzerland	Treatment drug for attention deficit hyperactivity disorder (ADHD)	Japan	Contract fee Product purchase Fixed-percentage royalty	From November 2011 to 10 years from the release of the product or the duration of the patent, whichever is longer
MUNDIPHARMA B.V.	The Netherlands	Technology and trademark license for abuse-deterrent oxycodone hydrochloride drugs and oxycodone hydrochloride/naloxone combination drugs	Japan	Contract fee Milestones Fixed-percentage royalty	From November 2013 to 10 years from the release of the respective product Automatic renewal every five years thereafter
PeptiDream Inc.	Japan	Licensing and joint research for drug discovery and development platform systems	Worldwide	Technology transfer expenses, joint research expenses, etc. Milestones Fixed-percentage royalty	From June 2017 Until expiration of the royalty payment obligation
Hsiri Therapeutics,Inc.	U.S.	Development candidates for mycobacterial diseases	Worldwide	Contract fee Milestones Fixed-percentage royalty	From May 2018 Until expiration of the royalty payment obligation
Sage Therapeutics,Inc.	U.S.	Novel antidepressant SAGE-217	Japan Taiwan South Korea	Contract fee Milestones Fixed-percentage royalty	From June 2018 Until expiration of the royalty payment obligation
F2G Limited	UK	Development and exclusive sales rights for the antifungal drug Olorofim	Europe Asia	Contract fee Milestones Fixed-percentage royalty	From May 16, 2022 to 15 years from the release of the product, the duration of the patent or the data protection period, whichever is longer
Grunenthal Gmbh	Germany	Exclusive sales rights for the Resiniferatoxin injection, pain treatment for osteoarthritis of the knee	Japan	Contract fee Milestones Fixed-percentage royalty	From August 1, 2022 While the product is sold

* Based on the license agreement concluded in November 2011 by the Company and Shire (integrated with Takeda Pharmaceutical Company Limited (hereinafter, "Takeda Pharmaceuticals") in 2019) on joint development and commercialization of Intuniv and Vyvanse in Japan, Takeda Pharmaceuticals exercised its option right to acquire the entire equity that the Company holds in relation to the two products. Consequently, the Company and Takeda Pharmaceuticals entered into a basic agreement on transfer of assets, etc. based on the exercise of the option right on October 31, 2022. The license agreement for joint development and commercialization of Intuniv and Vyvanse was terminated due to the exercise by Takeda Pharmaceuticals of its option right, and the transfer of assets based on the exercise of the option right began on April 1, 2023. In addition, a lump-sum payment associated with the transfer has been received.

(2) Out-licensing of technology, etc.

Major customer	Countries	Technology details	Regions	Consideration received	Contract term
AstraZeneca UK Limited	UK	Development, manufacture, and sales rights for hypercholesterolemia drugs	Worldwide	Contract fee Fixed-percentage royalty	From April 1998, until the end of 2023
ViiV Healthcare Ltd.	UK	Development, manufacturing, and sales rights for HIV integrase inhibitor dolutegravir and related products	Worldwide	Fixed-percentage royalty	From October 26, 2012
MedImmune,LLC	U.S.	Research, development, manufacturing, and sales rights for acute coronary syndrome drugs	Worldwide	Contract fee Milestones Fixed-percentage royalty	From September 29, 2014 to 10 years from the release of the product, the data protection period, or the duration of the patent, whichever is longer
Hoffmann-La Roche Inc. /F. Hoffmann-La Roche Ltd	Switzerland U.S.	Development, manufacturing, and sales rights for S-033188 (influenza treatment drug)	Worldwide (Excluding Japan and Taiwan)	Contract fee Milestones Fixed-percentage royalty	From February 2016 to 12 years from the initial launch or the final duration of the patent covering the product listed in the compilation of quality information of prescription drugs, whichever is longer
ViiV Healthcare Ltd.	UK	Development, manufacturing, and sales rights for S-365598 (third-generation HIV integrase inhibitor)	Worldwide	Contract fee Milestones Fixed-percentage royalty	From September 2021
GARDP Foundation	Switzerland	Development, manufacture, and sales rights for cefiderocol	135 countries around the world, including all low-income countries, and many low-middle-income countries and upper-middle-income countries	Fixed-percentage royalty	From June 15, 2022 Until expiration of the valid patent However, if the product is sold in the country at expiration of the valid patent, it will remain effective as long as the product is sold.
Medicines Patent Pool	Switzerland	Development, manufacture, and sales rights for S-217622	117 countries around the world, including low-income countries, and low-middle-income countries and upper-middle-income countries	Fixed-percentage royalty	From October 3, 2022 to expiration of the valid patent or the date of expiration of data protection period, whichever is longer

(3) Joint development and joint sales

Major customer	Countries	Technology details	Regions	Contract term
IPR Pharmaceuticals, Inc.	Puerto Rico	Sales rights for hypercholesterolemia drugs	Japan	From April 2002 to 10 years from the release of the product or the duration of the patent, whichever is longer
Sumitomo Pharma Co., Ltd.	Japan	Joint sales rights for anti-hypertension drug irbesartan/amlodipine besilate combination tablets	Japan	From June 2012 to 10 years from the release of the product Automatic renewal every year thereafter
ViiV Healthcare K.K.	Japan	Joint sales promotion rights for anti-HIV drugs, including HIV integrase inhibitor dolutegravir and its combination tablets	Japan	From April 2016 to March 2022 (Note) As of April 1, 2022, the joint sales promotion agreement was renewed to cover April 2022 to March 2025.
ELI LILLY AND COMPANY /Eli Lilly Japan K.K.	U.S. Japan	Joint development and joint sales promotion rights for duloxetine hydrochloride	Japan	From April 2015 to the period of product sales
Mundipharma K.K.	Japan	Sales rights and joint sales promotion rights for disinfectant isodine (Prescription drug)	Japan	From December 2015 to five years from the release of the product Automatic renewal every two years thereafter
Eddingpharm	China	Sales rights for lustrombopag	China	From March 29, 2019 to 15 years from the release of the product Automatic renewal every three years thereafter (not to exceed a total of 24 years)

(4) Other

Major customer	Countries	Description	Date of agreement
Accenture Japan Ltd.	Japan	Share transfer agreement, joint venture agreement, and business process outsourcing agreement regarding making Shionogi Business Partner Co., Ltd. a joint venture associated with share transfer	February 20, 2023

2. The consolidated subsidiaries' business agreements, etc. material to management for the fiscal year under review are as follows.

(1) Out-licensing of technology, etc.

Company name	Major customer	Countries	Technology details	Regions	Consideration received	Contract term
Shionogi Inc.	DUCHESNAY INC.	Canada	Development, manufacture, and sales rights for the vaginal atrophy drug ospemifene	U.S. Canada	Contract fee Fixed amount and receipt based on annual sales	From March 10, 2017 Until expiration of the payment obligation
Ping An-Shionogi (Hong Kong) Ltd.	Ildong Pharmaceutical Co., Ltd.	South Korea	Development and the sales right to the government for ensitrelvir fumaric acid	South Korea	Contract fee Supply of products	From September 16, 2022 to: (i) 15 years from market launch in South Korea or (ii) the date of expiration of the patent, whichever is later Automatic renewal every three years thereafter
Ping An-Shionogi (Hong Kong) Ltd.	Juniper Therapeutix Pte Ltd.	Singapore	EUA development and the sales right to the government for ensitrelvir fumaric acid	Singapore	Milestones Supply of products	From March 27, 2023 to 15 years from market launch in Singapore (can be canceled unilaterally if EUA cannot be obtained in a timely manner) Automatic renewal every five years thereafter

(2) Joint sales

Company name	Major customer	Countries	Technology details	Regions	Contract term
Shionogi Healthcare Co., Ltd.	Mundipharma K.K.	Japan	Sales rights and joint sales promotion rights for disinfectant isodine (Japan) Sales rights and sales promotion rights for disinfectant isodine (cross-border e-commerce for China) (OTC)	Japan Cross-border e-commerce for China	From October 2015 to five years from the release of the product Automatic renewal every two years thereafter
Ping An-Shionogi (China) Ltd.	Shanghai Pharmaceutical Co., Ltd.	China	License agreement for the import and distribution of Ensitrelvir Fumaric Acid, a COVID-19 therapeutic drug, in China	China	Two years from December 23, 2022 Automatic renewal every year thereafter
Ping An-Shionogi (China) Ltd.	Chia Tai Tianqing Pharmaceutical Group, Co., Ltd.	China	License agreement for promotion of Ensitrelvir Fumaric Acid, a COVID-19 therapeutic drug, in China	China	From December 26, 2022 to December 31, 2027 Can be extended for three years upon agreement of the two companies

6. Research and Development Activities

In FY2022, SHIONOGI made aggressive investments in research and development and flexibly responded to changes in the environment caused by COVID-19, making progress not only on COVID-19 treatment drugs and vaccines but also on its focus projects largely on schedule.

(1) Research

S-337395 is intended to be a treatment with broad and powerful antiviral benefits against respiratory syncytial viruses (RSV) types A and B. In FY2022, preclinical studies were completed and a Phase I clinical study began.

For S-892216, a next-generation COVID-19 oral medication candidate, a Phase I study began toward the goal of making a drug with stronger antiviral benefits that was easier for patients to use.

In the vaccine business, SHIONOGI advanced the project to develop S-875670, a nasal vaccine that induces mucosal immunity, as a next-generation COVID-19 vaccine, and began preclinical studies.

For S-151128, which is a pain treatment with a new mechanism that is expected to have a high level of safety and an analgesic effect equal to or greater than that of an opioid, a Phase I study was begun.

(2) Development

For ensitrelvir (product name in Japan: Xocova), a COVID-19 oral treatment drug, SHIONOGI obtained approval for production and sale based on the emergency approval system in Japan in FY2022. In preparation for the global launch, SHIONOGI began multiple global Phase III clinical studies and actions to expand indications for prevention and pediatrics. In South Korea, based on the data of the Phase III studies in Asia, SHIONOGI's partner Ildong applied for approval for production and sale. In Taiwan, Taiwan Shionogi & Co., Ltd., a SHIONOGI Group company, also filed an application for Emergency Use Authorization. In China, SHIONOGI has started submitting data for application for approval. Furthermore, in preparation for the launch in Europe and the U.S., SHIONOGI started Phase III studies (SCORPIO-HR study: targeting non-hospitalized SARS-CoV-2 infected patients; and STRIVE test: targeting hospitalized SARS-CoV-2 infected patients) with the support of the U.S. NIH.

For S-268019, a recombinant protein vaccine against COVID-19, SHIONOGI applied for approval for production and sale in Japan indicated for prevention. The Phase-III studies targeting adolescents and children are also ongoing.

Redasemtide (S-005151), a peptide with regeneration-inducing effects that was licensed from StemRIM, is expected to have indications for a wide range of diseases because of its mechanism of action. In fiscal year ended March 31, 2023, additional Phase II clinical studies for dystrophic epidermolysis bullosa and global Phase II studies for acute stroke were begun. In addition, an Investigator-initiated clinical trial for osteoarthritis of the knee and chronic liver disease also moved forward.

S-309309 is a candidate of oral treatment for obesity with a new mechanism. In the fiscal year ended March 31, 2023, as high safety and tolerability and a good PK profile had been confirmed by the preliminary results of the Phase I studies, the Phase II studies were begun.

Resiniferatoxin (GRT7039) is a pain treatment candidate for osteoarthritis of the knee that was licensed from Grünenthal in FY2022. It is intended to satisfy the currently unmet needs of patients, such as a strong, long-lasting analgesic effect and improvement in daily life. A global Phase III study is currently under way.

Olorofim (F901318), licensed from F2G in FY2022, is a treatment candidate for invasive fungal infections with limited treatment options. High efficacy and tolerability have been confirmed in the interim results of the Phase II clinical studies conducted by F2G, and the Phase III studies are currently under way.

S-365598 is a third-generation integrase inhibitor candidate that is expected to be a long-acting anti-HIV drug (one dose every three months or more). In FY2022, ViiV started the Phase I studies.

As a result of these activities, research and development expenses for the entire Group for the fiscal year under review totaled ¥102,392 million.

Pipeline (as of May 10, 2023)

Areas	Code No. (Generic name) [Product name]	Mechanism of action (Administration)	Indication	Stage	Origin	Development
Infectious disease	S-649266 (Cefiderocol Tosilate Sulfate Hydrate) [US:Fetroja®] [EU:Fetcroja®]	Cell-wall synthesis inhibition (injection)	USA:Complicated urinary tract infections, including pyelonephritis and nosocomial pneumonia Europe:Infections due to aerobic gram-negative bacteria in adult patients with limited treatment options Japan:Various infectious diseases caused by Gram-negative bacteria that are resistant to carbapenem antibiotics Taiwan: Infections due to aerobic Gram-negative bacteria in adult patients with limited treatment options	Global: Phase III (pediatric) Japan: NDA submission (Mar. 2022) Taiwan: NDA submission (Dec. 2022)	In-house	In-house
	S-033188 (baloxavir marboxil) [Japan:Xofluza®]	Cap-dependent endonuclease inhibition (oral, granule)	Influenza virus infection	Japan: NDA submission (body weight <20kg) (Aug. 2018)	In-house	SHIONOGI/ Roche (Switzerland)
	S-268019	Vaccine (muscular injection)	Prevention of COVID-19	Japan: NDA submission (Nov. 2022) Japan: Phase III Global: Phase III	In-house	In-house
	S-268019	Vaccine (muscular injection)	Prevention of COVID-19 (Adolescent)	Japan: Phase II/III	In-house	In-house
	S-268019	Vaccine (muscular injection)	Prevention of COVID-19 (Children, 5 to 11 years)	Japan: Phase I/II/III	In-house	In-house
	S-217622 (Ensitrelvir Fumaric Acid) [Japan:Xocova®]	3CL protease inhibitor (oral)	Treatment of COVID-19	Japan: Approval under the Emergency Regulatory Approval System (Nov. 2022) Japan:Phase II/III Global: Phase III South Korea: NDA submission (Jan. 2023) Taiwan: EUA submission (Mar.2023)	In-house	In-house
	S-217622 (Ensitrelvir Fumaric Acid) [Japan:Xocova®]	3CL protease inhibitor (oral)	Treatment of COVID-19(Children, 5 to 11 years)	Japan: Phase III	In-house	In-house
	S-217622 (Ensitrelvir Fumaric Acid) [Japan:Xocova®]	3CL protease inhibitor (oral)	Prevention of COVID-19	Global: Phase III	In-house	In-house
	F901318 (Olorofim)	Dihydroorotate dehydrogenase (DHODH) inhibition (oral)	Invasive aspergillosis	Global: Phase III	F2G (UK)	SHIONOGI/ F2G
	S-892216	3CL protease inhibitor (oral)	Treatment of COVID-19	Japan: Phase I	In-house	In-house
	S-337395	RNA dependent RNA polymerase inhibitor (Oral)	Treatment of RSV infection	Japan: Phase I	In-house/ UBE	SHIONOGI/ UBE

Areas	Code No. (Generic name) [Product name]	Mechanism of action (Administration)	Indication	Stage	Origin	Development
Pain/CNS	S-297995 (naldemedine tosilate) [US/Japan:Symproic®] [EU:Rizmoic®]	Peripheral opioid receptor antagonist (oral, powder)	Opioid-induced constipation (pediatric)	Europe: Phase I/II	In-house	In-house
	S-812217 (Zuranolone)	$GABA_A$ receptor positive allosteric modulator (oral)	Depression	Japan: Phase III	Sage (USA)	SHIONOGI/ Sage
	SDT-001	Treatment digital application based on cerebral mechanism	Inattention symptom in ADHD patients (pediatric)	Japan: Phase III	Akili (USA)	SHIONOGI/ Akili
	BPN14770 (Zatolmilast)	PDE4D negative allosteric modulator (oral)	Fragile X syndrome	USA: Phase II/III	Tetra (USA)	SHIONOGI/ Tetra
	BPN14770 (Zatolmilast)	PDE4D negative allosteric modulator (oral)	Alzheimer's disease	USA: Phase II Japan: Phase II	Tetra (USA)	SHIONOGI/ Tetra
	GRT7039 (Resiniferatoxin)	TRPV1 agonist (Intra-articular injection)	Pain associated with osteoarthritis of knee	Global: Phase III	Grünenthal (Germany)	Grünenthal
	S-151128	New mechanism of action	Chronic pain	Japan: Phase I	In-house	In-house
Frontier	ADR-001	Human mesenchymal stem cells (injection)	Decompensated liver cirrhosis	Japan: Phase I/II	Rohto (Japan)	SHIONOGI/ Rohto
	S-309309	Monoacylglycerol acyltransferase 2 inhibitor (oral)	Obesity	USA: Phase II	In-house	In-house
	S-588410	Cancer peptide vaccine (injection)	Esophageal cancer	Japan: Phase III	OncoTherapy Science, Inc. (Japan)	In-house
	S-588410	Cancer peptide vaccine (injection)	Bladder cancer	Japan,Europe: Phase II	OncoTherapy Science, Inc. (Japan)	In-house
	S-488210	Cancer peptide vaccine (injection)	Head and neck squamous cell carcinoma	Europe: Phase I/II	OncoTherapy Science, Inc. (Japan)	In-house
	S-588210	Cancer peptide vaccine (injection)	Solid tumor	UK: Phase I	OncoTherapy Science, Inc. (Japan)	In-house
	S-222611 (Epertinib)	HER2/EGFR dual inhibitor (oral)	Malignant tumor	Europe: Phase I/II	In-house	In-house
	SR-0379	Promote granulation formation (topical)	Cutaneous ulcer (Pressure ulcer, Diabetic ulcer)	Japan: Phase III	FunPep (Japan)	SHIONOGI/ FunPep
	S-005151 (Redasemtide Trifluoroacetate)	Mobilization of mesenchymal stem cells (MSCs) to peripheral blood (injection)	Stroke	Global: Phase IIb	StemRIM (Japan)	In-house
	S-005151 (Redasemtide Trifluoroacetate)	Mobilization of mesenchymal stem cells (MSCs) to peripheral blood (injection)	Epidermolysis bullosa	Japan: Phase II	StemRIM (Japan)	In-house
	S-531011	anti-CCR8 antibody (injection)	Solid tumor	Japan,USA: Phase Ib/II	In-house	In-house

<Out-Licensing Activity>

Code No. (Generic name) [Product name]	Mechanism of action (Administration)	Indication	Stage	Origin	Development
S/GSK1265744 LAP*[1] (Cabotegravir)	Integrase inhibitor (injection)	For the treatment and prevention for HIV infection	(CAB*[2] LAP for prevention) Global: Phase III	Shionogi-ViiV Healthcare LLC	Collaboration among ViiV,HPTN,NIAID and Gilead Sciences, Inc (USA)for prevention
S-0373	Non-peptide mimetic of TRH (oral)	Spinocerebellar ataxia	Japan: NDA submission(Dec. 2021)	In-house	Kissei Pharmaceutical Co., Ltd. (Japan)
S-033188 (Baloxavir marboxil) [USA:Xofluza™]	Cap-dependent endonuclease inhibition (oral)	Influenza virus infection	USA: NDA submission (pediatric, >1 year old) (Mar. 2020) Global: Phase III (pediatric,< 1 year old) Global: Phase III (transmission)	In-house	SHIONOGI/Roche (Switzerland)
S-555739 (Asapiprant)	Prostaglandin D2 DP1 receptor antagonist (oral)	Control of the aggravation of COVID-19	USA: Phase II	In-house	BioAge Labs, Inc. (USA)
S-723595	Acetyl-CoA carboxylase 2 inhibitor (oral)	NASH	Japan: Phase I	In-house	OrsoBio, Inc.(USA)
S-365598	Integrase inhibitor (ultra long-acting injection)	HIV infection	USA: Phase I	In-house	SHIONOGI-ViiV Healthcare LLC

*1 Long acting parenteral formulation,*2 Cabotegravir

III. Equipment and Facilities

1. Capital Expenditures

SHIONOGI (the Company and its consolidated subsidiaries) makes continuous capital expenditures in manufacturing, research, and sales to facilitate activities such as sales expansion, cost reduction, new product launches, and research and development.

In the fiscal year under review, capital expenditures totaled ¥12,559 million, down ¥14,714 million (54.0%) from the previous fiscal year, primarily spent on vaccine production facilities.

The required funds for these expenditures were mainly allocated from cash on hand and subsidies.

There have been no sales, removals, or losses of fixed assets that would have a material impact on production capacity.

2. Principal Facilities

SHIONOGI's (the Company and its consolidated subsidiaries) principal facilities are as follows.

(1) Non-consolidated (filing company data)

As of March 31, 2023

Business location name (Location)	Name of business segment	Facility type	Book value (Millions of yen)					Number of employees (Persons) (Note 1)
			Buildings and structures	Machinery, equipment and vehicles	Land (area, thousand m^2)	Other	Total	
Shionogi Pharmaceutical Research Center (Osaka, Japan)	Pharmaceutical Business	Research facilities	13,109	16	2,090 (31)	3,616	18,831	560 [13]
Shionogi CMC Research Innovation Center (Hyogo, Japan)	Pharmaceutical Business	Production/ research facilities	2,005	86	37 (42)	598	2,726	159 [3]
Head Office (Osaka, Japan)	Pharmaceutical Business	Management/ sales facilities	1,445	1	873 (1)	132	2,451	433 [28]
Branch and offices (Whole of Japan)	Pharmaceutical Business	Sales facilities, etc.	3,253	3	1,176 (99)	18,272	22,704	1,305 [96]
Vaccine Production facilities (Gifu, Japan) (Note 2)	Pharmaceutical Business	Production facilities	6,686	5,946	- (-)	27,590	40,222	- [-]

Notes:

1. The number of employees presented is the number of full-time employees. The average number of temporary employees (re-employed mandatory retirees, contract employees, etc.) is shown in brackets and is not included in the number of employees.
2. Vaccine production facilities are partially under construction, scheduled for completion in March 2024. The name of this location has not yet been determined.

(2) Subsidiaries in Japan

As of March 31, 2023

Company name	Business location name (Location)	Name of business segment	Facility type	Book value (Millions of yen)					Number of employees (Persons) (Note 1)
				Buildings and structures	Machinery, equipment and vehicles	Land (area, thousand m^2)	Other	Total	
Shionogi Pharma Co., Ltd.	Settsu Plant (Osaka, Japan)	Pharmaceutical Business	Production/ research facilities	8,715	3,347	416 (146)	1,585	14,063	474 [73]
	Kanegasaki Plant (Iwate, Japan)	Pharmaceutical Business	Production facilities	5,706	2,193	1,441 (205)	3,086	12,426	319 [85]
	Amagasaki Site (Hyogo, Japan)	Pharmaceutical Business	Production/ research facilities	802	98	- (-)	311	1,211	157 [15]
	Tokushima Plant (Tokushima, Japan)	Pharmaceutical Business	Production facilities	2,084	1,405	- (-)	505	3,994	59 [23]
	Itami Plant (Hyogo, Japan)	Pharmaceutical Business	Production facilities	715	340	292 (16)	362	1,709	143 [16]
Pharmira Co., Ltd.	Amagasaki Site (Hyogo, Japan)	Pharmaceutical Business	Production facilities	333	70	- (-)	1,468	1,871	33 [-]

Notes:

1. The number of employees presented is the number of full-time employees. The average number of temporary employees (re-employed mandatory retirees, contract employees, etc.) is shown in brackets and is not included in the number of employees.
2. Land for the filing company is centrally managed. For the Settsu Plant and Kanegasaki Plant, land book value and area are expressed for the filing company, and "–" is shown for the Amagasaki Site (on the premises of CMC Research Innovation Center).

(3) Subsidiaries outside Japan

Not applicable.

3. Plans for Additions and Disposals of Facilities

Capital expenditure by SHIONOGI (the Company and its consolidated subsidiaries) is planned based on a comprehensive consideration of the effects of the expenditure, taking into account factors such as future demand forecasts, the status of new product development, and the need to upgrade existing facilities. In principle, each company formulates its own separate capital plan, but the filing company plays a central role in coordinating these plans to avoid duplication of expenditures across SHIONOGI.

As of the end of the fiscal year under review, the planned expenditure in the new construction, expansion, etc. of principal facilities was ¥74,856 million. Of this, ¥49,631 million has already been paid, and the remaining ¥25,225 million is to be funded mainly by cash on hand and subsidies.

Plans for principal facilities that are currently under way are for the expansion of research, manufacturing, and other facilities in SHIONOGI, and are as follows.

(1) Non-consolidated (filing company data)

Classification	Business location name	Location	Name of business segment	Facility type	Planned expenditure amount		Funding method	Scheduled start and completion	
					Total (Millions of yen)	Amount already paid (Millions of yen)		Start	Completion
New construction	Head Office	Tokyo, Japan	Pharmaceutical Business	Investment property	5,146	1,571	Cash on hand	2019.10	2024.7
New construction	Shionogi Pharmaceutical Research Center	Osaka, Japan	Pharmaceutical Business	Research facilities	4,532	2,958	Cash on hand	2019.10	2024.3
New construction	Vaccine Production facilities	Gifu, Japan	Pharmaceutical Business	Production facilities	41,242	41,242	Cash on hand and subsidies	2020.8	2024.3

(2) Subsidiaries in Japan

Classification	Company name Business location name	Location	Name of business segment	Facility type	Planned expenditure amount		Funding method	Scheduled start and completion	
					Total (Millions of yen)	Amount already paid (Millions of yen)		Start	Completion
New construction	Shionogi Pharma Co., Ltd. Kanegasaki Plant	Iwate, Japan	Pharmaceutical Business	Logistics facilities	5,000	—	Cash on hand	2023.4	2025.12
New construction	Shionogi Pharma Co., Ltd. Kanegasaki Plant	Iwate, Japan	Pharmaceutical Business	Production facilities	2,339	2,320	Cash on hand and subsidies	2020.10	2023.9
New construction	Shionogi Pharma Co., Ltd. Takaoka Research Laboratory	Toyama, Japan	Pharmaceutical Business	Production/ research facilities	2,270	—	Cash on hand and subsidies	2023.6	2024.3
New construction	Pharmira Co., Ltd.	Hyogo, Japan	Pharmaceutical Business	Production facilities	7,700	1,540	Cash on hand	2022.4	2026.1

(3) Subsidiaries outside Japan

Not applicable.

IV. Information on the Filing Company

1. Information on the Company's Shares, etc.

(1) Total number of shares, etc.

i. Total number of shares

Type	Total number of shares authorized to be issued (Shares)
Common shares	1,000,000,000
Total	1,000,000,000

ii. Number of shares issued

Type	Number of shares issued as of the fiscal year-end (Shares) (As of March 31, 2023)	Number of shares issued as of filing date (Shares) (As of June 22, 2023)	Stock exchange on which the Company is listed or financial instruments association where the Company is licensed	Description
Common shares	307,386,165	307,386,165	Tokyo Stock Exchange Prime Market	Number of shares constituting one trading unit 100 shares
Total	307,386,165	307,386,165	–	–

(2) Information on share acquisition rights, etc.

i. Details of stock option program

FY2011 share acquisition rights

Date of resolution	As of June 24, 2011
Number of share acquisition rights	156 *1
Of share acquisition rights, number of treasury share acquisition rights	–
Class of shares corresponding to share acquisition rights	Common shares
Number of shares corresponding to share acquisition rights (Shares)	15,600 *2
Payment amount on exercise of share acquisition rights (Yen)	1
Exercise period for share acquisition rights	From: July 12, 2011 To: July 11, 2041
Issue price and amount paid into capital on issuance of shares from exercise of share acquisition rights (Yen)	Issue price 1,130 *3 Amount paid into capital 565
Conditions for exercising share acquisition rights	*4
Matters concerning transfer of share acquisition rights	The acquisition of share acquisition rights by transfer requires the approval of the Board of Directors of the Company.
Matters concerning substitute payment	–
Matters concerning delivery of share acquisition rights in connection with reorganization	*5

Note: Details are provided as of the end of the fiscal year under review (March 31, 2023). As of the end of the month prior to the filing date (May 31, 2023), there were no changes in the details to be stated from those as of the end of the fiscal year under review. Therefore, information as of the end of the month prior to the filing date is omitted.

*1. The persons to be allotted share acquisition rights, the number of these persons, and the number of share acquisition rights allotted to these persons are as follows.

Company directors (excluding outside directors; the same applies hereinafter) 3 persons, 252 rights

Company executive officers (excluding those concurrently serving as directors; the same applies hereinafter) 9 persons, 270 rights

The number of shares per share acquisition right (hereinafter referred to as the "Number of Shares Granted") shall be 100.

*2. In the event that, after the date of allotment of share acquisition rights (hereinafter referred to as the “Allotment Date”), the Company conducts a stock split (including gratis allotment of shares of common stock of the Company; the same shall apply hereinafter with respect to stock splits) or a reverse stock split, the Number of Shares Granted shall be adjusted in accordance with the following calculation for those share acquisition rights that have not been exercised at the time of such stock split or reverse stock split.

Adjusted number of shares = Number of shares before adjustment* Split or consolidation ratio

In addition to the above, in the event that the Company conducts a merger, corporate split or share exchange after the Allotment Date, or otherwise if the Number of Shares Granted requires adjustment, the Company’s Board of Directors may adjust the Number of Shares Granted as it deems necessary.

Any fraction of less than one share resulting from the above adjustment shall be truncated.

*3. i. The issue price is the sum of the fair value of the share acquisition rights on the Allotment Date and the amount to be paid upon exercise of the share acquisition rights (1 yen per share).

In addition, the recipient of share acquisition right allotment (hereinafter referred to as “Share Acquisition Rights Holder”) may, in lieu of payment of the amount equivalent to the fair value of the share acquisition rights, offset this with compensation claims against the Company.

ii. All shares to be issued to Share Acquisition Rights Holders upon exercise of share acquisition rights are to be issued from treasury shares, and no new shares will be issued as a result of the exercise of share acquisition rights.

In the event that treasury shares are used, no amount shall be paid into capital.

*4. i. During the exercise period for share acquisition rights, directors who are Share Acquisition Rights Holders may only exercise all of their share acquisition rights in a single act, solely during the period from the day following the day on which they lose their position as a director of the Company until the day on which 10 days (if the 10th day falls on a holiday, the next business day) have passed.

ii. During the exercise period for share acquisition rights, executive officers who are Share Acquisition Rights Holders may only exercise all of their share acquisition rights in a single act, solely from the day following the day on which they retire as executive officer of the Company or the day their employment contract with the Company is terminated (excluding employment contracts related to re-employment after mandatory retirement), whichever is later, until the day on which 10 days (if the 10th day falls on a holiday, the next business day) have passed.

In the event that an executive officer who is a Share Acquisition Rights Holder is newly appointed as a director of the Company, they may not exercise these rights until their retirement as a director.

iii. In the event of the death of a Share Acquisition Rights Holder, their heirs may exercise their share acquisition rights only during the period from the day following the day of the death of the benefactor and the day after 6 months have passed from the day of the death of the benefactor.

iv. Other conditions for exercising rights shall be as set forth in the “Share Acquisition Rights Allotment Agreement” concluded between the Company and the Share Acquisition Rights Holders.

*5. In the event that the Company conducts a merger (limited to cases in which the Company is dissolved due to merger), absorption-type split or incorporation-type split (limited to cases in which the Company becomes a split company), or share exchange or share transfer (limited to cases where the Company becomes a wholly-owned subsidiary) (the above are hereinafter collectively referred to as “Reorganization”), Share Acquisition Rights Holders of the remaining share acquisition rights as of the time immediately preceding the effective date of the Reorganization (hereinafter referred to as “Residual Share Acquisition Rights”) shall, in each circumstance, be issued the share acquisition rights of the stock company as prescribed in each of Article 236, Paragraph 1, Item 8, (a) through (e) of the Companies Act (hereinafter referred to as the “Reorganized Company”) in accordance with the terms and conditions of the issuance of these share acquisition rights. However, this shall be limited to cases where it is stipulated in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type split agreement, incorporation-type split plan, share exchange agreement, or share transfer plan that share acquisition rights of the Reorganized Company will be delivered in accordance with conditions equivalent to the terms and conditions of issuance of these share acquisition rights.

FY2012 share acquisition rights

Date of resolution	As of June 27, 2012
Number of share acquisition rights	255 *1
Of share acquisition rights, number of treasury share acquisition rights	–
Class of shares corresponding to share acquisition rights	Common shares
Number of shares corresponding to share acquisition rights (Shares)	25,500 *2
Payment amount on exercise of share acquisition rights (Yen)	1
Exercise period for share acquisition rights	From: July 13, 2012 To: July 12, 2042
Issue price and amount paid into capital on issuance of shares from exercise of share acquisition rights (Yen)	Issue price 917 *3 Amount paid into capital 459
Conditions for exercising share acquisition rights	*4
Matters concerning transfer of share acquisition rights	The acquisition of share acquisition rights by transfer requires the approval of the Board of Directors of the Company.
Matters concerning substitute payment	–
Matters concerning delivery of share acquisition rights in connection with reorganization	*5

Note: Details are provided as of the end of the fiscal year under review (March 31, 2023). As of the end of the month prior to the filing date (May 31, 2023), there were no changes in the details to be stated from those as of the end of the fiscal year under review. Therefore, information as of the end of the month prior to the filing date is omitted.

*1. The persons to be allotted share acquisition rights, the number of these persons, and the number of share acquisition rights allotted to these persons are as follows.

Company directors (excluding outside directors; the same applies hereinafter) 2 persons, 316 rights

Company executive officers (excluding those concurrently serving as directors; the same applies hereinafter) 11 persons, 475 rights

The number of shares per share acquisition right (hereinafter referred to as the "Number of Shares Granted") shall be 100.

*2. through *5. are the same as those in the notes to "FY2011 share acquisition rights."

FY2013 share acquisition rights

Date of resolution	As of June 26, 2013
Number of share acquisition rights	137 *1
Of share acquisition rights, number of treasury share acquisition rights	–
Class of shares corresponding to share acquisition rights	Common shares
Number of shares corresponding to share acquisition rights (Shares)	13,700 *2
Payment amount on exercise of share acquisition rights (Yen)	1
Exercise period for share acquisition rights	From: July 12, 2013 To: July 11, 2043
Issue price and amount paid into capital on issuance of shares from exercise of share acquisition rights (Yen)	Issue price 1,931 *3 Amount paid into capital 966
Conditions for exercising share acquisition rights	*4
Matters concerning transfer of share acquisition rights	The acquisition of share acquisition rights by transfer requires the approval of the Board of Directors of the Company.
Matters concerning substitute payment	–
Matters concerning delivery of share acquisition rights in connection with reorganization	*5

Note: Details are provided as of the end of the fiscal year under review (March 31, 2023). As of the end of the month prior to the filing date (May 31, 2023), there were no changes in the details to be stated from those as of the end of the fiscal year under review. Therefore, information as of the end of the month prior to the filing date is omitted.

*1. The persons to be allotted share acquisition rights, the number of these persons, and the number of share acquisition rights allotted to these persons are as follows.

Company directors (excluding outside directors; the same applies hereinafter) 2 persons, 172 rights

Company executive officers (excluding those concurrently serving as directors; the same applies hereinafter) 12 persons, 267 rights

The number of shares per share acquisition right (hereinafter referred to as the "Number of Shares Granted") shall be 100.

*2. through *5. are the same as those in the notes to "FY2011 share acquisition rights."

FY2014 share acquisition rights

Date of resolution	As of June 25, 2014
Number of share acquisition rights	167 *1
Of share acquisition rights, number of treasury share acquisition rights	–
Class of shares corresponding to share acquisition rights	Common shares
Number of shares corresponding to share acquisition rights (Shares)	16,700 *2
Payment amount on exercise of share acquisition rights (Yen)	1
Exercise period for share acquisition rights	From: July 11, 2014 To: July 10, 2044
Issue price and amount paid into capital on issuance of shares from exercise of share acquisition rights (Yen)	Issue price 1,900 *3 Amount paid into capital 950
Conditions for exercising share acquisition rights	*4
Matters concerning transfer of share acquisition rights	The acquisition of share acquisition rights by transfer requires the approval of the Board of Directors of the Company.
Matters concerning substitute payment	–
Matters concerning delivery of share acquisition rights in connection with reorganization	*5

Note: Details are provided as of the end of the fiscal year under review (March 31, 2023). As of the end of the month prior to the filing date (May 31, 2023), there were no changes in the details to be stated from those as of the end of the fiscal year under review. Therefore, information as of the end of the month prior to the filing date is omitted.

*1. The persons to be allotted share acquisition rights, the number of these persons, and the number of share acquisition rights allotted to these persons are as follows.

Company directors (excluding outside directors; the same applies hereinafter) 2 persons, 178 rights

Company executive officers (excluding those concurrently serving as directors; the same applies hereinafter) 11 persons, 246 rights

The number of shares per share acquisition right (hereinafter referred to as the "Number of Shares Granted") shall be 100.

*2. through *5. are the same as those in the notes to "FY2011 share acquisition rights."

FY2015 share acquisition rights

Date of resolution	As of June 24, 2015
Number of share acquisition rights	101 *1
Of share acquisition rights, number of treasury share acquisition rights	–
Class of shares corresponding to share acquisition rights	Common shares
Number of shares corresponding to share acquisition rights (Shares)	10,100 *2
Payment amount on exercise of share acquisition rights (Yen)	1
Exercise period for share acquisition rights	From: July 10, 2015 To: July 9, 2045
Issue price and amount paid into capital on issuance of shares from exercise of share acquisition rights (Yen)	Issue price 4,554 *3 Amount paid into capital 2,277
Conditions for exercising share acquisition rights	*4
Matters concerning transfer of share acquisition rights	The acquisition of share acquisition rights by transfer requires the approval of the Board of Directors of the Company.
Matters concerning substitute payment	–
Matters concerning delivery of share acquisition rights in connection with reorganization	*5

Note: Details are provided as of the end of the fiscal year under review (March 31, 2023). As of the end of the month prior to the filing date (May 31, 2023), there were no changes in the details to be stated from those as of the end of the fiscal year under review. Therefore, information as of the end of the month prior to the filing date is omitted.

*1. The persons to be allotted share acquisition rights, the number of these persons, and the number of share acquisition rights allotted to these persons are as follows.
Company directors (excluding outside directors; the same applies hereinafter) 3 persons, 99 rights
Company executive officers (excluding those concurrently serving as directors; the same applies hereinafter) 11 persons, 112 rights
The number of shares per share acquisition right (hereinafter referred to as the "Number of Shares Granted") shall be 100.
*2. through *5. are the same as those in the notes to "FY2011 share acquisition rights."

FY2016 share acquisition rights

Date of resolution	As of June 23, 2016
Number of share acquisition rights	87 *1
Of share acquisition rights, number of treasury share acquisition rights	–
Class of shares corresponding to share acquisition rights	Common shares
Number of shares corresponding to share acquisition rights (Shares)	8,700 *2
Payment amount on exercise of share acquisition rights (Yen)	1
Exercise period for share acquisition rights	From: July 9, 2016 To: July 8, 2046
Issue price and amount paid into capital on issuance of shares from exercise of share acquisition rights (Yen)	Issue price 5,257 *3 Amount paid into capital 2,629
Conditions for exercising share acquisition rights	*4
Matters concerning transfer of share acquisition rights	The acquisition of share acquisition rights by transfer requires the approval of the Board of Directors of the Company.
Matters concerning substitute payment	–
Matters concerning delivery of share acquisition rights in connection with reorganization	*5

Note: Details are provided as of the end of the fiscal year under review (March 31, 2023). As of the end of the month prior to the filing date (May 31, 2023), there were no changes in the details to be stated from those as of the end of the fiscal year under review. Therefore, information as of the end of the month prior to the filing date is omitted.

*1. The persons to be allotted share acquisition rights, the number of these persons, and the number of share acquisition rights allotted to these persons are as follows.

Company directors (excluding outside directors; the same applies hereinafter) 3 persons, 85 rights

Company executive officers (excluding those concurrently serving as directors; the same applies hereinafter) 10 persons, 88 rights

The number of shares per share acquisition right (hereinafter referred to as the "Number of Shares Granted") shall be 100.

*2. through *5. are the same as those in the notes to "FY2011 share acquisition rights."

FY2017 share acquisition rights

Date of resolution	As of June 22, 2017
Number of share acquisition rights	105 *1
Of share acquisition rights, number of treasury share acquisition rights	–
Class of shares corresponding to share acquisition rights	Common shares
Number of shares corresponding to share acquisition rights (Shares)	10,500 *2
Payment amount on exercise of share acquisition rights (Yen)	1
Exercise period for share acquisition rights	From: July 8, 2017 To: July 7, 2047
Issue price and amount paid into capital on issuance of shares from exercise of share acquisition rights (Yen)	Issue price 5,742 *3 Amount paid into capital 2,871
Conditions for exercising share acquisition rights	*4
Matters concerning transfer of share acquisition rights	The acquisition of share acquisition rights by transfer requires the approval of the Board of Directors of the Company.
Matters concerning substitute payment	–
Matters concerning delivery of share acquisition rights in connection with reorganization	*5

Note: Details are provided as of the end of the fiscal year under review (March 31, 2023). As of the end of the month prior to the filing date (May 31, 2023), there were no changes in the details to be stated from those as of the end of the fiscal year under review. Therefore, information as of the end of the month prior to the filing date is omitted.

*1. The persons to be allotted share acquisition rights, the number of these persons, and the number of share acquisition rights allotted to these persons are as follows.

Company directors (excluding outside directors; the same applies hereinafter) 3 persons, 85 rights

Company executive officers (excluding those concurrently serving as directors; the same applies hereinafter) 12 persons, 108 rights

The number of shares per share acquisition right (hereinafter referred to as the "Number of Shares Granted") shall be 100.

*2. through *5. are the same as those in the notes to "FY2011 share acquisition rights."

ii. Details of rights plan

Not applicable.

iii. Information on other share acquisition rights, etc.

Not applicable.

(3) Information on exercise of moving strike convertible bonds with share acquisition rights

Not applicable.

(4) Changes in the total number of issued shares, share capital, etc.

Date	Increase/ decrease in total number of issued shares (Thousand shares)	Shares issued and outstanding (Thousand shares)	Increase/ decrease in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Increase/ decrease in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
February 20, 2019 *1	(7,350)	316,786	–	21,279	–	16,392
April 6, 2020 *2	(5,200)	311,586	–	21,279	–	16,392
February 10, 2023 *3	(4,200)	307,386	–	21,279	–	16,392

Notes:

*1. Decrease due to cancellation of treasury shares.

*2. Decrease due to cancellation of treasury shares.

*3. Decrease due to cancellation of treasury shares.

(5) Composition of issued shares by type of shareholder

As of March 31, 2023

Category	Status of shares (one unit of stock: 100 shares)								Number of shares less than one unit (Shares)
	Governments and municipalities	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders (Persons)	1	94	71	733	849	286	96,167	98,201	–
Shares held (units)	20	1,322,097	103,279	97,846	998,783	967	546,607	3,069,599	426,265
Ownership as a percentage of total shares (%)	0.00	43.07	3.36	3.18	32.53	0.03	17.80	100.00	–

Notes:

1. 10,080,279 shares of treasury shares are included in the listings of 100,802 units in “Individuals and others” and 79 shares in “Number of shares less than one unit.”
2. “Other corporations” above includes 40 units of shares held under the name of the Japan Securities Depository Center, Incorporated.

(6) Major shareholders

As of March 31, 2023

Name	Address	Shares held (Thousand shares)	Ownership as a percentage of total issued shares (excluding treasury shares) (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	57,487	19.33
Custody Bank of Japan, Ltd. (Trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	24,189	8.13
Sumitomo Life Insurance Company	2-2-1, Yaesu, Chuo-ku, Tokyo	18,604	6.25
SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account)	1-3-2, Marunouchi, Chiyoda-ku, Tokyo	9,485	3.19
Nippon Life Insurance Company	1-6-6, Marunouchi, Chiyoda-ku, Tokyo	8,409	2.82
BANK OF CHINA (HONG KONG) LIMITED-PING AN LIFE INSURANCE COMPANY OF CHINA, LIMITED (Standing proxy: Citibank, N.A. Tokyo Branch)	14/F, BANK OF CHINA TOWER, 1 GARDEN ROAD, CENTRAL, HONG KONG (6-27-30, Shinjuku, Shinjuku-ku, Tokyo)	6,356	2.13
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171,U.S.A. (2-15-1, Konan, Minato-ku, Tokyo)	5,023	1.68
JP MORGAN CHASE BANK 385632 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (2-15-1, Konan, Minato-ku, Tokyo)	4,822	1.62
Sumitomo Mitsui Banking Corporation	1-1-2, Marunouchi, Chiyoda-ku, Tokyo	4,595	1.54
NORTHERN TRUST CO.(AVFC) SUB A/C AMERICAN CLIENTS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody Business Department)	50 BANK STREET CANARY WHARF LONDON E14 5NT, UK (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	4,190	1.40
Total	–	143,164	48.15

Notes:

1. SMBC Nikko Securities Inc., submitted a large shareholding report for the Company's shares on March 6, 2015 jointly with Sumitomo Mitsui Banking Corporation and Kansai Urban Banking Corporation. However, as the Company is unable to confirm this share ownership and other information as of March 31, 2023, these companies are not included in the above list of major shareholders. The content of the aforementioned large shareholding report is as follows.

As of February 27, 2015

Name	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates, etc. held (%)
SMBC Nikko Securities Inc.	3-3-1, Marunouchi, Chiyoda-ku, Tokyo	508,000	0.14
Sumitomo Mitsui Banking Corporation	1-1-2, Marunouchi, Chiyoda-ku, Tokyo	16,049,588	4.57
Kansai Urban Banking Corporation	1-2-4, Nishishinsaibashi, Chuo-ku, Osaka-shi, Osaka	1,113,242	0.32
Total	–	17,670,830	5.03

2. BlackRock Japan Co. Ltd., an international discretionary investment management company, submitted a large shareholding report for the Company's shares on February 6, 2018 jointly with nine affiliates. However, as the Company is unable to confirm this share ownership and other information as of March 31, 2023, these companies are not included in the above list of major shareholders. The content of the aforementioned large shareholding report is as follows.

As of January 31, 2018

Name	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates, etc. held (%)
BlackRock Japan Co., Ltd.	1-8-3, Marunouchi, Chiyoda-ku, Tokyo	5,611,600	1.70
BlackRock Advisors, LLC	Wilmington Orange Street 1209, New Castle County, Delaware, USA	347,300	0.11
BlackRock Financial Management, Inc.	52 Street 55, New York East, NY, USA	355,223	0.11
BlackRock Investment Management LLC	Princeton University Square Drive 1 in New Jersey, USA	346,784	0.11
BlackRock Fund Managers Limited	12 Throgmorton Avenue, London, UK	408,600	0.12
BlackRock Life Limited	12 Throgmorton Avenue, London, UK	417,525	0.13
BlackRock Asset Management Ireland Limited	International Financial Services Center JP Morgan House, Republic of Ireland Dublin	1,368,102	0.42
BlackRock Fund Advisors	Howard Street 400, San Francisco, California, USA	5,010,300	1.52
BlackRock Institutional Trust Company, N.A.	Howard Street 400, San Francisco, California, USA	5,496,494	1.67
BlackRock Investment Management (UK) Limited	12 Throgmorton Avenue, London, UK	706,803	0.21
Total	–	20,068,731	6.10

3. NOMURA SECURITIES CO., LTD., submitted a large shareholding report for the Company's shares on July 21, 2020 jointly with NOMURA INTERNATIONAL PLC and NOMURA ASSET MANAGEMENT CO., LTD. However, as the Company is unable to confirm this share ownership and other information as of March 31, 2023, these companies are not included in the above list of major shareholders. The content of the aforementioned large shareholding report is as follows.

As of July 15, 2020

Name	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates, etc. held (%)
NOMURA SECURITIES CO., LTD.	1-9-1, Nihonbashi, Chuo-ku, Tokyo	22,192	0.01
NOMURA INTERNATIONAL PLC	1 Angel Lane, London EC4R 3AB, United Kingdom	787,866	0.25
NOMURA ASSET MANAGEMENT CO., LTD.	2-2-1, Toyosu, Koto-ku, Tokyo	21,439,700	6.88
Total	—	22,249,758	7.14

4. Sumitomo Mitsui Trust Bank, Limited submitted a large shareholding report for the Company's shares on September 22, 2022 jointly with Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. However, as the Company is unable to confirm this share ownership and other information as of March 31, 2023, these companies are not included in the above list of major shareholders. The content of the aforementioned large shareholding report is as follows.

As of September 15, 2022

Name	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates, etc. held (%)
Sumitomo Mitsui Trust Bank, Limited	1-4-1, Marunouchi, Chiyoda-ku, Tokyo	3,480,000	1.12
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1, Shibakoen, Minato-ku, Tokyo	10,041,600	3.22
Nikko Asset Management Co., Ltd.	9-7-1, Akasaka, Minato-ku, Tokyo	8,937,800	2.87
Total	—	22,459,400	7.21

5. Capital Research and Management Company submitted a large shareholding report for the Company's shares on December 7, 2022 jointly with Capital International Inc. and Capital International K.K. However, as the Company is unable to confirm this share ownership and other information as of March 31, 2023, these companies are not included in the above list of major shareholders. The content of the aforementioned large shareholding report is as follows.

As of November 30,2022

Name	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates,etc. held (%)
Capital Research and Management Company	333 South Hope Street, Los Angeles, California, United States	11,572,401.25	3.71
Capital International Inc.	15th floor, 11100 Santa Monica Street, Los Angeles, California 90025, United States	1,163,824	0.37
Capital International K.K.	14th floor, Meiji Yasuda Life Building, 2-1-1 Marunouchi, Chiyoda-ku, Tokyo	2,242,500	0.72
Total	—	14,978,725.25	4.81

6. Mitsubishi UFJ Trust and Banking Corporation submitted a large shareholding report for the Company's shares on December 19, 2022 jointly with Mitsubishi UFJ Kokusai Asset Management Co., Ltd. However, as the Company is unable to confirm this share ownership and other information as of March 31, 2023, these companies are not included in the above list of major shareholders. The content of the aforementioned large shareholding report is as follows.

As of December 12,2022

Name	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates, etc. held (%)
Mitsubishi UFJ Trust and Banking Corporation	1-4-5, Marunouchi, Chiyoda-ku, Tokyo	8,033,100	2.58
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1-12-1, Yurakucho, Chiyoda-ku, Tokyo	4,528,400	1.45
Total	—	12,561,500	4.03

(7) Information on voting rights

i. Issued shares

As of March 31, 2023

Category	Number of shares (Shares)	Number of voting rights	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury shares, etc.)	Common shares 10,080,200	–	–
Shares with full voting rights (others)	Common shares 296,879,700	2,968,797	–
Shares less than one unit	Common shares 426,265	–	Shares less than one unit (one unit = 100 shares)
Shares issued and outstanding	307,386,165	–	–
Total number of voting rights held by all shareholders	–	2,968,797	–

Note: "Shares with full voting rights (others)" above includes 4,000 shares (40 voting rights) held under the name of the Japan Securities Depository Center, Incorporated.

ii. Treasury shares, etc.

As of March 31, 2023

Shareholder name	Shareholder address	Number of shares held under own name (Shares)	Number of shares held under another name (Shares)	Total number of shares held (Shares)	Ownership as a percentage of total issued shares (%)
Shionogi & Co., Ltd.	3-1-8, Doshomachi, Chuho-ku, Osaka	10,080,200	–	10,080,200	3.27
Total	–	10,080,200	–	10,080,200	3.27

2. Information on Acquisition of Treasury Shares, etc.

Class of shares: Acquisition of common stock under Article 155, Item 3 of the Companies Act, acquisition of common stock under Article 155, Item 7 of the Companies Act, and acquisition of common stock under Article 155, Item 13 of the Companies Act

(1) Acquisition by resolution of General Meeting of Shareholders

Not applicable.

(2) Acquisition by resolution of Board of Directors

Category	Number of shares (Shares)	Total price (Yen)
Status of resolution at meeting of the Board of Directors (May 11, 2022) (Current period: June 23, 2022 to December 31, 2022)	7,200,000	50,000,000,000
Treasury shares acquired before the fiscal year under review	–	–
Treasury shares acquired during the fiscal year under review	7,200,000	49,405,344,948
Total number and price of remaining resolved shares	–	594,655,052
Unexercised ratio as of the end of the fiscal year under review (%)	–	1.2
Treasury shares acquired during the current period	–	–
Unexercised ratio as of the filing date (%)	–	1.2

Note: Treasury shares acquired during the current period does not include treasury shares acquired from June 1, 2023 to the filing date of this Annual Securities Report.

(3) Acquisition not based on resolution of the General Meeting of Shareholders or of the Board of Directors

Category	Number of shares (Shares)	Total price (Yen)
Treasury shares acquired during the fiscal year under review	6,694	14,694,984
Treasury shares acquired during the current period	291	1,767,511

Notes:

1. Treasury shares acquired during the fiscal year under review is 4,500 shares due to the gratis acquisition of transfer-restricted stock and 2,194 shares due to the purchase of shares less than one unit.
2. Treasury shares acquired during the period is 291 shares due to the purchase of shares less than one unit.
3. Treasury shares acquired during the period does not include shares less than one unit purchased from June 1, 2023 to the filing date of this Annual Securities Report.

(4) Status of the disposition and holding of acquired treasury shares

Category	Fiscal year under review		Current period	
	Number of shares	Total amount disposed (Yen)	Number of shares	Total amount disposed (Yen)
Acquired treasury shares for which subscribers were solicited	–	–	–	–
Acquired treasury shares that were disposed of	4,200,000	26,280,156,000	–	–
Acquired treasury shares transferred due to merger, share exchange, share delivery or split	–	–	–	–
Other (disposal of treasury shares as restricted stock-based compensation)	29,800	202,222,800	–	–
Other (acquisition of treasury shares in lieu of exercising stock options)	–	–	–	–
Other (disposal of treasury shares through third-party allotment)	3,000,000	3,000,000	–	–
Total number of treasury shares held	10,080,279	–	10,080,570	–

Notes:

1. "Other (disposal of treasury shares through third-party allotment)" during the fiscal year under review refers to the disposal of treasury shares carried out in September 2022 with respect to Shionogi Infectious Disease Research Promotion Foundation by way of third-party allotment with Sumitomo Mitsui Trust Bank, Limited (Trust Account) as the subscriber (sub-trustee: Custody Bank of Japan (Trust Account)).
2. Treasury shares disposed of during the period do not include shares from the exercise of stock options from June 1, 2023 to the filing date of this Annual Securities Report.
3. Treasury shares held during the period do not include shares of less than one unit purchased from June 1, 2023 to the filing date of this Annual Securities Report, or shares acquired from the exercise of stock options or a resolution of the Board of Directors during the same period.

3. Dividend Policy

SHIONOGI's basic policy is to invest in businesses for growth and to return profits to shareholders who can experience growth alongside SHIONOGI. In the STS2030 Revision, the Medium-Term Business Plan updated in June 2023, SHIONOGI set a target of 4.0% in dividends on equity, which it aims to increase steadily in accordance with corporate value growth.

For the fiscal year ended March 31, 2023, SHIONOGI elected to pay a year-end dividend of 75 yen per share, an increase of 15 yen from the previous fiscal year. As a result, the total annual dividend, including the interim dividend, will be 135 yen per share.

SHIONOGI seeks to effectively invest its retained earnings to transform itself into a Healthcare as a Service (HaaS) company that continually works to generate innovation and improve productivity, providing healthcare services in Japan and overseas.

The Articles of Incorporation stipulate that the Company may pay dividends from surplus twice a year, an interim dividend and a year-end dividend. The decision-making bodies for these dividends from surplus are the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend.

Note: Dividends from surplus for the fiscal year under review are as follows.

Date of resolution	Total dividend amount (Millions of yen)	Dividend per share (Yen)
October 31, 2022 Resolution of the Board of Directors	18,067	60.00
June 21, 2023 Resolution of the Annual General Meeting of Shareholders	22,297	75.00

4. Corporate Governance, etc.

(1) Overview of corporate governance

i. Basic policy on corporate governance

Based on the Company Policy of SHIONOGI, its management philosophy, SHIONOGI recognizes that its social mission is not only to supply useful and safe pharmaceuticals, but also to contribute to the improvement of health and healthcare for people around the world by providing various health care services that meet customer needs, thereby contributing to the realization of a high quality of life.

Based on SHIONOGI’s firm belief that pursuing thorough compliance and fulfilling this mission will lead to the sustainable enhancement of corporate value, SHIONOGI will take necessary measures to continue addressing changes in the business environment and practice transparent and honest management through constructive dialogue with its stakeholders.

ii. Company institutions, etc.

To ensure the performance of duties based on appropriate management decisions, the Company strengthens the monitoring functions of the Board of Directors, which deliberates matters mainly relating to the Company’s management foundation, such as its management philosophy and business plans, as well as important matters concerning business execution by tapping into the management experience and professional knowledge of outside directors and outside corporate auditors. This has resulted in the establishment of a framework in which each executive organization reports the progress of business execution on matters for which a management decision was made to the Corporate Executive Meeting, the Board of Directors, etc. on a timely basis. The Company has opted to be a company with a board of corporate auditors to ensure such duties are executed in a legally compliant and smooth manner, by coordinating the audit functions of the corporate auditor, the business audits by the Internal Control Department, which are an internal audit function, and the supervisory functions of the Board of Directors. The Company has a framework that separates business management and business execution, under which the Board of Directors is responsible for developing the Group’s medium- to long-term plans and making management decisions in line therewith, while the Business Execution Framework that is mainly comprised of executive officers is responsible for business execution through rapid and flexible decision-making. The Board of Corporate Auditors and the Independent Accounting Auditors form the Audit Framework for overseeing management and auditing business execution. The Boards and the Frameworks form the structure that fulfills their respective roles and responsibilities from an independent perspective.

For the purpose of strengthening this system, in order to further strengthen the supervisory function in regard to business execution by directors and to further enhance the transparency of management, the Company appointed two outside directors at the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2009, and increased the number of outside directors by one at the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2012, and by another one at the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2023. Currently, there are six directors, two of whom are women. The appointment of these outside directors (more than half of the six directors) is allowing the Company to maintain a system that ensures fair and efficient management. All four outside directors are independent appointments and understand the corporate responsibility of the Company, contributing to increasing transparency in management.

The Board of Directors consists of six directors; two inside directors (Isao Teshirogi, Representative Director and Chairman of the Board, President and CEO; and Takuko Sawada, Director and Vice Chairperson of the Board) and four independent outside directors (Directors Keiichi Ando, Hiroshi Ozaki, Fumi Takasuki, and Takaoki Fujiwara) It is chaired by Director Ando and meets once a month in principle. The Board makes decisions on important matters that affect business, such as corporate governance, company-wide risk management, and the conclusion of important agreements, and supervises business execution by receiving reports on the progress of the compliance activities and operations of each business execution department. The attendance rate of directors and corporate auditors was 100% for all Board meetings.

Furthermore, the Nomination Advisory Committee and the Compensation Advisory Committee, consisting of a majority of outside directors, have been established as advisory bodies to the Board of Directors.

The Nomination Advisory Committee, chaired by Director Ando and consisting of Directors Ozaki, Takatsuki, and Teshirogi, and Corporate Auditor Fujiwara, held two meetings in FY2022. Discussions focused on topics such as the appointment of executive officers from perspectives such as promoting research activities, balancing the expertise of the Board of Directors, including outside directors, and strengthening management support divisions. In addition, through proposals and reports at Board of Directors’ meetings and roundtable meetings with executive officers, a position newly created in FY2021, the Company creates opportunities for outside officers to interact with division heads and heads of key organizations to confirm the status of their human resources. The Compensation Advisory Committee, chaired by Director Ozaki and consisting of Directors Ando, Takatsuki, and Teshirogi, and Corporate Auditor Okamoto, held two meetings in FY2022. Discussions focused on topics such as the examination of compensation levels and various compensation ratios, performance evaluation of directors and executive officers for FY2021, performance indicators for FY2022, and the executive compensation system including stock-based compensation. The attendance rate of both committee members was 100% for all committee meetings.

The Company has introduced an executive officer system to support dynamic and flexible business operations, enabling SHIONOGI to respond rapidly to drastic changes in the operating environment. It has also established the Corporate Executive Meeting as a body to discuss business execution. It is composed of directors, standing members of the Board of Corporate Auditors, and the corporate officers responsible for business execution, and it meets every week in principle. The Corporate Executive Meeting thoroughly deliberates on matters related to the execution of business as well as important management matters.

The business execution framework consists of 10 divisions: the Research Division, the Biopharmaceutical Research Division, and the Drug Development and Regulatory Science Division, which engage in research and development; the Pharmaceutical Commercial Division, which communicates pharmaceutical information; the Integrated Disease Care Division, which collects and analyzes healthcare-related information to maximize the value of products and the Company; the Global Business Division, which is responsible for the strategic promotion of overseas business development and stable supply based on the supply strategy; the Corporate Strategy Division, which is responsible for formulating company-wide strategies for the optimal allocation and utilization of managerial resources; the Administration Division, which supports corporate activities in terms of personnel, organizations, and laws and regulations; the DX Promotion Division, which aims to create healthcare solutions by building infrastructure for data utilization using IT and digital technology; and the Corporate Quality Assurance and Ethics & Compliance Management Division, which is responsible for assuring the quality of marketed products. Starting from July 2022, the system has been revised to a framework in which these Divisions are supervised based on four major value chains. The Corporate Executive Meeting fully deliberates business execution, and the Board of Directors makes decisions on matters that affect management.

To ensure that the directors and each organization in the Company conduct their duties in a legally compliant and appropriate manner, the Company has established systems to enable members of the Board of Corporate Auditors and the Internal Control Department (15 members as of June 22, 2023) to carry out audits and exchange opinions with the representative director in order to take necessary measures. The Board of Corporate Auditors consists of two standing members and three outside auditors. The members of the Board of Corporate Auditors attend meetings of key management bodies, such as the Board of Directors and the Corporate Executive Meeting, providing their opinions as necessary. Also, in accordance with corporate auditing standards, members of the Board of Corporate Auditors conduct business and accounting audits to verify the legality and validity of the duties carried out by the directors and corporate officers responsible for business execution. They also receive reports from the Accounting Auditor on the content of accounting audits and exchange opinions. In the same manner, the Company receives regular reports from the Internal Control Department on the content of internal audits and exchanges opinions with the department, among other actions, with the aim of enhancing cooperation among corporate auditors, the Accounting Auditor, and the internal audit unit.

iii. Internal control system, status, etc.

The Company’s basic policy regarding internal control systems is as follows, and it works to ensure the establishment of an internal control system in accordance with this policy.

[Basic Policy for Construction and Operation of Internal Control System]

The Company will promote transparent and honest management by ensuring that all of its officers and employees share the Company Policy of SHIONOGI, which expresses its management philosophy and values, and perform their duties in a compliant fashion.

To make their performance of these duties more effective, we will construct and operate a system to ensure proper business operations, as described below.

1. Systems for ensuring that the performance of director duties conforms with laws and regulations and with the Articles of Incorporation

SHIONOGI constantly promotes transparent and appropriate management in order to meet societal expectations from the standpoints of its four stakeholder groups: customers, society, shareholders, and employees.

To this end, we will permeate our corporate raison d’etre by thoroughly adhering to the Company Policy of SHIONOGI, which serves as the Company’s management philosophy, and the SHIONOGI Group Code of Conduct, which defines the way officers and employees should act. In addition, with respect to corporate ethics, we emphasize behavior that no member of society could be ashamed of. Here, the Compliance Committee, under the supervision of the representative director, will formulate and promote various measures to further enhance compliance with laws and regulations and ensure ethical behavior in business activities.

In addition, we will maintain an unwavering stance against anti-social forces and sever all ties with them without offering any room for manipulation, in accordance with the SHIONOGI Group Code of Conduct.

Our corporate governance system is founded in the institutional design of a company with a board of corporate auditors, and includes the Board of Directors, comprising a majority of outside directors. In this system, we make big-picture management decisions based on the objective viewpoints called for by our shareholders and other stakeholders. The Nomination Advisory Committee and the Compensation Advisory Committee have also been established as voluntary bodies.

We will practice our Basic Views and Guidelines on Corporate Governance, established to realize the best possible corporate governance, with the aim of achieving the sustainable growth of SHIONOGI and improving our corporate value over the medium- to long-term. In the execution of duties, we will promote their fairness, swiftness, and decisiveness by establishing a process for tracking decision-making, progress, and results from approval by an organizational head to resolution by the Board of Directors, and verifying the actual status, thus ensuring transparency and traceability.

In order to fulfill its function as a monitoring board, the Board of Directors makes decisions on important management matters based on a multifaceted management determination in accordance with the rules of the Board of Directors, ascertaining the status of duties and supervising their execution in a timely manner to prevent violations of laws, regulations, and the Articles of Incorporation. If a director discovers a violation of laws, regulations, or the Articles of Incorporation by another director, they shall immediately report it to the corporate auditors and the Board of Directors, and corrective actions will be taken.

Outside directors are independent appointments who recognize the Company's corporate responsibility, contributing to highly transparent management with their expertise. In order to ensure the reliability of financial reporting, the representative director promotes the construction and operation of internal controls over financial reporting, and appropriately evaluates and reports on the effectiveness of internal controls.

Corporate auditors audit the execution of director duties, with directors cooperating with these audits.

2. Frameworks for storing and managing information in relation to the execution of director duties

The Company has established an information security system for the execution of director duties supporting electromagnetic records, electronic signatures, etc., and, as appropriate for the storage media, appropriately and securely stores and manage the minutes of Board of Directors' meetings, Corporate Executive meetings, and Compliance Committee Meetings, as well as information on decisions by the representative director, etc. Here, the Company maintains compliance with deadlines stipulated by laws, regulations, etc., and ensures that said information is viewable.

3. Regulations and other systems for managing the risk of loss

SHIONOGI will appropriately manage business risks from the perspective of sustainability, including the utilization of positive risks (business opportunities) and the avoidance and mitigation of negative risks. Our Enterprise Risk Management system, which oversees the entire Group's risks, including risks of crises such as pandemics, natural disasters, terrorism, and cyberattacks, is an important mechanism for management strategy and management foundations. Under this system, the Company and Group companies recognize risks associated with decision-making and business execution, and proactively manage and take countermeasures against these risks. The enterprise risk management secretariat presents the annual risk management plan to the Corporate Executive Meeting and the Board of Directors at the beginning of each fiscal year for approval, monitors the status of the plan's actions, etc., and reports the results at the end of the fiscal year. Progress reports are also made as needed, and activities are promoted for further identification of issues and making improvements based on feedback.

Regarding crisis risk management, we have constructed a comprehensive management system, including a business continuity plan and founded in our rules on crisis management, and will promote management that focuses on respect for human life, consideration for local communities and contributions, and control of corporate value damage. In the event of a crisis, we will deal with it and overcome it promptly.

The Internal Control Department (internal auditing unit) is responsible for independent verification of various internal risk controls.

4. Systems to ensure the efficient execution of directors' duties

The Company has introduced an executive officer system to clarify the roles of management execution and supervision, as well as to support dynamic and flexible business operations. Important matters related to the execution of duties are fully discussed at regular (weekly) meetings of the Corporate Executive Meeting, and decisions are made by the Board of Directors based on the deliberations of those meetings.

Resolutions of the Board of Directors and matters deliberated by the Corporate Executive Meeting are promptly communicated to the heads of relevant departments responsible for business execution, and procedures are implemented to ensure the smooth execution of duties by the right personnel within the scope of their authority and responsibility, in accordance with rules on authority and the division of duties.

At the Company, we always assume that business risks are present in the execution of duties, viewing positive risks (offensive risks and business opportunities) and negative risks (defensive risks) as a single entity, and setting decision-making criteria based on business risk levels, being careful to not miss opportunities.

5. Systems for ensuring that the performance of employee duties conforms with laws and regulations and with the Articles of Incorporation

Led by the Compliance Committee, SHIONOGI promotes a range of measures to better ensure that it is in compliance with laws and regulations and that it engages in ethical behavior in its business activities, in accordance with the SHIONOGI Group Compliance Policy.

The General Administration Department hosts the Compliance Committee’s secretariat, which conducts compliance and harassment education, and supports risk management for compliance and harassment in each business execution unit.

In addition, in order to verify the effectiveness of internal control systems, the Internal Control Department works to strengthen internal audits and monitoring. At the same time, the internal reporting desk is fully utilized to prevent misconduct before it happens, and to rapidly detect any incidences and prevent their recurrence.

6. Systems for ensuring the propriety of business operations in the corporate group (the Company and its Group companies)

In order to enhance the corporate value of the entire Group and fulfill its social responsibility, the Company and its Group companies conduct activities to inform their members about the Company Policy of SHIONOGI and the SHIONOGI Group Code of Conduct.

Directors receive reports from Group companies on the status of business execution, and appropriately manage and cultivate Group companies in accordance with SHIONOGI Group Companies Governance Rules and Standard, so as to realize the Company Policy, the SHIONOGI Group Code of Conduct, management plans, etc.

At each Group company, appropriate and efficient business operations are promoted by managing businesses in accordance with the above.

With respect to the execution of business operations at each Group company, business units and administrative units manage and support appropriate business operations, while the General Administration Department provides an overall administrative role for SHIONOGI.

In addition, the Internal Control Department uses internal audits to confirm that each Group company is conducting operations in an appropriate and effective manner. Members from the Finance & Accounting Department and Internal Control Department are dispatched as auditors to audit Group companies.

7. Matters related to employees requested by members of the Board of Corporate Auditors to assist in their duties (assistant employees) and matters related to the independence of those assistant employees from directors

Assistant employees shall be assigned if they are deemed necessary and are requested by Board of Corporate Auditors members.

In the event that employees are assigned to assist the duties of Board of Corporate Auditors members, a system shall be provided to ensure their independence from directors. All Company officers and employees shall be thoroughly informed that all employees assigned to assist the duties of Board of Corporate Auditors members are under the direction and order of said members.

8. Frameworks for directors and employees reporting to members of the Board of Corporate Auditors and other systems for reporting to said members

A system has been established whereby members of the Board of Corporate Auditors shall attend important meetings, such as those of the Board of Directors and the Corporate Executive Meeting, and whereby they can obtain information related to business execution and management, as well as to the effectiveness of internal controls, in a timely manner.

The Board of Corporate Auditors may directly request reports on the status of business execution from directors, corporate officers responsible for business execution, and others. In the event that a director or corporate officer responsible for business execution becomes aware of any event or situation that may cause significant damage to the Company or Group companies, including to its credibility, or any illegal or significantly inappropriate act such as violation of laws and regulations, they shall promptly report such event in writing or orally to a member of the Board of Corporate Auditors. Officers and employees of the Company and Group companies who report to a member of the Board of Corporate Auditors shall be guaranteed no disadvantageous treatment because of their report.

If a member of the Board of Corporate Auditors requests that the Company pay expenses in advance or otherwise in connection with the performance of their duties, the Company shall promptly dispose of these expenses or liabilities, unless it is deemed unnecessary to do so.

9. Other frameworks for ensuring effective auditing by members of the Board of Corporate Auditors

In conducting audits and providing advice and recommendations, members of the Board of Corporate Auditors work closely with the Accounting Auditor and the Internal Control Department and meet regularly with the representative director, to exchange opinions and enhance the effectiveness of audits.

In addition, members of the Board of Corporate Auditors regularly hold meetings of the Group Company Audit Liaison Committee for the purpose of ensuring the effectiveness of Group-wide audits. At these meetings, opinions are exchanged on the management status of each Group company.

iv. Overview of content of limited liability contracts

The Company has entered into an agreement (limited liability contract) with each outside director and each member of the Board of Corporate Auditors to limit their liability for indemnity under Article 423, Paragraph 1 of the Companies Act to the maximum amount stipulated in laws and regulations, provided that legal and regulatory requirements are met.

v. Overview of the content of the directors' and officers' liability insurance contract

The Company has entered into a directors' and officers' liability insurance (D&O Insurance) contract with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act, with directors and Board of Corporate Auditors members of the Company and its Group companies as insured parties. The insurance policy will cover compensation for damages, litigation costs and the like (except for exclusions set forth in the insurance policy) if compensation is claimed against a director or officer for damages arising from the execution of their duties during the insurance period. The Company bears all premiums for the insurance policy.

vi. Director membership and requirements for resolution of director appointment

The Company's Articles of Incorporation stipulate that the number of directors shall be no less than three and no more than seven.

In addition, the Company's Articles of Incorporation stipulate that resolutions for the appointment of directors shall be approved by a majority of the voting rights of the shareholders present at a meeting with the attendance of shareholders holding at least one-third of eligible voting rights, and that cumulative voting shall not be used in the appointment of directors.

vii. Matters for resolution of the General Meeting of Shareholders that may be resolved by the Board of Directors in accordance with Articles of Incorporation provisions

1. Treasury shares

   The Company's Articles of Incorporation stipulate that the Company may acquire its treasury shares through market transactions, etc. in order to implement dynamic capital policy by a resolution of the Board of Directors, pursuant to Article 165, Paragraph 2 of the Companies Act.

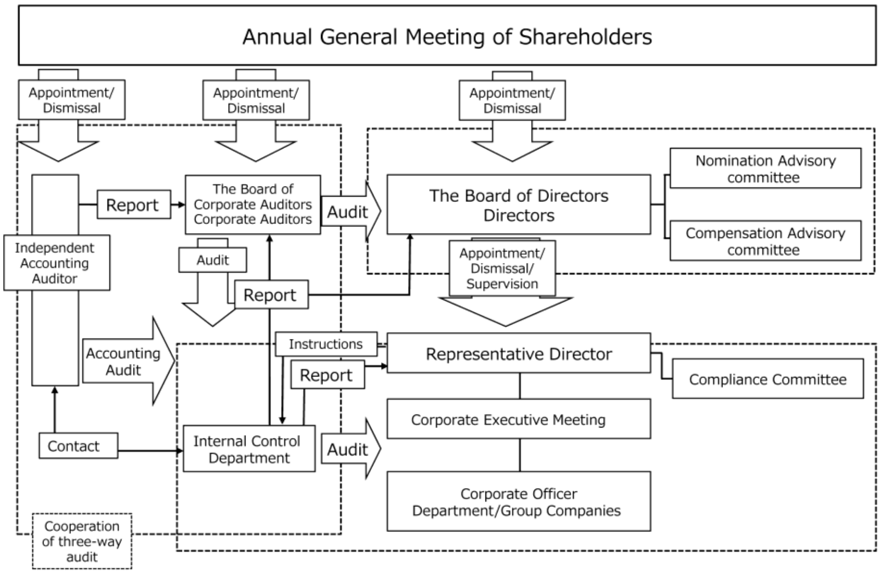
2. Interim dividends

   The Company's Articles of Incorporation stipulate that the Company may pay interim dividends with a record date of September 30 of each year in order to dynamically return profits to shareholders by a resolution of the Board of Directors pursuant to Article 454, Paragraph 5 of the Companies Act.

viii. Requirements for special resolution of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that special resolutions of the General Meeting of Shareholders as provided for in Article 309, Paragraph 2 of the Companies Act shall require approval by a supermajority of two-thirds of the voting rights of the shareholders present at a meeting with the attendance of shareholders holding at least one-third of eligible voting rights. This is intended to facilitate the smooth operation of the General Meeting of Shareholders by relaxing the quorum for special resolutions of the General Meeting of Shareholders.

The following is a diagram of the Company's corporate governance structure.



(2) Officers

i. List of officers

Male: 8, Female: 3

(Percentage of female officers: 27.3%)

Title	Name	Date of birth	Career summary		Term of office	Number of shares held (Thousand shares)
Representative Director, President and CEO	Isao Teshirogi	December 12, 1959	April 1982 January 1999 June 2002 October 2002 April 2004 April 2006 April 2007 April 2008 June 2021 March 2022 July 2022	Joined the Company General Manager, Secretary Office and General Manager, Corporate Planning Department Director of the Company General Manager, Corporate Planning Department Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division Senior Executive Officer Representative Director and President of the Company Outside Director of Sumitomo Mitsui Banking Corporation (incumbent) Outside Director of AGC Inc. (incumbent) Representative Director, President and CEO of the Company(incumbent)	Note 3	68
Director and Vice Chairperson of the Board	Takuko Sawada	March 11, 1955	April 1977 April 2002 April 2007 April 2010 April 2011 April 2013 April 2014 April 2015 June 2015 October 2015 April 2016 April 2017 April 2018 April 2020 July 2022 June 2023	Joined the Company Executive General Manager, Pharmaceutical Development Division Officer and Executive General Manager, Pharmaceutical Development Division Executive Officer and Executive General Manager, Pharmaceutical Development Division Senior Executive Officer and Executive General Manager, Global Development Office Senior Executive Officer and Senior Vice President, Global Development and, Pharmaceutical Development Division Senior Executive Officer and Senior Vice President, Global Pharmaceutical Development Division Senior Executive Officer and Senior Vice President, Corporate Strategy Division Director of the Company and Senior Executive Officer and Senior Vice President, Corporate Strategy Division Senior Executive Officer and Senior Vice President, Corporate Strategy Division, and General Manager, Corporate Planning Department Senior Executive Officer and Senior Vice President, Corporate Strategy Division Senior Executive Officer and Senior Vice President, Corporate Strategy Division Director of the Company and Executive Vice President Director of the Company and Executive Vice President and Senior Vice President of Integrated disease care Department Director and Vice Chairperson of the Board (incumbent) Outside Director, Konica Minolta Inc. (incumbent)	Note 3	45

Title	Name	Date of birth	Career summary		Term of office	Number of shares held (Thousand shares)
Director	Keiichi Ando	November 5, 1951	April 1976	Joined Sumitomo Bank Limited	Note 3	–
			April 2003	Executive Officer, Sumitomo Mitsui Banking Corporation		
			April 2006	Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			April 2009	Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			April 2010	Representative Director and Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation		
			April 2012	Representative Director and President, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD		
			July 2012	Representative Director and President and CEO, NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD		
			June 2016	Director of the Company (incumbent)		
			June 2016	Representative Director and President, GINSEN CO., LTD		
			June 2017	Outside Director of Tsubakimoto Chain Co. (incumbent)		
			June 2019	Outside Director of DAIHEN Corporation (incumbent)		
Director	Hiroshi Ozaki	March 11, 1950	May 1972	Joined Osaka Gas Co., Ltd.	Note 3	–
			June 2000	Director, Osaka Gas Co., Ltd.		
			June 2002	Director and Tokyo Representative, Osaka Gas Co., Ltd., on loan to the Japan Gas Association		
			June 2005	Managing Director and General Manager of LNG Terminal and Power Generation Business Unit, Osaka Gas Co., Ltd.		
			June 2007	Managing Director and General Manager of Commercial & Industrial Energy Business Unit, Osaka Gas Co., Ltd.		
			April 2008	Representative Director and President, Osaka Gas Co., Ltd.		
			June 2008	Director, Osaka Gas Chemicals Co., Ltd.		
			June 2009	Representative Director and President, Operating Executive Officer, Osaka Gas Co., Ltd.		
			June 2009	Director of OGIS-RI Co., Ltd.		
			June 2011	Outside Director of Asahi Broadcasting Corporation (Current name is Asahi Broadcasting Group Holdings Corporation)		
			June 2015	Representative Director and Chairman, Osaka Gas Co., Ltd.		
			June 2019	Director of the Company (incumbent)		
			January 2021	Director and Senior Advisor, Osaka Gas Co., Ltd.		
			June 2021	Senior Advisor, Osaka Gas Co., Ltd. (incumbent)		
			June 2021	Outside Director, The Royal Hotel, Ltd. (incumbent)		
Director	Fumi Takatsuki	June 24, 1975	October 2000	Registration of Attorney at Law	Note 3	–
			October 2000	Joined Oike Law Offices		
			December 2003	Joined Anderson Mori & Tomotsune Law Offices		
			February 2004	Service at Beijing Office of Anderson Mori & Tomotsune Law Offices		
			April 2006	Joined Oh-Ebashi LPC & Partners		
			January 2009	Partner of Oh-Ebashi LPC & Partners (incumbent)		
			June 2020	Outside Director of the Company (incumbent)		
			June 2023	Outside Corporate Auditor of Sankyo Seiko Co., Ltd. (scheduled)		
Director	Takaoki Fujiwara	February 23, 1952	April 1975	Joined Hanshin Electric Railway Co., Ltd.	Note 3	–
			June 2005	Director, Hanshin Electric Railway Co., Ltd.		
			June 2007	Managing Director, Hanshin Electric Railway Co., Ltd.		
			April 2011	Representative Director and President, Hanshin Electric Railway Co., Ltd.		
			June 2011	Director, Hankyu Hanshin Holdings, Inc.		
			April 2015	Chairman and Representative Director, Hanshin Hotel Systems, Co., Ltd.		
			April 2017	Chairman of the Board of Directors and Representative Director, Hanshin Electric Railway Co., Ltd.		
			June 2017	Representative Director, Hankyu Hanshin Holdings, Inc.		
			June 2017	Outside Director, Sanyo Electric Railway Co., Ltd. (incumbent)		
			December 2017	Director, Hanshin Hotel Systems Co., Ltd.		
			June 2018	Outside Member of the Board of Auditors of the Company		
			April 2023	Advisor of Hanshin Electric Railway Co., Ltd. (incumbent)		
			June 2023	Outside Director of the Company (incumbent)		

Title	Name	Date of birth	Career summary		Term of office	Number of shares held (Thousand shares)
Full-time Auditor	Akira Okamoto	April 3, 1955	April 1978 April 2006 April 2007 April 2008 April 2011 June 2015	Joined the Company General Manager, Business Support Center General Manager, General Affairs & Personnel Department General Manager, Human Resources Department General Manager, Internal Control Department Standing Member of the Board of Auditors of the Company (incumbent)	Note 4	6
Full-time Auditor	Ikuo Kato	May 18, 1954	October 1988 April 2007 April 2010 September 2010 April 2013 April 2014 June 2016	Joined the Company General Manager, Development Research Laboratories General Manager, Drug Development Research Laboratories General Manager, Drug Development Research Laboratories and Representative Director and President, Shionogi Techno Advance Research Co., Ltd. General Manager, Drug Development Research Laboratories and Representative Director and Chairman, Shionogi Techno Advance Research Co., Ltd. Representative Director and Chairman, Shionogi Techno Advance Research Co., Ltd. Standing Member of the Board of Auditors of the Company (incumbent)	Note 5	–
Auditor	Tsuguoki Fujinuma	November 21, 1944	April 1969 June 1970 May 1986 July 1993 May 2000 July 2004 February 2005 July 2007 August 2007 October 2007 April 2008 June 2008 June 2008 June 2008 June 2008 July 2008 February 2009 April 2010 May 2010 April 2015 July 2017 June 2018 June 2019 June 2023	Joined Horie Morita Accounting Firm Joined Arthur & Young Accounting Firm Partner and Representative Partner of Asahi Shinwa Accounting Firm (now KPMG AZSA LLC) Managing Partner of Ota Showa & Co. (now Ernst & Young ShinNihon LLC) (Resigned in June 2007) President of the International Federation of Accountants (IFAC) Chairman and President of the Japanese Institute of Certified Public Accountants Trustee of the IFRS Foundation Trustees Advisor of the Japanese Institute of Certified Public Accountants (incumbent) Outside Director of the Tokyo Stock Exchange Group, Inc. (now the Japan Exchange Group) Governor of Tokyo Stock Exchange Regulation Specially Appointed Professor of Chuo Graduate School of Strategic Management (Business School) Outside Corporate Auditor of Sumitomo Corporation Outside Corporate Auditor of Takeda Pharmaceutical Company Limited Outside Director of Nomura Holdings, Inc. Outside Director of Nomura Securities Co., Ltd. Outside Director of Sumitomo Life Insurance Company Trustee and Vice Chairman of the IFRS Foundation Trustees Visiting Professor at Kansai University (incumbent) Outside Corporate Auditor of Seven & i Holdings Co., Ltd. Fellow (incumbent) and Advisory Board Member at Chuo University Business School Auditor, Chiba Gakuen Educational Association (incumbent) Chairman of the Association of Certified Fraud Examiners Japan Outside Member of the Board of Auditors of the Company (incumbent) Councilor of the Association of Certified Fraud Examiners Japan (incumbent)	Note 4	1
Auditor	Shuichi Okuhara	April 23, 1968	April 1994 January 1998 June 2008 April 2009 June 2019 June 2020	Joined Andersen Consulting Co., Ltd. (now Accenture Japan Ltd.) Joined Nippon Venture Capital Co., Ltd. Director and Manager of Investment Department, Nippon Venture Capital Co., Ltd. Representative Director and President of Nippon Venture Capital Co., Ltd. Representative Director and Chairman of Nippon Venture Capital Co., Ltd. (incumbent) Outside Member of the Board of Auditors of the Company (incumbent)	Note 5	–

Title	Name	Date of birth	Career summary		Term of office	Number of shares held (Thousand shares)
Auditor	Yoriko Goto	November 11, 1958	November 1983	Joined Deloitte Haskins and Sells International (now Deloitte Touche Tohmatsu LLC)	Note 6	–
			June 1996	Partner of Deloitte Touche Tohmatsu Limited (now Deloitte Touche Tohmatsu LLC)		
			June 2007	Japan Leader of the Global Financial Services Industry, Deloitte Touche Tohmatsu Limited		
			October 2010	Managing Partner of the Financial Services Industry, Deloitte Touche Tohmatsu LLC		
			October 2013	Member of the Executive Committee of Deloitte Touche Tohmatsu LLC, and Member of the Board of Deloitte Touche Tohmatsu Limited		
			June 2018	Chairperson of the Board of Deloitte Touche Tohmatsu LLC and the Deloitte Tohmatsu Group, and Member of the Board of Deloitte Touche Tohmatsu Limited		
			November 2018	Member of the Board of Deloitte Asia Pacific Limited		
			October 2022	President of Yoriko Goto CPA Office (incumbent)		
			October 2022	Outside Director (Member of the Audit and Supervisory Committee) of Sumitomo Mitsui Banking Corporation (incumbent)		
			June 2023	Outside Member of the Board of Auditors of the Company (incumbent)		
Total						121

Notes:

1. Directors Keiichi Ando, Hiroshi Ozaki, Fumi Takatsuki, and Takaoki Fujiwara are outside directors.
2. Board of Corporate Auditors members Tsuguoki Fujinuma, Shuichi Okuhara, and Yoriko Goto are outside corporate auditors.
3. The term of office for directors refers to their terms during the period from the conclusion of the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2023, to the conclusion of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2024.
4. The terms of office for standing Board of Corporate Auditors member Akira Okamoto and Board of Corporate Auditors member Tsuguoki Fujinuma refer to their terms during the period from the conclusion of the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2023 to the conclusion of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2027.
5. The terms of office for standing Board of Corporate Auditors member Ikuo Kato and Board of Corporate Auditors member Shuichi Okuhara refer to their terms during the period from the conclusion of the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2020 to the conclusion of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2024.
6. The term of office for Board of Corporate Auditors member Yoriko Goto refers to her term during the period from the conclusion of the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2023 to the conclusion of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2025, when the term of office of the outgoing auditor Takaoki Fujiwara expires as specified by the Articles of Incorporation of the Company.

ii. Outside officers

The Company has four outside directors and three outside members of the Board of Corporate Auditors.

Keiichi Ando	Keiichi Ando is expected to recognize the corporate responsibility the Company should fulfill, and makes management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. At Board of Directors' meetings, he serves as chair and presents many questions and opinions from the perspective of risk management and the use of assets that are important management resources, and provides appropriate advice on budget planning and management and capital policies, including investments. There are no conflicts of interest between Keiichi Ando and the Company. Keiichi Ando is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange.
Hiroshi Ozaki	Hiroshi Ozaki, as a director of Kansai-based companies, is expected to leverage his abundant practical experience and wide-ranging knowledge in corporate management and organizational management, recognizing the corporate responsibility the Company should fulfill and making management decisions with an emphasis on objectivity and impartiality, without bias in favor of corporate executives or specific interested parties. At Board of Directors' meetings, he presents many clear indications of issues and provides support, such as advice on business and marketing, including production and distribution, and raises issues related to alliances. There are no conflicts of interest between Hiroshi Ozaki and the Company. Hiroshi Ozaki is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange.

Fumi Takatsuki	Fumi Takatsuki is expected to make fair management decisions from a global perspective, giving priority to compliance with social norms, laws and regulations, etc., from her position as an attorney in international corporate law. At Board of Directors' meetings, she recognizes the corporate responsibility the Company should fulfill and provides opinions on the status of execution of duties by directors from a broad perspective, giving priority to compliance with social norms, laws and regulations, etc. There are no conflicts of interest between Fumi Takatsuki and the Company. The Company has paid attorney fees to Oh-Ebashi LPC & Partners, where Fumi Takatsuki is a partner, for certain specific cases involving international corporate legal affairs, an area in which this law firm has expertise. However, that compensation amounts to less than 2% of the total fees received by Oh-Ebashi LPC & Partners, and the Company has no advisory contract or other ongoing contractual relationship with Oh-Ebashi LPC & Partners. Fumi Takatsuki is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange.
Takaoki Fujiwara	Takaoki Fujiwara is expected to make appropriate recommendations on the validity of management decisions and executions of duties by directors from an independent standpoint as an auditor, by leveraging his abundant practical experience and wide range of knowledge as a manager of a group of companies. At Board of Directors' meetings, he makes appropriate comments from a broad perspective on the status of the execution of director duties based on his abundant experience and achievements. At meetings of the Board of Corporate Auditors, he discusses and makes recommendations on important matters related to audits as needed. Accordingly, the Company has appointed him as a new director for the 159th period, expecting that he will make proper and appropriate management decisions. There are no conflicts of interest between Takaoki Fujiwara and the Company. Takaoki Fujiwara is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange.
Tsuguoki Fujinuma	Tsuguoki Fujinuma is expected to make appropriate recommendations on the validity of management decisions and executions of duties by directors from an independent standpoint as an auditor, by leveraging his advanced expertise in finance and accounting and considering the environmental changes related to sustainability. At Board of Directors' meetings, he makes appropriate comments from a broad perspective on the status of the execution of director duties based on his abundant experience and achievements. At meetings of the Board of Corporate Auditors, he discusses and makes recommendations on important matters related to audits as needed. There are no conflicts of interest between Tsuguoki Fujinuma and the Company. Tsuguoki Fujinuma is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange.
Shuichi Okuhara	Shuichi Okuhara is expected to make appropriate recommendations on the validity of management decisions and executions of duties by directors from an independent standpoint as an auditor, by leveraging his advanced expertise in finance and accounting in response to the rapidly changing business environment. At Board of Directors' meetings, he makes appropriate comments from a broad perspective on the status of the execution of director duties based on his abundant experience and achievements. At meetings of the Board of Corporate Auditors, he discusses and makes recommendations on important matters related to audits as needed. There are no conflicts of interest between Shuichi Okuhara and the Company. Shuichi Okuhara is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange.
Yoriko Goto	Yoriko Goto has professional expertise in finance and accounting as a certified public accountant, and extensive management experience and broad insight through her service as Chairperson of the Board of Deloitte Tohmatsu Group and Deloitte Touche Tohmatsu LLC, among others. As she also serves as an outside director of a financial institution, we believe that she will audit the Company from the viewpoints of finance, accounting, and management. Accordingly, we expect her to reflect her experience in the audits of the Company concerning the appropriateness of the management decisions and executions of duties by the directors from an independent point of view as an outside corporate auditor. We thus appointed her as a new member of the Board of Corporate Auditors. There are no conflicts of interest between Yoriko Goto and the Company. Yoriko Goto is registered as an independent director as defined in the regulations of the Tokyo Stock Exchange.

[Requirements and Criteria for Determining Independence of Independent Outside Officers]
Requirements

i. Possesses excellent insight and ability based on experience and expertise in management, and is able to appropriately demonstrate this insight and ability
ii. Recognizes their role as an outside officer and is able to provide candid and timely opinions and suggestions to the Company's management
iii. Possesses the character to engage with not only the Company's management but also all of its stakeholders with sincerity
iv. Possesses no risk of conflict of interest with general shareholders, nor any conflict of interest between the Company or its individual outside officers

Criteria for Determining Independence

i. A person who is not a major shareholder (a shareholder holding 10% or more of the total voting rights or one of the top five shareholders) of SHIONOGI, nor a director, corporate auditor, executive officer, or employee of any corporation or institution that is a major shareholder of SHIONOGI

ii. A person who is not a director, corporate auditor, executive officer, or employee of a company for which SHIONOGI is a major shareholder (a company in which SHIONOGI holds 10% or more of the total voting rights or for which SHIONOGI is one of the top five shareholders)

iii. A person who is not a director, corporate auditor, executive officer, or employee of a major business partner of the SHIONOGI Group
The term “major business partner of SHIONOGI” means any of the following:
a. A business partner for which payment from SHIONOGI to the business partner in question averaged 2% or more of SHIONOGI’s consolidated net sales for SHIONOGI’s past three fiscal years, including its most recent fiscal year
b. A business partner for which payment received by SHIONOGI from the business partner in question averaged 2% or more of SHIONOGI’s consolidated net sales for SHIONOGI’s past three fiscal years, including its most recent fiscal year

iv. A person who is not a director, corporate auditor, executive officer, or employee of a business partner that is a major customer of SHIONOGI
The term “business partner that is a major customer of SHIONOGI” means any of the following (excluding cases to which v. below applies):
a. A business partner for which payment received by SHIONOGI from the business partner in question averaged 2% or more of the business partner’s consolidated net sales for the business partner’s past three fiscal years, including its most recent fiscal year
b. A business partner for which payment from SHIONOGI to the business partner in question averaged 2% or more of the business partner’s consolidated net sales for the business partner’s past three fiscal years, including its most recent fiscal year

v. If the individual is a consultant, accounting professional, or legal professional, a person who is not and who does not belong to a corporation or institution that receives either of the respective following remunerations from SHIONOGI, excluding remuneration to the individual as a director or corporate auditor
a. (For individuals) Remuneration exceeding 10 million yen per year
b. (For a corporation or institution) Remuneration exceeding 2% of the consolidated net sales of the corporation or institution on average over the last three fiscal years, including the most recent fiscal year of the corporation or institution to which the individual belongs, or remuneration exceeding 10 million yen per year, whichever is higher

vi. A person who does not belong to a corporation or organization that receives annual donations of 10 million yen or more from SHIONOGI

vii. A person whose term of office as an outside director of SHIONOGI does not exceed 10 years

viii. A person whose term of office as an outside corporate auditor of SHIONOGI does not exceed 12 years (three terms)

iii. Relationships between supervision or audits by outside directors or outside corporate auditors, and internal audits, audits by members of the Board of Corporate Auditors, and financial audits, and relationships with internal control units

Outside directors attend meetings of the Board of Directors, which are held once a month in principle, and receive reports about the basic policies and priority audit items in the audit plan of the Board of Corporate Auditors for each fiscal year, as well as about the status of the development and operation of internal control systems. These outside directors also exchange opinions with directors and take other actions as appropriate to ascertain the current state of and issues regarding SHIONOGI, and express their opinions at meetings of the Board of Directors.

Outside members of the Board of Corporate Auditors attend meetings of the Board of Directors and the Board of Corporate Auditors, which are held once a month in principle, and receive reports from directors, the standing Board of Corporate Auditors members, employees, and others on the status of implementation of audits by members of the Board of Corporate Auditors, financial audits, internal audits, and internal controls such as compliance and risk management. These outside members request explanations and opinions when necessary and express their opinions.

(3) Status of Audits

i. Status of audits by members of the Board of Corporate Auditors

The Company has established a Board of Corporate Auditors, comprising two standing members well versed in company management, finance and accounting, corporate administration, and research and development, and three outside members. The Company also stipulates audit policies and allocation of duties for audits performed by these members, and receives reports from each member on the status of implementation of audits and the results thereof. In addition, it receives reports from directors and the Accounting Auditor on the status of execution of their duties, and requests explanations as necessary. Outside Board of Corporate Auditors member Tsuguoki Fujinuma has been engaged as a certified public accountant for many years and has served as President of the International Federation of Accountants and as Chairman and President of the Japanese Institute of Certified Public Accountants. He is currently a visiting professor at Kansai University and a fellow at the Chuo University Graduate School of Strategic Management, and has deep insights into finance and accounting. In addition, outside Board of Corporate Auditors member Shuichi Okuhara is a certified public accountant and has deep insights into finance and accounting.

In FY2022, the Board of Corporate Auditors met 11 times, with each of its members attending 100% of these meetings. In addition, members of the Board of Corporate Auditors and the Accounting Auditor cross-check audit plans, receive reports on quarterly review results and the status of year-end financial audits and their results, and exchange opinions on accounting risks and other issues as appropriate.

Each member of the Board of Corporate Auditors, in accordance with standards for audits by said members and audit policies and the division of duties established by the Board, work to maintain communication with directors, the Internal Control Department (internal auditing unit), other employees, and other parties in an effort to collect information and improve the environment for auditing, conducting audits in accordance with the following methods.

a. Members attended important meetings, such as those of the Board of Directors and the regularly held Division Reporting Meeting, received reports from directors, employees, and other parties about the status of execution of their duties, asked for explanations as necessary, inspected important approval documents and others to check these in relation to the status of decision-making, and investigated the status of operations and assets at the head office and major business locations. In addition, members maintained communication and exchanged information with directors and corporate auditors at subsidiaries and received business reports from subsidiaries, by attending their general shareholders’ meetings and business reporting meetings, etc., as necessary. The members also confirmed the audit status of the entire Group by periodically holding meetings of the Group Company Audit Liaison Committee, led by a standing member of the Board of Corporate Auditors.

b. For the system (internal control system) listed in the business report established based on resolution of the Board of Directors and the content thereof related to the establishment of systems as prescribed in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act, as a system for ensuring that the execution of duties of directors complies with laws, regulations, and the Articles of Incorporation and for ensuring the propriety of business activities of a stock company and within a group of enterprises comprised of the relevant stock company and its subsidiaries, members received reports on its structure and operation status from directors, employees, and other parties, asked for explanations as necessary, and expressed audit opinions.

c. Members monitored and verified whether the Accounting Auditor maintained an independent position and conducted appropriate audits, received from the Accounting Auditor reports on the state of performance of its duties, and requested explanations as necessary. In addition, members received from the Accounting Auditor a notice that the systems to secure adequate performance of duties (as listed in the items of Article 131 of the Regulations on Corporate Accounting) had been established in accordance with the Audit Quality Control Review Standards (the Business Accounting Council, October 28, 2005), and requested explanations as necessary.

Based on the above method, the members conducted checks on the execution of director business for the fiscal year under review, and examined the business report and the related supplementary schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statements of income, non-consolidated statement of changes in shareholders’ equity, and notes to non-consolidated financial statements) and the related supplementary schedules, and the consolidated financial statements (consolidated balance sheet, consolidated statements of income, consolidated statement of changes in equity, and notes to consolidated financial statements) for the same fiscal year.

ii. Status of internal audits

The Company’s internal audits are conducted by the Internal Control Department (15 members as of June 22, 2023), which is independent of other business execution units, in accordance with internal audit rules. The Internal Control Department strives toward rapid detection of potential risks by monitoring important business execution meetings, decision-making processes, etc. on a daily basis. Based on the risks identified in this process, an audit plan is developed in agreement with the representative director and members of the Board of Corporate Auditors. In accordance with the audit plan, the Internal Control Department verifies and evaluates the appropriateness of the development and operation of internal controls in the audited units by conducting internal audits and internal control evaluations (J-SOX evaluations) of all business processes in the audited units. In addition, the Internal Control Department receives regular reports on the status of internal audits from subsidiaries that have their own internal audit departments. Furthermore, a system has been established that enables immediate internal audits in cooperation with corporate auditors at subsidiaries when risks emerge or when problematic events become a concern. Audit results are communicated to the audited units, on which opinions are exchanged, to improve internal controls, and are reported not only to the representative director but also directly to the Board of Directors, as well as the Board of Corporate Auditors and its members, thereby ensuring the effectiveness of internal audits. Information is also shared with the Accounting Auditor as appropriate regarding internal control evaluations and internal audit activities related to the reliability of financial reporting, in an effort toward mutual collaboration.

iii. Status of financial audits

a. Name of auditing firm

Ernst & Young ShinNihon LLC

b. Continuous audit period

Since 1960

The above is the period within the possible scope of investigation by the Company; the actual continuous audit period may exceed the above.

c. Certified public accountants performing audit work

Yasuhiro Kozaki

Naoki Nakazawa

d. Composition of assistants involved in audit work

There are 11 certified public accountants and 24 others, including persons who have passed the certified public accountant examination and system specialists, serving as assistants involved in financial audit work for the Company.

e. Auditing firm selection policy and reason

It is the Company’s policy that if the Accounting Auditor is found to fall under any of the items of Article 340, Paragraph 1 of the Companies Act, the Board of Corporate Auditors shall dismiss the Accounting Auditor with the unanimous consent of the members of the Board of Corporate Auditors.

In addition, it is the Company’s policy to decide not to reappoint an accounting auditor by a resolution of the Board of Corporate Auditors if it is deemed that the appropriateness of the performance of duties cannot be ensured in light of the Evaluation Criteria for Independent Accounting Auditors, established by the Company to appropriately evaluate accounting auditors.

During the 158th fiscal year under review, the Board of Corporate Auditors received reports and requested explanations from the Accounting Auditor regarding the performance of its duties, and conducted a rigorous evaluation and discussion through appropriate processes in accordance with the Evaluation Criteria for Independent Accounting Auditors. As a result, the Board of Corporate Auditors resolved that reappointment was appropriate.

f. Evaluation of the auditing firm by the Board of Corporate Auditors and its members

In accordance with the Evaluation Criteria for Independent Accounting Auditors established by the Board of Corporate Auditors, the Board of Corporate Auditors appointed a number of employees from relevant departments to assist its members in their duties, and had an evaluation of the Accounting Auditor conducted by the Board of Corporate Auditors under the direction and orders of its members. In conducting this evaluation, the members assessed areas such as quality control, the independence and expertise of the audit team, and remuneration, and made a comprehensive judgment based on the audit performance, leading to the decision to reappoint the auditing firm. The audit team in charge of the Company has been assigned a reasonable number of members and is provided with opportunities by the auditing firm to maintain and improve its expertise and capabilities. In addition, audit work is carried out based on reasonable risk analysis, and communication is maintained not only with members of the Board of Corporate Auditors but also with management and relevant internal units (the Finance & Accounting Department and the Internal Control Department). No significant issues have been identified in the content of reports to members of the Board of Corporate Auditors, the responses to their questions, or the day-to-day relationships with relevant units (the Finance & Accounting Department and the Internal Control Department). The members also confirm the reasonableness of the auditing firm’s quality control system and efforts to maintain independence. As stated above, the members have determined that there are no particular problems with the composition or activities of the audit team in charge of the Company or with the systems and stance of the auditing firm.

iv. Details of audit fees, etc.

a. Remuneration to auditing certified public accountants, etc.

Category	Year ended March 31, 2022		Year ended March 31, 2023	
	Fees for audit certification (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit certification (Millions of yen)	Fees for non-audit services (Millions of yen)
Filing company	105	–	108	–
Consolidated subsidiaries	7	–	7	–
Total	113	–	116	–

b. Remuneration to the network (EY Group) of the auditing certified public accountants, etc. (excluding remuneration from a.)

Category	Year ended March 31, 2022		Year ended March 31, 2023	
	Fees for audit certification (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit certification (Millions of yen)	Fees for non-audit services (Millions of yen)
Filing company	–	30	–	154
Consolidated subsidiaries	94	75	106	120
Total	94	106	106	275

Note: Non-audit services mainly consist of advisory services.

c. Details of fees for other significant audit certification services

Not applicable.

d. Policy for determining audit fees

The Company makes a determination with the consent of the Board of Corporate Auditors after receiving explanations of the audit plan from the Accounting Auditor and after comprehensively considering the size of the Company’s business, characteristics of its operations, the audit time required, and other factors.

e. Reasons for the Board of Corporate Auditors’ consent to fees, etc. for the Accounting Auditor

The Company’s Board of Corporate Auditors received from the Accounting Auditor an explanation of the audit plan (policies, items, team structure, scheduled audit time, changes from the previous fiscal year, etc.) and the estimated amount of remuneration. The Board compared the previous fiscal year’s plan with the actual results, amount of remuneration, unit fees per hour, etc., and confirmed the views of relevant internal units. As a result of this review, the Board determined that the amount of remuneration was appropriate and agreed to the estimate.

(4) Officer remuneration, etc.

i. Policies for determining the amount and calculation method of officer remuneration, etc., and determination method

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. It encompasses base monthly remuneration, performance-linked bonuses determined by results for the fiscal year, and other factors, and restricted stock compensation (medium-term performance-linked and long-term) introduced in FY2018. Outside directors only receive base remuneration.

Base remuneration is determined based on a base remuneration table according to the position and responsibilities of directors with due consideration of the operating environment and global trends.

Bonuses are paid as cash remuneration, which reflects performance indicators (core operating profit excluding sales of assets, etc., consolidated profit attributable to owners of parent, and other total performance evaluation as directors) to heighten the awareness of improving performance for each fiscal year. As short-term incentives, they are determined based on the calculation table according to performance such as the achievement of targeted profits and other factors in each fiscal year, and are paid in June of each year. The actual results of performance indicators for the fiscal year under review are as described in "Part I Company Information, II. Business Overview, 4. Analysis of Financial Position, Operating Results and Cash Flows by Management."

Stock-based compensation is granted in July of each year based on the grant table according to the position and role of the directors. For medium-term performance-linked stock compensation in particular, performance is evaluated based on the status of achievement in FY2022 for the portion to be granted for the three years between FY2020 and FY2022 from the period of STS2030 Phase 1 (FY2020 to FY2024), to determine the ratio of lifting the transfer restriction (100% to 0%). For performance evaluation, revenue, overseas net sales, core operating profit, ROE, and the rank in total shareholder return (TSR) among 12 competitors including the Company (relative TSR) are used as quantitative indicators, in consideration of the status of ESG, and compliance and development associated with COVID-19. In addition, when lifting the transfer restriction, 50% of the amount of stock-based compensation, translated into the share price at the time of lifting, is paid as monetary compensation.

The Compensation Advisory Committee discusses the ratio of remuneration by type for executive directors in consideration of remuneration levels using companies that have a similar business size to the Company and are included among the relevant business types and categories as the benchmark, and the Board of Directors, in respect of the recommendations given by the Compensation Advisory Committee, determines the details of the remuneration system, etc. so that the ratio of remuneration by type is in line with the recommendations. The policy for determination thereof is as described in the Policy for Determination of Details of Individual Remuneration, etc. for Directors. In addition, pursuant to the resolution at the Board of Directors' meeting held on February 22, 2021, it is considered appropriate that the base remuneration and the individual bonus amount, etc. be evaluated and determined by a person who bears the ultimate management responsibility, and thus, such evaluation and determination are entrusted to Isao Teshirogi, Representative Director, President and CEO. The Compensation Advisory Committee deliberates the policy and criteria for the entrustment and provides the Board of Directors with the results as recommendations for their resolution, and Isao Teshirogi, Representative Director, President and CEO, to whom such determination is entrusted, shall make decisions in accordance with said recommendations and the abovementioned resolution by the Board of Directors.

As a result of the revision of the medium-term performance-linked stock compensation table starting in FY2021, the targeted ratio of base compensation to performance-linked compensation, etc. to non-monetary compensation, etc. is designed to be approximately 1:1:1, assuming 100% achievement of the KPIs, in order to place greater emphasis on performance and to have officers take the shareholders' perspective. (Note) Performance-linked remuneration, etc. comprises director and corporate auditor bonuses, while non-monetary remuneration, etc. comprises restricted stock.

As a result, the ratio of base remuneration to total remuneration in the fiscal year under review is about 33%, partly affected by profit target achievement and the stock price impact on stock-based compensation. Through deliberations and reports at meetings of the Board of Directors and the Compensation Advisory Committee meetings, the Board of Directors has confirmed that the details of individual director compensation for the fiscal year under review are in line with the decision-making policy.

Remuneration for corporate auditors is determined within the total amount of remuneration set by resolution of the General Meeting of Shareholders.

This solely encompasses base monthly remuneration. As an advisory body to the Board of Directors, the Company's Compensation Advisory Committee consists of five members, a majority of whom are outside directors, and is chaired by an outside director. The Committee duly considers director and corporate auditor remuneration. It also discusses various issues concerning remuneration, etc. for directors and executive officers, verifies the levels of remuneration, etc. every year, and deliberates the remuneration system, the performance evaluation system, etc. for the following fiscal year.

ii. Total remuneration by officer category, remuneration amount by type, and number of eligible officers

Officer category	Amount of remuneration, etc. (Millions of yen)	Total remuneration, etc. amount by type (Millions of yen)			Number of eligible officers (Persons)
		Base remuneration	Performance-linked remuneration, etc.	Non-monetary remuneration, etc.	
Directors (excluding outside directors)	458	150	182	126	2
Auditor (excluding outside auditors)	70	70	—	—	2
Outside officers	111	111	—	—	6

Notes:

1. By resolution of the General Meeting of Shareholders, the total amount of remuneration of directors and corporate auditors is limited to no more than 750 million yen per year for directors (approved by the Annual General Meeting of Shareholders on June 20, 2018; the number of directors at the time of conclusion of said Annual General Meeting of Shareholders was six (of which, the number of outside directors was three)) and no more than 170 million yen per year for corporate auditors (approved by the Annual General Meeting of Shareholders on June 18, 2019; the number of corporate auditors at the time of conclusion of said Annual General Meeting of Shareholders was five).
2. "Performance-linked remuneration, etc." above is the relevant allowance for directors' bonuses for the fiscal year under review.
3. "Non-monetary remuneration, etc." above is the relevant expense recognized for the fiscal year under review.

iii. Total consolidated remuneration, etc. per officer

Name	Total consolidated remuneration, etc. (Millions of yen)	Officer category	Company category	Total remuneration, etc. amount by type (Millions of yen)		
				Base remuneration	Performance-linked remuneration, etc.	Non-monetary remuneration, etc.
Isao Teshirogi	292	Directors	Filing company	93	112	86
Takuko Sawada	166	Directors	Filing company	57	70	39

Notes:

1. The above information is limited to those whose total amount of consolidated remuneration, etc. is 100 million yen or more.
2. "Performance-linked remuneration, etc." above is the relevant allowance for directors' bonuses for the fiscal year under review.
3. "Non-monetary remuneration, etc." above is the relevant expense recognized for the fiscal year under review.

[Performance evaluation for medium-term performance-linked stock compensation]

In determining the ratio of lifting the transfer restriction for medium-term performance-linked stock compensation (lifting rate), for the portion to be granted for the three years between FY2020 and FY2022, the evaluation indicators and processes were resolved at the Board of Directors' meeting on October 30, 2020 based on the recommendations given by the Compensation Advisory Committee. Specifically, evaluation is conducted using revenue, overseas net sales, core operating profit, ROE, and relative TSR as five quantitative indicators. The final evaluation is determined by reflecting the status of ESG, and compliance and development associated with COVID-19, based on which the lifting rate is determined.

The status of achievement of each indicator is as follows.

Item	FY2022 targets	FY2022 results
Revenue (Billions of yen)	400	426.7
Overseas net sales (Billions of yen)	62.5	42.5
Core operating profit (Billions of yen)	120	158.5
ROE(%)	13.0 or higher	17.8
Relative TSR (Rank/12 companies)	—	5th*

* Relative TSR is calculated for the three years between FY2020 and FY2022.

As a result of comprehensive judgment reflecting deliberations by the Compensation Advisory Committee on external evaluations on ESG, the status of compliance, and the results of activities related to COVID-19, such as the launch of Xocova, a COVID-19 treatment, and application for approval of vaccines, the Board of Directors' meeting held on May 10, 2023 resolved to set the lifting rate at 80%.

The evaluation items and methods, etc. of the medium-term performance-linked stock compensation for the portion starting from FY2023 will be deliberated by the Compensation Advisory Committee and resolved by the Board of Directors after examining the target values, etc. of the renewed medium-term business plan (STS2030 Phase 2).

[Policy for Determination of Details of Individual Remuneration, etc. for Directors]

1. Basic policy

Remuneration for directors of the Company is based on a remuneration system linked to shareholder interest so that it fully functions as an incentive for a sustainable increase in corporate value, and it is the Company's basic policy to determine remuneration for each director at a proper level according to their job responsibility. More specifically, remuneration for executive directors shall comprise base remuneration as fixed remuneration, performance-linked remuneration, etc. (bonuses as monetary remuneration), and stock-based compensation, and remuneration paid to outside directors who undertake supervisory functions shall only comprise base remuneration in light of their duties.

2. Policy concerning determination of the amount of remuneration, etc. for each individual with respect to their base remuneration (monetary remuneration) (including policy concerning the determination of timing or conditions to provide remuneration, etc.)

Base remuneration for directors of the Company shall be fixed monthly remuneration, and shall be determined based on a base remuneration table established according to their rank and job responsibility and taking into consideration the Company's business results, the employees' salary levels, and levels at other companies.

3. Policy concerning determination of the details of performance-linked remuneration, etc. and non-monetary remuneration, etc. as well as the calculation method of the amount or number thereof (including policy concerning determination of the timing or conditions to provide remuneration, etc.)

Performance-linked remuneration, etc. shall be cash remuneration which reflects performance indicators (KPIs) to heighten the awareness of improving performance for each fiscal year, and shall be paid as bonuses in June of every year in an amount calculated according to the degree of achievement against targeted figures for consolidated operating profit and consolidated profit of each fiscal year. The performance indicators to be targeted and the figures thereof shall be set at the time of formulating the Medium-term Business Plan so that they are in line with the Plan and are reviewed as necessary to accommodate environmental changes, taking into account recommendations given by the Compensation Advisory Committee.

Non-monetary remuneration, etc. shall be restricted stock and consist of two parts: the long-term stock-based compensation system which requires current employment as a payment condition, and the medium-term performance-linked stock-based compensation which is linked to business results. For the long-term stock-based compensation system, the number of units to be granted shall be determined based on the stock-based compensation table established, according to rank and job responsibility, by the Board of Directors after deliberation by the Compensation Advisory Committee.

With respect to the medium-term performance-linked stock-based compensation, the number of units to be granted shall be determined based on the stock-based compensation table established, according to rank and job responsibility, by the Board of Directors after deliberation by the Compensation Advisory Committee. Restricted stock shall be granted in July of every year, and performance is evaluated based on the degree of achievement in FY2022 for the portion to be granted in the three years between FY2020 and FY2022 out of the period of STS2030 Phase 1 (from FY2020 to FY2024), to determine the ratio of lifting the transfer restriction (between 100% and 0%). In addition, when lifting the transfer restriction, 50% of the amount of stock-based compensation is paid as monetary remuneration calculated by stock price translation at the time of the lifting. For performance evaluation, revenue, overseas net sales, core operating profit, ROE and the rank in total shareholder return (TSR) among 12 competitors including the Company (relative TSR) are used as quantitative indicators, with determination made by the Board of Directors after deliberation on the overall evaluation by the Compensation Advisory Committee, in consideration of the status of ESG, and compliance and development associated with COVID-19.

4. Policy concerning determination of the ratio of the amount of monetary remuneration, the amount of performance-linked remuneration, etc. or the amount of non-monetary remuneration, etc. to the amount of individual remuneration, etc. for directors

The Compensation Advisory Committee discusses the ratio of remuneration by type for executive directors in consideration of remuneration levels using companies of a similar business size to the Company that are in the relevant business type and category as the benchmark. The Board of Directors (the representative director who is entrusted pursuant to Item 5, below), in respect to recommendations given by the Compensation Advisory Committee, determines the details of the remuneration system, etc. so that the ratio of remuneration by type is in line with the recommendations, and also the amounts of individual remuneration ensuring consistency with the purposes of the recommendations.

The targeted ratio for each type of remuneration, etc. is set as follows: base remuneration to performance-linked remuneration, etc. to non-monetary remuneration, etc. = 1:1:1 (if all the KPIs are fully achieved).
Note: Performance-linked remuneration, etc. comprises director and corporate auditor bonuses, while non-monetary remuneration, etc. comprises restricted stock.

5. Matters concerning determination of the details of individual remuneration, etc. for directors

The specific details of the remuneration amount for each individual shall be entrusted to the representative director pursuant to a resolution at the Board of Directors, and the details of the authority shall be the amount of base remuneration for each director based on the base remuneration table and the evaluation and allocation of bonuses, taking into account the results of the business of which the director is in charge.

The Compensation Advisory Committee deliberates the policy and criteria for entrustment to the representative director and provides the Board of Directors with the results as recommendations for their resolution, and the representative director who is entrusted as described above shall make determinations in accordance with said recommendations and the resolution at the Board of Directors. The number of shares to be allotted to individual directors as stock-based compensation based on the stock-based compensation table shall be resolved by the Board of Directors, taking into account recommendations given by the Compensation Advisory Committee.

The Compensation Advisory Committee shall comprise five committee members, a majority of whom are outside directors, and an outside director shall serve as chairperson. In addition to the foregoing, the Compensation Advisory Committee discusses various issues concerning remuneration, etc. for directors and executive officers, verifies the levels of remuneration, etc. every year, and deliberates the remuneration system, the performance evaluation system, etc. for the following fiscal year.

iv. Significant employee salaries of officers who also serve as employees

Not applicable.

(5) Information on shareholdings

i. Standards and approach toward classification of invested shares

SHIONOGI shall only hold shares of companies if the management judges that holding the shares will increase SHIONOGI’s corporate value and contribute to the sustainable enhancement of corporate value from the two perspectives of economic rationale and strategic validity. Therefore, SHIONOGI does not hold shares for passive investment purposes.

ii. Invested shares held for purposes other than passive investment

a. Shareholding policy and method of verifying rationale of holding, and details of verification by Board of Directors, etc. concerning holding of individual shares

The management of SHIONOGI shall judge the appropriateness of holding from the perspectives of economic rationale and strategic validity. Each year, the Board of Directors conducts a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs and other aspects regarding individual cross-shareholdings.

b. Number of stocks (issues) and balance sheet amount

	No. of stocks (Issues)	Total balance sheet amount (Millions of yen)
Unlisted shares	45	6,814
Shares other than unlisted shares	20	36,854

(Stocks that increased in the number of shares during the fiscal year under review)

	No. of stocks (Issues)	Total purchase cost for the increase in shares (Millions of yen)	Reason for the increase in shares
Unlisted shares	2	350	The shares were newly acquired, since management judged that holding the shares will increase SHIONOGI's corporate value and contribute to the sustainable enhancement of corporate value.
Shares other than unlisted shares	1	–	The number of shares increased due to the listing of an unlisted stock previously held by the Company.

Note: The increase of an issue of shares other than unlisted shares during the fiscal year under review is due to the listing of an unlisted stock previously held by the Company. Therefore, it is not associated with the purchase cost.

(Stocks that decreased in the number of shares during the fiscal year under review)

	No. of stocks (Issues)	Total sale value for the decrease in shares (Millions of yen)
Unlisted shares	2	500
Shares other than unlisted shares	1	3,279

c. Information on number of shares and balance sheet amount of specified investment shares and deemed holding shares

Specified investment shares

Stock	Fiscal year under review No. of shares Balance sheet amount (Millions of yen)	Previous fiscal year No. of shares Balance sheet amount (Millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in shares	Holding of Shionogi shares
Toho Holdings Co., Ltd.	3,500,112	3,500,112	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the sale of pharmaceuticals, etc. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	Yes
	8,225	6,475		
Sumitomo Mitsui Financial Group, Inc.	1,643,810	1,643,810	Shionogi holds shares in the company, which is one of its financial institutions, to maintain and enhance business relations in financial activities. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
	8,708	6,422		
Suzuken Co., Ltd.	1,656,696	3,256,696	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the sale of pharmaceuticals, etc. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	Yes
	5,541	11,821		

Stock	Fiscal year under review No. of shares Balance sheet amount (Millions of yen)	Previous fiscal year No. of shares Balance sheet amount (Millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in shares	Holding of Shionogi shares
StemRim Inc.	4,650,000	4,650,000	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
	4,826	3,775		
Kissei Pharmaceutical Co., Ltd.	914,000	914,000	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	Yes
	2,413	2,335		
Medipal Holdings Corporation	1,271,605	1,271,605	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the sale of pharmaceuticals, etc. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	Yes
	2,293	2,562		
Ono Pharmaceutical Co., Ltd.	344,095	344,095	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	Yes
	951	1,054		
Kaneka Corporation	266,600	266,600	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	Yes
	919	945		
Akili Interactive Labs, Inc.	2,310,753	–	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity. The stock of the company was listed during the fiscal year under review.	No
	493	–		

Stock	Fiscal year under review No. of shares Balance sheet amount (Millions of yen)	Previous fiscal year No. of shares Balance sheet amount (Millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in shares	Holding of Shionogi shares
Sumitomo Mitsui Trust Holdings, Inc.	105,210 477	105,210 420	Shionogi holds shares in the company, which is one of its financial institutions, to maintain and enhance business relations in financial activities. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
Vital KSK Holdings, Inc.	475,000 424	475,000 349	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the sale of pharmaceuticals, etc. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
OncoTherapy Science, Inc.	7,300,000 343	7,300,000 503	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
Resona Holdings, Inc.	416,968 266	416,968 218	Shionogi holds shares in the company, which is one of its financial institutions, to maintain and enhance business relations in financial activities. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
FunPep Co., Ltd.	1,095,200 239	1,095,200 252	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
HOKUYAKU TAKEYAMA Holdings, Inc.	367,530 232	367,530 242	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the sale of pharmaceuticals, etc. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	Yes

Stock	Fiscal year under review No. of shares Balance sheet amount (Millions of yen)	Previous fiscal year No. of shares Balance sheet amount (Millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in shares	Holding of Shionogi shares
Nomura Holdings, Inc.	424,568	424,568	Shionogi holds shares in the company, which is one of its financial institutions, to maintain and enhance business relations in financial activities. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
	216	218		
AnGes, Inc.	1,186,800	1,186,800	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations in the pharmaceutical business strategy. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
	141	426		
MS & AD Insurance Group Holdings, Inc.	21,811	21,811	Shionogi holds shares in the company, which is one of its financial institutions, to maintain and enhance business relations in financial activities. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
	89	86		
Senshu Ikeda Holdings, Inc.	203,725	203,725	Shionogi holds shares in the company, which is one of its financial institutions, to maintain and enhance business relations in financial activities. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
	47	35		
The Royal Hotel, Ltd.	654	654	Shionogi holds shares in the company, which is one of its business partners, to maintain and enhance business relations. In May 2023, the Board of Directors conducted a comprehensive verification of the purpose, benefits and/or risks associated with holding, capital costs, and other aspects regarding individual cross-shareholdings, and confirmed the economic rationale and strategic validity.	No
	0	0		

Note: The method of verifying the rationale of the holdings is described, since it is difficult to state the quantitative effects of the holding as the transaction amount, etc. are undisclosed information.

(iii) Invested shares held for passive investment purposes

Not applicable.

This is an English translation of the original Japanese-language consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and its consolidated subsidiaries (collectively, "SHIONOGI") filed in the "Financial Information" section in the original Japanese report (Yukashoken-Hokokusho) submitted at June 22, 2023 as required by the Financial Instruments and Exchange Act of Japan.

This translation is provided for informational purposes only. Should there be any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

V. Financial Information

1. Basis of presentation of consolidated and non-consolidated financial statements

(1) The consolidated financial statements of Shionogi & Co., Ltd. (the "Company") and its consolidated subsidiaries (collectively, "SHIONOGI") are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") pursuant to Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976, hereinafter referred to as the "Consolidated Financial Statement Regulations").

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963, hereinafter referred to as the "Financial Statement Regulations").

As the Company qualifies as a company submitting non-consolidated financial statements prepared in accordance with special provisions, the Company prepares its non-consolidated financial statements pursuant to Article 127 of the Financial Statements Regulations.

2. Audit certification

Pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act, the Company's consolidated and non-consolidated financial statements for the fiscal year (April 1, 2022 to March 31, 2023) were audited by Ernst & Young ShinNihon LLC.

3. Special efforts to ensure the appropriateness of consolidated financial statements, etc., and establishment of systems to ensure the appropriate preparation of consolidated financial statements, etc., in accordance with IFRS

The Company makes special efforts to ensure the appropriateness of its consolidated financial statements, etc., and has established systems to ensure the appropriate preparation of consolidated financial statements, etc., in accordance with IFRS. The details of these are as follows.

(1) In order to accurately ascertain the content of the latest accounting standards and establish a system for appropriately addressing changes in these accounting standards, the Company maintains membership in the Financial Accounting Standards Foundation, and regularly participates in seminars and other programs held by the Foundation.

(2) With respect to the application of IFRS, the Company maintains an understanding of the latest standards by obtaining press releases and standards documents issued by the International Accounting Standards Board on an ad-hoc basis. In addition, in order to prepare appropriate consolidated financial statements, etc., in accordance with IFRS, the Company has prepared Group accounting policies and accounting guidelines in accordance with IFRS and performs accounting procedures based on these policies and guidelines.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

i. Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated Statement of Profit or Loss

Millions of yen

	Notes	Year ended March 31, 2022	Year ended March 31, 2023
Revenue	5	335,138	426,684
Cost of sales		(55,415)	(62,246)
Gross profit		279,722	364,437
Selling, general and administrative expenses	6	(91,771)	(97,775)
Research and development expenses		(72,996)	(102,392)
Amortization of intangible assets associated with products	13	(3,476)	(3,720)
Other income	7	3,384	3,899
Other expenses	7	(4,551)	(15,445)
Operating profit		110,312	149,003
Finance income	8,17	16,797	75,829
Finance costs	8	(841)	(4,500)
Profit before tax		126,268	220,332
Income tax expense	9	(12,829)	(35,836)
Profit		113,439	184,496

Profit attributable to			
Owners of parent		114,185	184,965
Non-controlling interests		(746)	(469)
Profit		113,439	184,496

Yen

Earnings per share			
Basic earnings per share	10	378.75	621.31
Diluted earnings per share	10	378.63	621.10

Consolidated Statement of Comprehensive Income

Millions of yen

	Notes	Year ended March 31, 2022	Year ended March 31, 2023
Profit		113,439	184,496
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	17,22	17,846	2,823
Remeasurements of defined benefit plans	22,25	(333)	986
Total of items that will not be reclassified to profit or loss		17,513	3,809
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	22	29,793	20,538
Effective portion of cash flow hedges	22,30	1,023	405
Total of items that may be reclassified to profit or loss		30,817	20,943
Total other comprehensive income, net of tax		48,330	24,753
Comprehensive income		161,769	209,249

Comprehensive income attributable to			
Owners of parent		161,865	209,007
Non-controlling interests		(95)	242
Comprehensive income		161,769	209,249

ii. Consolidated Statement of Financial Position

Millions of yen

	Notes	As of March 31, 2022	As of March 31, 2023
Assets			
Non-current assets			
Property, plant and equipment	11,15	108,893	112,085
Goodwill	12	9,638	9,819
Intangible assets	13,15	81,223	96,309
Right-of-use assets	16	3,524	6,482
Investment property	14,15	26,672	26,382
Other financial assets	17,30	242,479	247,711
Deferred tax assets	9	12,907	22,100
Other non-current assets	21	6,055	6,716
Total non-current assets		491,396	527,607
Current assets			
Inventories	18	45,892	57,919
Trade receivables	19,30	122,965	109,774
Other financial assets	17,30	210,757	254,131
Income taxes receivable		51	68
Other current assets	21	25,117	53,074
Cash and cash equivalents	20	254,420	309,224
Total current assets		659,205	784,192
Total assets		1,150,601	1,311,800

Millions of yen

	Notes	As of March 31, 2022	As of March 31, 2023
Equity and liabilities			
Equity			
Share capital	22	21,279	21,279
Capital surplus	22,26	14,455	15,204
Treasury shares	22	(57,857)	(63,074)
Retained earnings	22	832,958	940,606
Other components of equity	22,25,30	164,824	186,030
Equity attributable to owners of parent		975,661	1,100,046
Non-controlling interests		17,624	21,832
Total equity		993,285	1,121,878
Liabilities			
Non-current liabilities			
Lease liabilities	16,30	3,729	6,397
Other financial liabilities	24,30	5,616	4,844
Retirement benefit liability	25	15,412	12,867
Deferred tax liabilities	9	7,807	5,916
Other non-current liabilities	28,29	354	1,343
Total non-current liabilities		32,920	31,369
Current liabilities			
Lease liabilities	16,30	2,945	3,014
Trade payables	27,30	16,372	14,005
Other financial liabilities	24,30	22,027	29,720
Income taxes payable		17,973	42,217
Other current liabilities	28,29	65,078	69,595
Total current liabilities		124,396	158,552
Total liabilities		157,316	189,921
Total equity and liabilities		1,150,601	1,311,800

iii. Consolidated Statement of Changes in Equity

Millions of yen

	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of April 1, 2021		21,279	13,733	(57,989)	752,248	116,836	846,108	18,442	864,550
Profit					114,185		114,185	(746)	113,439
Total other comprehensive income, net of tax	22					47,679	47,679	650	48,330
Comprehensive income		―	―	―	114,185	47,679	161,865	(95)	161,769
Purchase of treasury shares	22			(14)			(14)		(14)
Disposal of treasury shares	22		(5)	147			141		141
Dividends	23				(33,162)		(33,162)		(33,162)
Transfer from other components of equity to retained earnings	22				(308)	308	―		―
Other			727		(5)		722	(722)	―
Balance as of March 31, 2022		21,279	14,455	(57,857)	832,958	164,824	975,661	17,624	993,285
Profit					184,965		184,965	(469)	184,496
Total other comprehensive income, net of tax	22					24,041	24,041	712	24,753
Comprehensive income		―	―	―	184,965	24,041	209,007	242	209,249
Purchase of treasury shares	22			(49,420)			(49,420)		(49,420)
Disposal of treasury shares	22		31	170			202		202
Disposal of treasury shares for trust fund	10,22		(17,749)	17,752			3		3
Cancellation of treasury shares	22		(26,280)	26,280			―		―
Dividends	23				(36,156)		(36,156)		(36,156)
Changes in ownership interests in subsidiaries	31		748				748	3,965	4,714
Transfer from other components of equity to retained earnings	22				2,835	(2,835)	―		―
Other			43,997		(43,997)		―		―
Balance as of March 31, 2023		21,279	15,204	(63,074)	940,606	186,030	1,100,046	21,832	1,121,878

iv. Consolidated Statement of Cash Flows

Millions of yen

	Notes	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from operating activities			
Profit before tax		126,268	220,332
Depreciation and amortization		16,351	17,165
Impairment losses	7,11,13	141	11,758
Finance income and finance costs	8	(15,597)	(71,461)
Decrease (Increase) in trade and other receivables		(43,417)	13,941
Decrease (Increase) in inventories		(7,133)	(11,699)
Increase (Decrease) in trade and other payables		11,686	7,738
Other		15,087	(32,245)
Subtotal		103,387	155,530
Interest and dividends received		24,807	49,716
Interest paid		(87)	(94)
Income taxes paid		(39,324)	(27,284)
Income taxes refunded		13,286	—
Net cash provided by (used in) operating activities		102,068	177,867
Cash flows from investing activities			
Payments into time deposits		(260,380)	(398,933)
Proceeds from withdrawal of time deposits		234,685	341,883
Purchase of property, plant and equipment		(26,185)	(11,858)
Purchase of intangible assets		(5,379)	(25,329)
Purchase of investments		(139,396)	(83,335)
Proceeds from sales and redemption of investments		99,511	125,974
Other		940	3,305
Net cash provided by (used in) investing activities		(96,204)	(48,292)

Millions of yen

	Notes	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from financing activities			
Repayments of lease liabilities	30	(3,453)	(3,158)
Purchase of treasury shares	22	(14)	(49,539)
Dividends paid	23	(33,146)	(36,142)
Capital contribution from non-controlling interests	31	—	4,714
Other		—	3
Net cash provided by (used in) financing activities		(36,615)	(84,123)
Effect of exchange rate changes on cash and cash equivalents		8,998	9,352
Net increase (decrease) in cash and cash equivalents		(21,752)	54,803
Cash and cash equivalents at beginning of period	20	276,173	254,420
Cash and cash equivalents at end of period	20	254,420	309,224

Notes to Consolidated Financial Statements

1. Reporting Entity

Shionogi & Co., Ltd. (hereinafter the “Company”) is a public company incorporated in Japan.

The Company and its subsidiaries (collectively, the “SHIONOGI”) engage in research, development, purchasing, manufacturing, distribution and other operations associated with the prescription drug business. The address of the registered head office is disclosed on the Company’s website (https://www.shionogi.com./global/en/).

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The consolidated financial statements of SHIONOGI have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). As the Company meets the requirements of a “Specified Company applying Designated International Financial Reporting Standards” pursuant to Article 1-2 of the “Consolidated Financial Statements Regulations”, it has adopted the provision of Article 93 of said regulation.

The consolidated financial statements of SHIONOGI were approved on June 21, 2023 by Isao Teshirogi, Representative Director, President and CEO.

(2) Basis of Measurement

SHIONOGI’s consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value, etc. as described in Note “3. Significant Accounting Policies.”

(3) Functional Currency and Presentation Currency

SHIONOGI’s consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. All financial information presented in Japanese yen has been rounded down to the nearest million.

(4) Significant Accounting Judgments, Estimates, and Assumptions

The preparation of SHIONOGI’s consolidated financial statements requires management to make certain judgments, estimates, and assumptions that affect the reported amount of revenue, expenses, assets and liabilities. Actual results could differ from these estimations due to uncertainties of these estimations and assumptions. In addition, these estimates and underlying assumptions are reviewed on a continuous basis. The effects of these revisions to accounting estimates and assumptions are recognized in the accounting period in which the estimates and assumptions are revised and in any future accounting periods affected by the revision.

Significant items on which management makes its estimates and judgments are as follows:

・ Impairment of non-financial assets (See Note “3. Significant Accounting Policies (5) Property, Plant and Equipment, (6) Goodwill, (7) Intangible Assets, (10) Impairment of Non-Financial Assets,” Note “11. Property, Plant and Equipment,” Note “12. Goodwill,” and Note “13. Intangible Assets”).

  In calculating the recoverable amount of property, plant and equipment, intangible assets including goodwill, and other assets, assumptions are made regarding sales forecasts in the business plan and discount rates and the likelihood of regulatory approval for pre-launch products, etc. These estimations could be affected by changes in future economic conditions and if the recoverable amount decreases, impairment loss could be recorded.

・ Valuation of intangible assets identified from the Tetra Therapeutics Inc. business combination (See Note “3. Significant Accounting Policies (7) Intangible Assets, (10) Impairment of Non-Financial Assets,” and Note “13. Intangible Assets”).

  Intangible assets recorded as in-process research and development assets are not yet available for use and are not amortized until they are approved for sale by regulatory authorities and are available for use, and are tested for impairment each time there is an indication of impairment and annually regardless of whether there is an indication of impairment. In performing the impairment test for Zatolmilast, which is in Phase II study for the treatment drug of Alzheimer’s disease, the recoverable amount of the in-process R&D asset was measured at its fair value less costs to dispose. The fair value was determined using the excess of earnings method. Significant assumptions made were the likelihood of regulatory marketing approval for pre-launch products, etc., the assumed unit sales price, the assumed number of patients, and the discount rate used to determine the present value of excess earnings, which are components of the post-launch sales forecast. These estimations may be affected by changes in future economic conditions, and if the recoverable amount decreases, additional impairment losses may be recorded.

・ Fair value of unlisted shares (ViiV Healthcare Ltd.) (See Note “3. Significant Accounting Policies (17) Financial Instruments”, Note “17. Other Financial Assets” and Note “30. Financial Instruments”)

The fair value of the shares of ViiV Healthcare Ltd., a privately held company engaged in the development, manufacture and marketing of anti-HIV drugs, is determined using valuation techniques that utilize inputs that are not based on observable market data, such as future cash flows and discount rates, etc. Significant assumptions in the fair value measurements are peak sales for each product and discount rates. Of these, peak sales are affected by sales trends and sales strategies of competing products, and the discount rate is affected by market interest rates and other market conditions that may affect total assets and equity.

・ Impact of COVID-19

An expanded of COVID-19 pandemic could result in delays of business activities such as production, sales, and research and development. It is difficult to predict when the pandemic is to be fully controlled and contained. At present, the impact on business activities is minor, and SHIONOGI assumes that COVID-19 pandemic will have a limited impact on accounting estimates such as impairment tests of goodwill, etc. Changes in these assumptions could significantly affect amounts in the consolidated financial statements.

(5) New or Amended Accounting Standards and Interpretations Not Yet Adopted

None of the standards and interpretations that have been newly established or revised by the approval date of the consolidated financial statements have a significant impact on SHIONOGI.

3. Significant Accounting Policies

SHIONOGI has consistently applied the following accounting policies for all periods presented in the consolidated financial statements, unless otherwise stated.

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries are entities controlled by SHIONOGI. SHIONOGI is considered to control an entity that is an investee when it is exposed, or has rights, to variable returns from involvement with the investee and has an ability to affect those returns through power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date SHIONOGI obtains control of a subsidiary until the date when it loses control of the subsidiary.

The financial statements of subsidiaries with different reporting dates are prepared provisionally as of the consolidated reporting date.

Changes in ownership interests in subsidiaries that do not result in loss of control are accounted for as equity transactions. Any difference between the adjustment to non-controlling interests and the fair value of consideration transferred or received, is recognized directly in equity as equity attributable to owners of parent.

All intragroup balances, transactions, and unrealized gains and losses resulting from intragroup transactions have been eliminated in consolidation.

2) Joint Ventures

A joint venture is an entity in which two or more parties, including SHIONOGI, share contractually-agreed control over economic activities, and where strategic financial and operating decisions related to these activities require the consent of all parties sharing control.

Investments in joint ventures held by SHIONOGI are accounted for by the equity method.

3) Business Combinations

Business combinations are accounted for using the purchase method.

The identifiable assets acquired and the liabilities assumed of the acquiree are measured in principle at the fair value at the acquisition date.

Goodwill is measured as the excess of the aggregate of the consideration transferred in a business combination, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously-held equity interests in the acquiree, over the acquisition-date fair value of the identifiable net assets acquired. The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer.

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate shares of the recognized amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

Acquisition-related costs incurred in connection with business combinations, such as finder's fees and advisory fees are recognized as expenses in the period they are incurred.

In addition, any additional acquisition of non-controlling interests after SHIONOGI obtains the control of a subsidiary is accounted for as an equity transaction, for which no goodwill is recognized.

(2) Foreign Currency Translations

1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or rates that approximate the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot rates of exchange at the end of each reporting period. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into the functional currency using the exchange rates in effect on the date when the fair value was determined.

Exchange differences arising from the translation or settlement are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Translation of Foreign Operations

Assets and liabilities of foreign operations are translated at the spot rates of exchange at the end of each reporting period, and income and expenses are translated at the exchange rates at the dates of the transactions or rates that approximate the exchange rates at the dates of the transactions. Exchange differences arising from translation are recognized in other comprehensive income.

On the disposal of the interests in a foreign operation, the cumulative amounts of exchange differences on translation of foreign operations is reclassified to profit or loss.

(3) Revenue

SHIONOGI recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for a good or service to a customer using the five-step approach below, except for interest and dividend income, etc. as defined in IFRS 9.

・ Step 1: Identify the contract with a customer
・ Step 2: Identify the performance obligations in the contract
・ Step 3: Determine the transaction price
・ Step 4: Allocate the transaction price to the separate performance obligations in the contract
・ Step 5: Recognize revenue when, or as, the performance obligations are satisfied

In addition, in terms of a promise to grant a license as a separate performance obligation, SHIONOGI considers whether the nature of the promise in granting the license to a customer is to provide the customer with either of the following benefits in determining whether the transfer to the customer occurs at a point in time or over time:

1) A right to access SHIONOGI's intellectual property as it exists throughout the license period; or
2) A right to use SHIONOGI's intellectual property as it exists at the point in time at which the license is granted.

If SHIONOGI determines that the nature of its promise to transfer the license is to provide the customer with a right to access SHIONOGI's intellectual property as it exists throughout the license period, SHIONOGI accounts for the promise to grant the license as the performance obligation satisfied over time.

If SHIONOGI determines that the nature of its promise to transfer the license is to provide the customer with a right to use SHIONOGI's intellectual property as it exists at the point in time at which the license is granted, SHIONOGI accounts for the promise to grant the license as a performance obligation satisfied at a point in time.

Notwithstanding the above, revenue in the form of sales-based or usage-based royalties is recognized when (or as) the later of following events occurs:

1) The subsequent sales or usage occurs; and
2) The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

(4) Income Taxes

Income taxes consist of current taxes and deferred taxes.

1) Current Taxes

Current tax is measured at the expected amount to be paid to or received from the tax authorities, applying the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period. Current tax recognized in profit or loss does not include taxes arising from items directly recognized in other comprehensive income or equity and taxes arising from business combinations.

2) Deferred Taxes

Deferred taxes are calculated based on the temporary differences determined by comparing the carrying amounts of assets and liabilities for financial reporting purposes with the tax base at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and tax loss carryforwards to the extent that it is probable that future taxable profit will be available. Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax assets and liabilities arising from the following temporary differences are not recognized:

・ Temporary differences arising from the initial recognition of goodwill;

・Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit (tax loss) at the time of the transaction;

・ Deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, when it is probable that the temporary difference will not reverse in the foreseeable future or it is not probable that there will not be taxable profits against which the deductible temporary differences can be utilized; or

・ Taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, when SHIONOGI is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the periods in which the temporary differences are expected to reverse based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset when SHIONOGI has a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity.

(5) Property, Plant and Equipment

SHIONOGI uses the cost model to measure property, plant and equipment after recognition. Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Acquisition cost includes costs directly attributable to the acquisition and asset dismantlement, removal, and restoration costs.

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over the estimated useful life of the respective asset.

The estimated useful lives of major items of property, plant and equipment are as follows:

・ Buildings and structures	2 to 60 years
・ Machinery and vehicles	2 to 17 years

Depreciation methods, useful lives and residual values are reviewed at the end of each fiscal year and revised if necessary.

(6) Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized and is tested for impairment at least annually regardless of any indication of impairment, and whenever there is an indication of impairment.

(7) Intangible Assets

SHIONOGI uses the cost model to measure intangible assets after recognition. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at acquisition cost. Acquisition cost of intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Internally generated development expenditures are recognized as intangible assets only when they satisfy all criteria for recognizing them as assets. However, internally generated development expenditures incurred before the acquisition of marketing and manufacturing approval, such as clinical trial costs, etc., are recognized as expenses when incurred as they do not satisfy capitalization criteria due to uncertainties related to length and other factors in development.

Product or technology in-license agreements, and products or research and development rights acquired through business combinations which are still in the research and development phase and have not yet received marketing approval from regulatory authorities (regulatory approval) are recognized as in-process research and development and are included in “Intangible assets associated with products.”

Expenditures associated with acquired in-process research and development are capitalized only when they are expected to bring future economic benefits to SHIONOGI and are identifiable. These include upfront payments to third parties and milestone payments when the milestone is achieved.

Intangible assets with finite useful lives are amortized by the straight-line method over their estimated useful lives from the date when they are available for their intended use.

The estimated useful lives of major intangible assets are as follows:

・ Intangible assets associated with products	8-15 years
・ Software	5 years

Amortization methods, residual values and useful lives are reviewed annually and revised as necessary.

Intangible assets not yet available for use are not amortized, and are tested for impairment at least annually, and whenever there is an indication of impairment.

(8) Leases

1) Identifying leases

At the inception of a contract, SHIONOGI assesses whether the contract is, or contains, a lease.

A contract is a lease, or contains a lease, if it conveys the right to use an identified asset for a period of time in exchange for consideration.

2) As lessee

SHIONOGI recognizes the right-of-use asset and lease liability at the commencement date of the lease. For short-term leases and leases for which the underlying asset is of low value, SHIONOGI has elected to recognize the lease payments as an expense over the lease term using the straight-line method or other systematic basis.

Right-of-use assets are measured using the cost model and are stated at cost less accumulated depreciation and accumulated impairment loss. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset is calculated based on the assumption that the lessee is reasonably certain to exercise a purchase option, SHIONOGI depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, SHIONOGI depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At the commencement date, SHIONOGI measures the lease liability at the present value of the lease payments that are not paid at that date. In subsequent periods, SHIONOGI reduces the carrying amount of the lease liability to reflect the interest on the lease liability and lease payments made.

3) As lessor

SHIONOGI classifies leases as operating leases if they do not transfer substantially all the risks and rewards incidental to ownership of the underlying assets.

Lease payments from operating leases are recognized as revenue using the straight-line method or other systematic basis.

(9) Investment Property

Investment property is held to earn rentals or capital appreciation or both. Investment property is measured similarly to property, plant and equipment.

(10) Impairment of Non-Financial Assets

For non-financial assets other than inventories and deferred tax assets, SHIONOGI assesses whether there is any indication that an asset or cash-generating unit may be impaired. If any indication of impairment exists, SHIONOGI estimates the recoverable amount of the asset or cash-generating unit and tests for impairment.

Goodwill and intangible assets not yet available for use are tested for impairment at least annually regardless of any indication of impairment. In addition, SHIONOGI tests for impairment when any indication of impairment exists.

The recoverable amount is determined at the higher of its fair value less costs of disposal, or its value in use. In determining value in use, estimated future cash flows from the asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

If the recoverable amount is less than the carrying amount of the asset or cash-generating unit, the carrying amount is reduced to the recoverable amount and the difference is recognized as an impairment loss in profit or loss.

An asset or a cash-generating unit other than goodwill, for which impairment losses were recognized in prior years, is assessed for any indication that the impairment loss may have reversed. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the carrying amount less depreciation that would have been determined if no impairment loss had been recognized in prior years, and is recognized in profit or loss. Impairment loss is not reversed for goodwill.

(11) Inventories

Inventories consist primarily of finished products and merchandise, work in progress, and raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. The acquisition cost of inventories is determined using the weighted-average cost formula and includes raw materials, direct labor and other direct costs, and related manufacturing overhead costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs required for sales.

(12) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(13) Equity

1) Ordinary Shares

Proceeds from the issuance of ordinary shares by the Company are recognized in share capital and capital surplus. Transaction costs (post-tax) directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

2) Treasury Shares

When the Company acquires treasury shares, direct acquisition cost (post-tax) is recognized as a deduction from equity.

When the Company sells treasury shares, the consideration received is recognized as an increase in equity.

(14) Employee Benefits

1) Post-employment Benefits

(i) Defined Benefit Plans

The present value of defined benefit plan obligations and related current service cost and past service cost are calculated for each individual plan using the projected unit credit method. The discount rate is determined with reference to the market yields on high-quality corporate bonds at the end of the reporting period corresponding to the expected future benefit payment date. The net defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. When a defined benefit plan has a surplus, the net defined benefit asset is limited to the asset ceiling, which is the present value of future economic benefits available in the form of refunds or reductions in future contributions to the plan. Remeasurements of defined benefit plans are recognized in full in other comprehensive income and immediately transferred to retained earnings in the period in which they are recognized.

(ii) Defined Contribution Plans

The costs for defined contribution plans are recognized as expenses when the employees render the related service.

2) Short-term Employee Benefits

Short-term employee benefits are recognized as expenses when the associated services are rendered by employees at undiscounted amounts. Bonuses and expenses for paid absences are recognized as liabilities for the expected benefit payment when SHIONOGI has a present legal or constructive obligation to pay for employee benefits and a reliable estimate is available for the obligation.

(15) Share-based Remuneration

SHIONOGI has implemented a share option plan and a restricted share-based remuneration plan as equity-settled share-based payment plans.

No share options have been granted through the share option plans since 2018, and all share options granted had already vested before the date of transition to IFRS. SHIONOGI does not retrospectively apply IFRS 2 “Share-based Payments” to equity instruments that vested before the date of transition to IFRS under the exemption of IFRS 1 “First-time Adoption of International Financial Reporting Standards.”

The restricted share-based remuneration plan is recognized as an expense over the period from the grant date to vesting, and the same amount is recognized as an increase in equity. The fair value of restricted share-based remuneration is measured with reference to the fair value of the Company’s ordinary shares on the grant date.

In addition, SHIONOGI has implemented a cash-settled share-based payment plan linked to share price.

SHIONOGI recognizes the fair value of cash-settled share-based payments in liabilities and recognizes any changes in fair value in profit or loss until the date of settlement.

(16) Government Grants

Government grants are recognized at fair value when there is reasonable assurance that SHIONOGI will comply with the conditions attached to them and receive the grants.

Government grants related to assets are recognized as deferred income and are systematically recognized in profit or loss over the estimated useful lives of the assets.

Government grants related to income are systematically recognized in profit or loss over the periods in which SHIONOGI recognizes as expenses the related costs for which the grants are intended to compensate.

(17) Financial Instruments

1) Non-derivative Financial Assets

(i) Initial Recognition and Measurement

Trade receivables included in financial assets are recognized on the date when they are incurred. All other financial assets are initially recognized on the date SHIONOGI becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets are classified into financial assets measured at amortized cost or financial assets measured at fair value.

This classification is carried out as follows, depending on whether the financial asset is a debt instrument or an equity instrument.

(a) Financial Assets Classified into Debt Instruments

Debt instruments are classified as financial assets measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, debt instruments are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments not meeting the two business models above conditions are classified as financial assets measured at fair value through profit or loss.

(b) Financial Assets Classified into Equity Instruments

In principle, equity instruments are classified as financial assets measured at fair value through profit or loss.

However, on initial recognition, an equity instrument that is not held for trading is permitted to be classified individually as financial assets measured at fair value through other comprehensive income per each equity instrument.

In principle, financial assets are measured at fair value plus directly attributable transaction costs.

However, trade receivables that do not include a significant financing component are measured at the transaction price.

In addition, transaction costs for financial assets measured at fair value through profit or loss are expensed as incurred and recorded in profit or loss.

(ii) Subsequent Measurement

(a) Financial Assets Measured at Amortized Cost

These assets are subsequently measured at amortized cost using the effective interest method. Interest is recognized in profit or loss as “Finance income.” The amortized cost is reduced if impairment loss is necessary to be recognized.

(b) Financial Assets Measured at Fair Value

These assets are subsequently measured at fair value.

For equity instruments SHIONOGI has elected to measure at fair value through other comprehensive income, subsequent changes in fair value are recognized in other comprehensive income, and cumulative gain or loss is transferred to retained earnings when the financial asset is derecognized. Dividends from these financial assets are recognized in profit or loss as “Finance income.”

In addition, for debt instruments classified as financial assets measured at fair value through other comprehensive income, change in fair value is recognized in other comprehensive income until derecognition or a change in classification, excluding impairment losses (or reversals) and foreign exchange gains or losses. Upon derecognition of the financial assets, cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

For assets other than the above, changes in fair value are recognized in profit or loss.

(iii) Impairment

Financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income included in debt instruments are assessed at the end of each reporting period to determine if the credit risk of the assets has increased significantly since initial recognition. SHIONOGI recognizes the following amounts as allowance for doubtful accounts, depending on whether there is a significant increase in credit risk since initial recognition.

(a) Credit risk has not increased significantly since initial recognition

--An amount equal to the 12-month expected credit losses

(b) Credit risk has increased significantly since initial recognition

--An amount equal to the lifetime expected credit losses

Notwithstanding the above, allowance for doubtful accounts for trade receivables and lease receivables is always recognized in an amount equal to lifetime expected credit losses since initial recognition.

Expected credit loss is calculated as the present value of the difference between the contractual cash flows SHIONOGI should receive and the cash flows SHIONOGI expects to receive.

Provision for allowance for doubtful accounts is recognized in profit or loss. If an event occurs that reduces the allowance for doubtful accounts, the reversal of allowance for doubtful accounts is recognized in profit or loss.

(iv) Derecognition

SHIONOGI derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the asset to another entity.

2) Non-derivative Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities measured at amortized cost and financial liabilities measured at fair value through profit or loss. Financial liabilities are initially recognized on the transaction date when SHIONOGI becomes party to contractual provisions of the financial liabilities.

Financial liabilities are initially measured at fair value. However, directly attributable transaction costs are deducted from the fair value of financial liabilities measured at amortized cost.

(ii) Subsequent Measurement

Financial liabilities are subsequently measured after initial recognition according to their classification, as follows:

(a) Financial Liabilities Measured at Amortized Cost

These liabilities are subsequently measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains and losses on derecognition are recognized in profit or loss as “Finance income” or “Finance costs.”

(b) Financial Liabilities Measured at Fair Value through Profit or Loss

These liabilities are subsequently measured at fair value. Changes in fair value are recognized in profit or loss.

(iii) Derecognition

SHIONOGI derecognizes a financial liability when the obligation specified in the contract is discharged, cancelled, or expires.

3) Derivatives and Hedge Accounting

SHIONOGI hedges risks arising from exposure to fluctuations in foreign currency exchange rates using derivative financial instruments such as forward foreign exchange contracts.

Derivatives are initially recognized at fair value at the contract inception date and are subsequently measured at fair value. In principle, changes in the fair value of derivatives are recognized in profit or loss.

However, SHIONOGI designates certain derivatives as cash flow hedges. The effective portion of changes in the fair value of derivatives designated is recognized in other comprehensive income if qualifying criteria for hedge accounting are met. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gain or loss related to hedging instruments previously recognized in other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss.

However, when the hedged forecasted transactions subsequently result in the recognition of a non-financial asset or a non-financial liability, the gain or loss previously recognized in other comprehensive income is recognized as an adjustment to the initial carrying amount of the asset or liability.

4) Financial guarantee contracts

A financial guarantee contract is a contract that requires the guarantor to compensate the guarantee for losses incurred by the guarantee for failure of specific debtors to make payments when due according to the original or modified terms of a debt instrument.

These financial guarantee contracts are initially measured at fair value as of the time of the initial contract signing. After this initial recognition, they are measured at the higher of the amount of the allowance for doubtful accounts or the amount of initial recognition less accumulated revenue recognized, except for those measured at fair value.

4. Segment Information

(1) Outline of Reportable Segments

SHIONOGI operates as a single business segment related to research, development, purchasing, manufacturing, distribution and other operations associated with the prescription drug business. While SHIONOGI analyzes sales by product and evaluates earnings by Group companies, it makes decisions about business strategy and allocates resources, especially research and development expenditures, on a Group-wide basis. Therefore, disclosure of segment information is omitted.

(2) Information by Product and Service

Revenue from external customers for each product and service is described in Note “5. Revenue.”

(3) Geographical Information

Revenue and non-current assets by region are as follows:

1) Revenue

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Japan	113,589	207,777
Europe	191,629	184,982
United Kingdom	184,202	174,706
North America	14,330	16,253
United States of America	14,322	16,247
Other	15,587	17,670
Total	335,138	426,684

Notes:
1. Revenue information is classified by country or region based on customer location.
2. The main countries and regions included in each geographic category other than Japan are as follows:
   (1) Europe: United Kingdom, Switzerland, and others
   (2) North America: United States of America and others
   (3) Other: Asia and others

2) Non-current Assets

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Japan	188,585	218,971
Europe	1,547	729
United States of America	37,022	29,490
Other	8,852	8,605
Total	236,008	257,796

Notes:
1. Non-current assets are classified by country or region based on asset location and exclude financial instruments and deferred tax assets
2. The main countries and regions included in each geographic category other than Japan are as follows:
   (1) Europe: United Kingdom and others
   (2) Other: Asia and others

(4) Information Related to Major Customers

The following customers accounted for 10% or more of Group revenue for the fiscal years ended March 31, 2022 and 2023.

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
ViiV Healthcare Ltd.	176,990	168,454
Ministry of Health,Labour and Welfare	―	100,000

Notes: Sales to the Ministry of Health, Labour and Welfare in the previous consolidated fiscal year are omitted as their percentage of total sales was less than 10 percent.

5. Revenue

(1) Breakdown of Revenue

The breakdown of revenue for the fiscal years ended March 31, 2022 and 2023 is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Prescription drugs in Japan	89,127	75,045
Exports and overseas subsidiaries	34,367	42,498
Contract manufacturing	17,442	15,342
Over-the-counter drugs	11,156	13,129
Royalty income	181,253	174,696
COVID-19 related products	―	104,696
Other revenue	1,790	1,275
Total	335,138	426,684

"Revenue" in the consolidated statement of profit or loss is revenue recognized from contracts with customers. Revenue recognized from other sources is included in "Other income," described in Note "7. Other Income and Other Expenses," and "Finance income," described in Note "8. Finance Income and Finance Costs."

In addition, SHIONOGI omits disclosure of segment information as described in Note "4. Segment Information."

Group revenue comprises the following. Revenue from prescription drugs in Japan includes prescription drug sales in Japan and compensation associated with co-promotion agreements. Revenue from exports and overseas subsidiaries includes income from export transactions, sales and royalty income recognized by overseas subsidiaries. Revenue from contract manufacturing includes income associated with contract manufacturing of active pharmaceutical ingredients (API). Revenue from sales of over-the-counter drugs includes sales revenue and royalty income from over-the-counter drugs of the Company and its domestic subsidiaries. Royalty income includes royalty income recognized by the Company and domestic subsidiaries. Revenue from sales of COVID-19-related products includes revenue related to Xocova. Other revenue includes sales of diagnostics and revenue recognized by domestic subsidiaries.

In prescription drug and over-the-counter drug sales in Japan and overseas, revenue from sales within the same country is recognized when the product is delivered to the customer, unless otherwise specified by contract, while revenue from export sales is recognized at the point in time when the performance obligation is satisfied, which is when the customer is deemed to obtain control over the product based on terms and conditions of trade, etc. Consideration for the transaction is generally received within three months after the satisfaction of the performance obligation. Revenue from sales of COVID-19-related products is recognized at the point in time when the performance obligation is satisfied, which is when the customer is deemed to obtain control over the product based on the contract.

Some transactions involve variable consideration in the form of rebates to customers based on the sales volume of related products to promote sales of Group products. However, significant reversals of cumulative revenue recognized will generally not occur since SHIONOGI can reasonably estimate rebates payable to customers. Therefore, SHIONOGI has determined that its estimates of variable consideration are not constrained.

In addition, SHIONOGI sells products for which the customer has a right of return. SHIONOGI calculates expected returns for these products based on the estimated rate of return, deducts this amount from sales revenue, and recognizes a refund liability in the same amount. Furthermore, since SHIONOGI's products are difficult to resell due to their nature, SHIONOGI does not recognize an asset for its right to recover products from customers on settling the refund liability.

For contract API manufacturing, SHIONOGI generally determines that its performance obligation is satisfied when the customer takes delivery of the API and recognizes revenue at that time. Consideration for the transaction is generally received within two months after the satisfaction of the performance obligation.

SHIONOGI out-licenses the use of intellectual property such as patents SHIONOGI owns to the counterparties of licensing contracts. SHIONOGI considers the performance obligation of these contracts to be satisfied at a point in time, as it does not plan to undertake any activities that significantly affect the intellectual property provided under the contract. SHIONOGI recognizes revenue at the point in time when the performance obligation is satisfied by granting the license to the licensee.

Consideration for out-licensing consists mainly of upfront payments when an agreement is concluded; milestone payments when the prescribed research and development, sales and other milestones are achieved; and royalties based on sales or sales volume. Receipt of consideration is generally within two months after the requisite conditions have been satisfied.

SHIONOGI receives the milestone payments, included in the consideration for out-licensing, if a pre-determined milestone is achieved. As the achievement of specified milestones is uncertain, however, the amount of consideration to which SHIONOGI will be entitled is variable. SHIONOGI estimates entitlement to consideration that includes a variable component, and only includes it in the transaction price and recognizes it as revenue when the uncertainty regarding the variable consideration is subsequently resolved to the extent that it is highly probable that a material reversal of cumulative revenue recognized will not occur. As the receipt of milestone payments is contingent on the decisions and actions of the licensee, and uncertainties may not have been resolved for a long term, there is a possibility that a significant reversal of revenue occurs when uncertainties are resolved. As a result, variable consideration estimates are constrained in licensing transactions that involve the receipt of milestone payments that occur when the pre-determined milestones are achieved.

However, revenue in the form of sales-based or usage-based royalties is recognized at the later of when or within the term of (1) the subsequent sale or usage occurs, or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (in whole or in part).

SHIONOGI has elected not to adjust significant financing components, at contract inception, if a period between when SHIONOGI provides its products or services to customers and when the customers pay for the products or services is expected to be one year or less.

In addition, SHIONOGI does not sell products with warranties or similar rights.

(2) Contract Balances

Contract balances are as follows:

Millions of yen

	Receivables arising from contracts with customers			Contract liabilities
	Notes receivable	Accounts receivable	Total	
As of April 1, 2021	869	77,249	78,118	439
As of March 31, 2022	421	122,594	123,015	1,142
As of March 31, 2023	465	109,358	109,823	122

SHIONOGI had no contract assets as of March 31, 2022 and 2023.

Impairment losses recognized for receivables arising from contracts with customers are described in Note “30. Financial Instruments.”

Revenue recognized in the reporting period included in the contract liability balance at the beginning of the fiscal year was ¥226 million and ¥1,028 million for the years ended March 31, 2022 and 2023, respectively.

Revenue recognized in the reporting period from performance obligations satisfied in previous years was ¥181,076 million and ¥176,748 million for the years ended March 31, 2022 and 2023, respectively. These were arising from milestone payments fulfilled and receivable when the pre-determined milestones were achieved by SHIONOGI in the years ended March 31, 2022 and 2023 and royalties included as a component of consideration for the performance obligation at the time of granting a license.

(3) Transaction Price Allocated to Remaining Performance Obligations

SHIONOGI applies the practical expedient under IFRS 15 “Revenue from Contracts with Customers,” Paragraph 121 and does not disclose information regarding remaining performance obligations with an initial expected period of one year or less.SHIONOGI has no material transactions with the original expected contract duration exceeding one year.There are no considerations from contracts with customers that are not included in the transaction price.

(4) Assets Recognized from the Costs to Obtain or Fulfill a Contract with a Customer

No assets were recognized from the costs to obtain or fulfill a contract with a customer as of March 31, 2022 and 2023. SHIONOGI has elected to recognize these costs as expenses when incurred if the amortization period for the assets recognized from the costs to obtain or fulfill a contract with a customer is one year or less.

6. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Salaries and bonuses	31,471	33,813
Retirement benefit expenses	2,196	2,183
Legal welfare expenses	4,660	4,683
Royalties of intellectual property rights and others	11,719	12,996
Outsourcing expenses	5,977	8,177
Sales promotion expenses	9,981	7,519
Depreciation and amortization	3,894	4,138
Other	21,870	24,260
Total	91,771	97,775

7. Other Income and Other Expenses

(1) Other Income

The breakdown of other income is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Gain on sales of property, plant and equipment	1,552	2,451
Additional amount recognized associated with income tax refund	913	—
Other	918	1,447
Total	3,384	3,899

Notes:

1. "Gain on sales of property, plant and equipment" for the years ended March 31, 2022 and 2023 is mainly from sales of real estate for lease.
2. "Additional amount recognized associated with income tax refund" for the year ended March 31, 2022 represents additional amount, etc, on refund of income taxes in connection with the successful conclusion of lawsuit against the Osaka Regional Taxation Bureau regarding a complaint filed to rescind a tax reassessment.

(2) Other Expenses

The breakdown of other expenses is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Impairment losses	141	11,758
Leakage response costs	1,256	1,071
Donations	817	930
Loss on retirement of fixed assets	1,639	823
Litigation expenses	106	80
Investment loss under equity method	20	33
Other	570	747
Total	4,551	15,445

Notes:

1. "Impairment losses" for the years ended March 31, 2022 and 2023 are presented in Note "11. Property, Plant and Equipment ." and "13. Intangible Assets."
2. "Leakage response costs" for the years ended March 31, 2022 and 2023 are related to measures taken to address the leak of dichloromethane at the premises of Kanegasaki Plant.

8. Finance Income and Finance Costs

(1) Finance Income

The breakdown of finance income is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Interest income		
Financial assets measured at amortized cost	779	6,553
Dividend income		
Financial assets measured at fair value through other comprehensive income	13,888	62,132
Financial assets measured at fair value through profit or loss	7	5
Subtotal	13,896	62,137
Foreign exchange gain	1,898	1,901
Other	223	5,236
Subtotal	16,797	75,829

(2) Finance Costs

The breakdown of finance costs is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Interest expenses		
Financial liabilities measured at amortized cost	284	19
Lease liabilities	64	71
Subtotal	349	91
Change in fair value of contingent considerations	–	2,581
Other	491	1,828
Total	841	4,500

9. Deferred Taxes and Income Taxes

(1) Deferred Taxes

1) Major items and changes in deferred tax assets and deferred tax liabilities are as follows:

(i) Year ended March 31, 2022

Millions of yen

	As of April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Other(Note)	As of March 31, 2022
Deferred tax assets					
Research and development expenses	5,880	2,186	–	–	8,067
Inventories	6,519	829	–	–	7,349
Accrued bonuses	1,757	(58)	–	–	1,699
Temporary differences associated with investments in subsidiaries	4,876	(471)	(909)	–	3,496
Accrued enterprise taxes	1,453	(499)	–	–	954
Accrued paid absences	803	(25)	–	–	778
Other payables and accrued expenses	349	3	–	–	353
Retirement benefit asset and liability	5,355	(536)	146	–	4,966
Cash flow hedges	1,209	–	(451)	–	757
Other	4,389	(982)	–	–	3,407
Subtotal	32,595	447	(1,213)	–	31,829
Deferred tax liabilities					
Intangible assets associated with products	10,474	(6)	–	1,101	11,570
Reserve for advanced depreciation of property, plant and equipment	1,607	(64)	–	–	1,542
Gain on exchange for investments in securities	965	–	–	–	965
Gain on land and building exchange	7,018	(333)	–	–	6,685
Financial assets measured at fair value through other comprehensive income	5,488	–	(444)	–	5,044
Other	3,060	(1,760)	–	(378)	921
Subtotal	28,615	(2,164)	(444)	722	26,729
Net deferred tax assets (liabilities)	3,980	2,611	(769)	(722)	5,100

Note: Exchange differences on translation of foreign operations are included in Other.

(ii) Year ended March 31, 2023

Millions of yen

	As of April 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Other(Note)	As of March 31, 2023
Deferred tax assets					
Research and development expenses	8,067	8,039	―	―	16,107
Inventories	7,349	2,351	―	―	9,700
Accrued bonuses	1,699	59	―	―	1,758
Temporary differences associated with investments in subsidiaries	3,496	(341)	(725)	―	2,429
Accrued enterprise taxes	954	1,350	―	―	2,304
Accrued paid absences	778	68	―	―	846
Other payables and accrued expenses	353	2,053	―	―	2,406
Retirement benefit asset and liability	4,966	(571)	(435)	―	3,960
Cash flow hedges	757	―	(155)	―	602
Other	3,407	(78)	―	―	3,329
Subtotal	31,829	12,931	(1,316)	―	43,445
Deferred tax liabilities					
Intangible assets associated with products	11,570	(1,695)	―	482	10,357
Reserve for advanced depreciation of property, plant and equipment	1,542	(57)	―	―	1,485
Gain on exchange for investments in securities	965	―	―	―	965
Gain on land and building exchange	6,685	―	―	―	6,685
Financial assets measured at fair value through other comprehensive income	5,044	―	1,210	―	6,254
Other	921	(111)	―	702	1,511
Subtotal	26,729	(1,863)	1,210	1,184	27,261
Net deferred tax assets (liabilities)	5,100	14,795	(2,527)	(1,184)	16,184

Note: Exchange differences on translation of foreign operations is included in Other.

2) Unrecognized Deferred Tax Assets

Tax loss carryforwards, future deductible temporary differences, and unused tax credits for which deferred tax assets are not recognized are as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Tax loss carryforwards	155,945	155,684
Future deductible temporary differences	125,988	125,327
Unused tax credits	2,213	2,420

3) Expiration of Unrecognized Deferred Tax Assets

(i) Expiration of Tax Loss Carryforwards for Which Deferred Tax Assets Were Not Recognized

Tax loss carryforwards for which deferred tax assets were not recognized will expire as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
1st year	3,098	485
2nd year	1,302	1,051
3rd year	625	11,470
4th year	12,074	1,000
5th year	1,043	3,038
After 5th year	751	2,096
Indefinite	137,049	136,542
Total	155,945	155,684

(ii) Expiration of Unused Tax Credits for Which Deferred Tax Assets Were Not Recognized

Unused tax credits for which deferred tax assets were not recognized will expire as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
1st year	—	6
2nd year	5	0
3rd year	0	0
4th year	0	16
5th year and thereafter	2,207	2,397
Total	2,213	2,420

4) Unrecognized Deferred Tax Liabilities

In principle, the Company does not recognize deferred tax liabilities for temporary differences related to investments in subsidiaries because the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. As of March 31, 2022 and 2023, taxable temporary differences associated with investments in the subsidiaries for which deferred tax liabilities were not recognized were ¥342,089 million and ¥423,770 million, respectively.

(2) Income Taxes

1) Income Tax Expenses

The breakdown of income tax expenses is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Current income taxes		
Current fiscal year	28,731	50,631
Prior periods	(13,290)	—
Subtotal	15,440	50,631
Deferred income taxes		
Origination and reversal of temporary differences	(2,611)	(14,795)
Subtotal	(2,611)	(14,795)
Total	12,829	35,836

Current income taxes include the tax benefits arising from tax losses, tax credits and temporary differences of prior periods whose tax effect was previously unrecognized. As a result, current income taxes decreased by ¥52 million and ¥1,474 million for the years ended March 31, 2022 and 2023, respectively. In addition, current income taxes for periods prior to the year ended March 31, 2022 include a refund from the Osaka Regional Taxation Bureau in connection with the successful conclusion of a lawsuit for the complaint filed to rescind a tax reassessment.

Deferred income taxes include the tax benefit arising from previously unrecognized tax losses, tax credits and temporary differences of prior periods whose tax effect was previously unrecognized, and expense from write-downs or reversal of previous write-downs of deferred tax assets. As a result, deferred income taxes decreased by ¥20 million and ¥250 million for the years ended March 31, 2022 and 2023, respectively.

2) Reconciliation of Effective Tax Rates

The following is a reconciliation from the Company’s statutory tax rate to the effective tax rates for the years ended March 31, 2022 and 2023.

The Company is mainly subject to income taxes, inhabitant tax and enterprise tax in Japan. The statutory tax rate calculated based on these taxes for the years ended March 31, 2022 and 2023 was 30.6%, respectively. Overseas subsidiaries are subject to the income taxes on their income in their respective countries of domicile.

(%)

	Year ended March 31, 2022	Year ended March 31, 2023
Statutory tax rate	30.6	30.6
Items not deductible for income tax purposes, such as entertainment expenses	0.0	0.2
Items not taxable for income tax purposes, such as dividends	(2.8)	(7.3)
Tax credits	(6.6)	(4.9)
Differences in applicable tax rates of subsidiaries	0.3	(0.7)
Changes in unrecognized deferred tax assets	(0.5)	(1.3)
Income taxes for prior periods	(9.8)	—
Other	(1.0)	(0.3)
Effective tax rates	10.2	16.3

10. Earnings per Share

The basis for calculating basic and diluted earnings per share is as follows:

	Year ended March 31, 2022	Year ended March 31, 2023
Basis for calculating basic and diluted earnings per share:		
Profit attributable to owners of parent (Millions of yen)	114,185	184,965
Profit not attributable to ordinary shareholders of the parent (Millions of yen)	―	―
Profit used for calculating basic earnings per share (Millions of yen)	114,185	184,965
Weighted-average number of ordinary shares outstanding during the year (Thousands of shares)	301,478	297,704
Basis for calculating diluted earnings per share:		
Profit used for calculating basic earnings per share (Millions of yen)	114,185	184,965
Adjustments to profit (Millions of yen)	―	―
Profit for the year used for calculating diluted earnings per share (Millions of yen)	114,185	184,965
Weighted-average number of ordinary shares outstanding during the year (Thousands of shares)	301,478	297,704
Increase in number of ordinary shares from exercise of share options (Thousands of shares)	100	100
Weighted-average number of diluted ordinary shares outstanding during the period (Thousands of shares)	301,579	297,805
Earnings per share:		
Basic earnings per share (Yen)	378.75	621.31
Diluted earnings per share (Yen)	378.63	621.10

Notes:

1. No financial instruments are excluded from the calculation of diluted earnings per share because they are not dilutive.
2. In September 2022, the Company disposed of 3,000,000 shares of the Company's stock to the trust account of Sumitomo Mitsui Trust Bank, Limited (re-trust trustee: Custody Bank of Japan, Ltd. (Trust Account)) for the Shionogi Infectious Disease Research Promotion Foundation, and such shares are treated as treasury shares. Therefore, the number of such shares is deducted from the average number of ordinary shares during the period in the calculation of basic earnings per share and diluted earnings per share.

11. Property, Plant and Equipment

(1) Movement of Acquisition Cost, Accumulated Depreciation and Accumulated Impairment Losses and Carrying Amount

The movement of the acquisition cost, accumulated depreciation and accumulated impairment losses, and the carrying amount of property, plant and equipment is as follows:

1) Acquisition Cost

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2021	108,233	78,601	6,785	23,915	39,741	257,276
Acquisitions	252	219	—	26,698	316	27,486
Reclassification from construction in progress	4,838	7,923	—	(16,592)	3,622	(208)
Sales or disposals	(929)	(645)	—	(35)	(2,904)	(4,515)
Foreign exchange differences on translations	688	152	—	2	95	939
Other	(1,837)	2,158	—	(568)	199	(46)
As of March 31, 2022	111,245	88,410	6,785	33,419	41,072	280,932
Acquisitions	77	79	—	13,397	155	13,710
Reclassification from construction in progress	7,105	2,727	—	(12,369)	2,440	(95)
Sales or disposals	(1,892)	(964)	—	(229)	(3,295)	(6,381)
Foreign exchange differences on translations	316	145	—	(0)	82	544
Other	11	0	—	(80)	3	(64)
As of March 31, 2023	116,864	90,399	6,785	34,137	40,459	288,646

2) Accumulated Depreciation and Accumulated Impairment Losses

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2021	(63,218)	(68,787)	—	(588)	(33,798)	(166,392)
Depreciation expenses	(3,335)	(3,326)	—	—	(2,547)	(9,209)
Impairment losses	(5)	—	—	—	(0)	(6)
Sales or disposals	600	639	—	—	2,858	4,098
Foreign exchange differences on translations	(278)	(91)	—	—	(77)	(447)
Other	966	(1,462)	—	565	(151)	(81)
As of March 31, 2022	(65,270)	(73,029)	—	(22)	(33,716)	(172,038)
Depreciation expenses	(3,424)	(3,391)	—	—	(2,641)	(9,457)
Impairment losses	—	(61)	—	—	—	(61)
Sales or disposals	1,443	789	—	0	3,057	5,291
Foreign exchange differences on translations	(126)	(84)	—	—	(68)	(280)
Other	(11)	0	—	—	(2)	(14)
As of March 31, 2023	(67,390)	(75,776)	—	(21)	(33,372)	(176,561)

3) Carrying Amount

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2021	45,015	9,813	6,785	23,327	5,942	90,883
As of March 31, 2022	45,974	15,380	6,785	33,396	7,355	108,893
As of March 31, 2023	49,474	14,622	6,785	34,116	7,087	112,085

Notes:

1. Expenditures for property, plant and equipment under construction are stated as construction in progress above.
2. Depreciation of property, plant and equipment is included in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Impairment Losses

Property, plant and equipment are generally grouped by the smallest cash-generating unit that generates independent cash inflows. SHIONOGI tests idle assets for impairment individually.

SHIONOGI recognized impairment losses ¥6 million and ¥61 million for the fiscal years ended March 31, 2022 and 2023, respectively, which are included in “Other expenses” in the consolidated statement of profit or loss.

12. Goodwill

(1) Movement of Acquisition Cost, Accumulated Impairment Losses and Carrying Amount of Goodwill

The movement of the acquisition cost and accumulated impairment losses, and the carrying amount of goodwill is as follows:

1) Acquisition Cost

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	9,357	9,638
Foreign exchange differences on translations	439	180
Other	(158)	—
Balance at end of period	9,638	9,819

2) Accumulated Impairment Losses

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	—	—
Balance at end of period	—	—

3) Carrying Amount

Millions of yen

As of April 1, 2021	9,357
As of March 31, 2022	9,638
As of March 31, 2023	9,819

(2) Impairment Test of Goodwill

The carrying amount of principal goodwill allocated to cash-generating units is as follows:

Millions of yen

Cash-generating Unit	As of March 31, 2022	As of March 31, 2023
Pharmaceutical business centered on Shionogi & Co., Ltd.	6,037	6,037
Pharmaceutical business in China	3,427	3,607

1) Pharmaceutical business centered on Shionogi & Co., Ltd.

The recoverable amount was calculated based on value in use.

The value in use was calculated as the present value of the estimated cash flow based on a 1-year business plan approved by management prepared by reflecting past knowledge and external information using the pre-tax discount rates (8.0% and 7.9% for the years ended March 31, 2022 and 2023, respectively) calculated based on the pre-tax weighted average cost of capital. Cash flows beyond the period of the business plan are calculated based on the long-term average growth rate of the market to which the cash-generating unit belongs. (0% for the years ended March 31, 2022 and 2023).

The value in use is sufficiently higher than the book value of the cash-generating unit, and it is unlikely that the value in use will fall below the book value even if the significant assumptions used in calculating the value in use fluctuate within a reasonable range.

2) Pharmaceutical business in China

The recoverable amount was calculated based on value in use.

The value in use was calculated as the present value of the estimated cash flow based on a 5-year business plan approved by management prepared by reflecting past knowledge and external information using the pre-tax discount rates (14.5% and 14.9% for the years ended March 31, 2022 and 2023, respectively) calculated based on the pre-tax weighted average cost of capital. Cash flows beyond the period of the business plan are calculated based on the long-term average growth rate of the market to which the cash-generating unit belongs. (5.5% and 2.3% for the years ended March 31, 2022 and 2023, respectively)

The value in use is sufficiently higher than the book value of the cash-generating unit, and it is unlikely that the value in use will fall below the book value even if the significant assumptions used in calculating the value in use fluctuate within a reasonable range.

13. Intangible Assets

(1) Movement of Acquisition Cost, Accumulated Amortization and Accumulated Impairment Losses and Carrying Amount

The movement of the acquisition cost, accumulated amortization and accumulated impairment losses, and the carrying amount of intangible assets is as follows:

1) Acquisition Cost

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2021	129,755	16,225	5,578	151,560
Individual acquisitions	2,680	2,073	249	5,003
Sales or disposal	(7,193)	(439)	(30)	(7,663)
Foreign exchange differences on translations	7,151	72	136	7,360
Other	(320)	(71)	10	(380)
As of March 31, 2022	132,074	17,860	5,945	155,879
Individual acquisitions	27,558	1,612	29	29,199
Sales or disposal	—	(286)	(13)	(300)
Foreign exchange differences on translations	4,785	66	62	4,915
Other	34	(57)	(1)	(24)
As of March 31, 2023	164,452	19,195	6,022	189,669

2) Accumulated Amortization and Accumulated Impairment Losses

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2021	(60,516)	(11,418)	(3,067)	(75,001)
Amortization	(3,476)	(1,457)	(224)	(5,157)
Impairment losses	(135)	—	—	(135)
Sales or disposal	7,193	430	30	7,654
Foreign exchange differences on translations	(1,951)	(48)	(98)	(2,098)
Other	2	90	(9)	82
As of March 31, 2022	(58,883)	(12,403)	(3,369)	(74,655)
Amortization	(3,720)	(1,769)	(270)	(5,759)
Impairment losses	(11,696)	—	—	(11,696)
Sales or disposal	—	210	13	223
Foreign exchange differences on translations	(1,448)	(42)	11	(1,478)
Other	0	6	—	7
As of March 31, 2023	(75,747)	(13,998)	(3,614)	(93,360)

3) Carrying Amount

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2021	69,239	4,807	2,511	76,558
As of March 31, 2022	73,191	5,456	2,575	81,223
As of March 31, 2023	88,704	5,196	2,407	96,309

Notes:

1. Amortization of intangible assets is included in “Cost of sales,” “Selling and general administrative expenses,” “Research and development expenses,” and “Amortization of intangible assets associated with products” in the consolidated statement of profit or loss.
2. No significant internally generated intangible assets were recognized for the years ended March 31, 2022 and 2023, respectively.

(2) Significant Intangible Assets

Significant intangible assets recognized in the consolidated statement of financial position are as follows. All are included in intangible assets associated with products.

Code No. (Generic name)	As of March 31, 2022	As of March 31, 2023
BPN14770 (Zatolmilast) (Note)	29,211	22,076
GRT7039 (Resiniferatoxin)	—	14,132
F901318 (Olorofim)	—	12,966
S-812217 (Zuranolone)	9,933	9,933

Note:Impairment losses were recorded for the fiscal year ended March 31, 2023. For details, please refer to “(3) Impairment Losses”.

(3) Impairment Losses

Intangible assets are generally grouped by the smallest cash-generating unit that produces independent cash inflows. Capitalized development costs, an intangible asset recognized as in-process research and development, and separately recognized marketing rights are tested for impairment individually. Impairment losses related to intangible assets are included in “Other expenses” in the consolidated statement of profit or loss.

Impairment losses on intangible assets recognized for the year ended March 31, 2022 amounted to ¥135 million.

Impairment losses on intangible assets recognized for the year ended March 31, 2023 amounted to ¥11,696 million (including ¥11,580 million for in-process R&D assets). The impairment loss of ¥10,497 million was mainly due to the revision of the development plan of BPN14770 (Zatolmilast), an in-process R&D asset in Phase II study for the treatment drug of Alzheimer’s disease, identified from the business combination of Tetra Therapeutics Inc.

The recoverable amount of the in-process R&D assets was estimated using the fair value less costs to dispose. Fair value is measured using the excess-of-earnings method. Significant assumptions used are the likelihood of regulatory marketing approval for pre-launch products, etc., the assumed sales price, the assumed number of patients, and the discount rate used to calculate the present value of excess earnings, which are components of the sales forecast after the product is launched. The discount rate is based on the weighted average cost of capital and is 14.7%. The fair value hierarchy is classified as Level 3. The fair value hierarchy is described in “30. Financial Instruments”.

14. Investment Property

(1) Movement of Acquisition Cost and Accumulated Depreciation and Accumulated Impairment Losses

The movement of the acquisition cost, accumulated depreciation and accumulated impairment losses of investment property is as follows:

1) Acquisition Cost

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	30,740	30,022
Acquisitions	557	825
Reclassification from construction in progress	—	(28)
Sales or disposals	(1,086)	(3,875)
Foreign exchange differences on translations	18	3
Other	(206)	(16)
Balance at end of period	30,022	26,931

2) Accumulated Depreciation and Accumulated Impairment Losses

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	(3,981)	(3,350)
Depreciation expenses	(58)	(30)
Sales or disposals	707	2,819
Foreign exchange differences on translations	(3)	(2)
Other	(14)	14
Balance at end of period	(3,350)	(548)

(2) Book Value and Fair Value

The book value and fair value of investment property are as follows.

Millions of yen

	As of March 31, 2022		As of March 31, 2023	
	Book value	Fair value	Book value	Fair value
Investment property	26,672	30,417	26,382	27,979

The fair value of investment properties is mainly the amount based on the valuation by an external real estate appraiser (including those adjusted internally using indicators, etc.).

The fair value hierarchy of investment properties is classified as Level 3 because it contains non-observable inputs. The fair value hierarchy is described in Note “30. Financial Instruments.”

(3) Income and Expenses from Investment Properties

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Rental income	447	190
Direct operating expenses	173	87

In the years ended March 31, 2022 and 2023, the amounts of direct operating expenses arising from investment properties that did not generate rental income are immaterial.

15. Capital Expenditure Commitments

The breakdown of commitments for acquisition of assets is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Property, plant and equipment	12,391	8,582
Intangible assets (Note)	106,837	121,268
Investment property	4,343	3,575
Total	123,573	133,426

Note: SHIONOGI has entered into research and development collaborations and in-license agreements of products and technologies with a number of third parties. Under these agreements, SHIONOGI is obliged to make milestone payments upon the achievement of agreed specific objectives or when certain conditions are met as defined in the agreements.

The amounts shown in the table above represent the maximum payments to be made when all milestones are achieved, but impact of discount and other risks are not considered. The possibility of occurrence for all payment obligations is low and actual payment could differ significantly because the achievement of milestones includes high uncertainty.

16. Leases

SHIONOGI has lease contracts for real estate including offices and employee housing, equipment including office automation and security equipment, commercial vehicles, and warehouse facilities in order to replace assets flexibly, reduce asset management administration, and manage capital efficiently. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is considered to be or contain a lease, and SHIONOGI recognizes a right-of-use asset and lease liability at the commencement date of the lease. However, for short-term leases and leases for which the underlying asset is of low value, SHIONOGI expenses lease payments over the lease term using the straight-line method.

Some lease contracts mainly related to real estate include the option to extend or cancel the lease to give SHIONOGI flexibility in managing floor space and personnel.

SHIONOGI makes decisions to exercise the contractual option to extend a lease after comprehensively considering the operational necessity of the leased asset, difficulties in obtaining an alternative asset, and the conditions for exercising the option, and determining that it is necessary to exercise the option. The extended lease term as a result of exercising the option, and the lease payments during that term, are generally the same as or closely approximate the original lease term and payments.

In addition, SHIONOGI makes decisions to exercise the contractual option to terminate a lease in a manner similar to its decisions concerning the contractual option to extend a lease.

SHIONOGI annually reassesses the possibility of exercise of both the option to extend a lease and the option to cancel a lease at the end of each reporting period. The financial impact of this reassessment was immaterial for the years ended March 31, 2022 and 2023.

SHIONOGI's lease contracts with variable lease payments or residual value guarantees and the lease contracts that have not yet commenced notwithstanding SHIONOGI's been contracted are immaterial.

The breakdown of right-of-use assets as of March 31, 2022 and 2023 is as follows:

Millions of yen

	Underlying asset			Total
	Buildings and structures	Vehicles	Other	
As of March 31, 2022	2,987	122	413	3,524
As of March 31, 2023	6,085	126	270	6,482

The movement of right-of-use assets, expenses related to leases, and cash outflows for the years ended March 31, 2022 and 2023 are as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Increase in right-of-use assets	2,148	6,468
Depreciation of right-of-use assets		
Buildings and structures	1,599	1,706
Vehicles	112	69
Other	213	172
Total depreciation of right-of-use assets	1,925	1,948
Interest expenses on lease liabilities	64	71
Expenses relating to short-term leases	33	39
Expenses relating to leases of low-value assets	389	542
Total expenses relating to leases	2,412	2,601
Cash outflows for leases	3,940	3,812

A maturity analysis of lease liabilities as of March 31, 2022 and 2023 is described in Note "30. Financial Instruments."

17. Other Financial Assets

(1) Breakdown

The breakdown of other financial assets is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Financial assets measured at amortized cost		
Time deposits (over 3 months)	112,252	172,654
Bonds	87,614	52,167
Receivables	11,860	30,015
Other	5,766	2,122
Subtotal	217,493	256,960
Financial assets measured at fair value through profit or loss		
Derivative assets	—	1,008
Other	3,176	3,325
Subtotal	3,176	4,334
Financial assets measured at fair value through other comprehensive income		
Equities and investments	231,868	240,121
Other	698	426
Subtotal	232,567	240,547
Total	453,237	501,842
Non-current assets	242,479	247,711
Current assets	210,757	254,131

(2) Equity Instruments Measured at Fair Value through Other Comprehensive Income

SHIONOGI designates investments in equities and other instruments held primarily to maintain and strengthen business relationships or transactions with investees as equity instruments designated as measured at fair value through other comprehensive income.

1) Fair Value

The fair value by major issuers is as follows:

(i) As of March 31, 2022

Issuer	Millions of yen
ViiV Healthcare Ltd.	186,184
Suzuken Co., Ltd.	11,821
Toho Holdings Co., Ltd.	6,475
Sumitomo Mitsui Financial Group, Inc.	6,422
StemRim Inc.	3,775
Medipal Holdings Corporation	2,562
Kissei Pharmaceutical Co., Ltd.	2,335
Other	12,989

(ii) As of March 31, 2023

Issuer	Millions of yen
ViiV Healthcare Ltd.	196,046
Sumitomo Mitsui Financial Group, Inc.	8,708
Toho Holdings Co., Ltd.	8,225
Suzuken Co., Ltd.	5,541
StemRim Inc.	4,826
Kissei Pharmaceutical Co., Ltd.	2,413
Medipal Holdings Corporation	2,293
Other	12,490

2) Derecognition of Equity Instruments Measured at Fair Value through Other Comprehensive Income

In the years ended March 31, 2022 and 2023, SHIONOGI derecognized certain equity instruments measured at fair value through other comprehensive income due to following disposal for the main purpose of improving capital efficiency.

The fair value and cumulative gain or loss at disposal are as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Fair value at disposal date	36	5,943
Cumulative gain	32	2,664

On derecognition of equity instruments measured at fair value through other comprehensive income, the accumulated gain or loss recognized in “Other components of equity” in the consolidated statement of financial position is transferred to “Retained earnings.”

3) Dividend Income

The breakdown of dividend income from equity instruments measured at fair value through other comprehensive income is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Investments held at year-end	13,888	62,017
Investments derecognized during the fiscal year	—	115
Total	13,888	62,132

18. Inventories

The breakdown of inventories is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Merchandise and finished goods	16,726	16,684
Work in process	15,122	22,964
Raw materials and supplies	14,043	18,270
Total	45,892	57,919

The amounts of inventories recognized as expenses were ¥53,111 million and ¥59,003 million for the years ended March 31, 2022 and 2023, respectively.

Write-downs of inventories were ¥2,303 million and ¥3,243 million for the years ended March 31, 2022 and 2023, respectively.

19. Trade Receivables

The breakdown of trade receivables is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Notes receivable – trade	421	465
Accounts receivable – trade	122,594	109,358
Allowance for doubtful accounts	(50)	(48)
Total	122,965	109,774

Note: The amount expected to be collected after more than one year from the end of the fiscal year is ¥19,519 million as of March 31, 2022.

The amount expected to be collected after more than one year from the end of the fiscal year is ¥16,160 million as of March 31, 2023.

20. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Cash and cash equivalents	184,420	309,224
Short-term investments	70,000	—
Total	254,420	309,224

21. Other Assets

The breakdown of other assets is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Long-term prepaid expenses	2,914	3,399
Consumption tax receivable	4,190	819
Advance payments to suppliers	5,022	32,000
Prepaid expenses	13,328	15,207
Other	5,718	8,364
Total	31,173	59,791
Non-current assets	6,055	6,716
Current assets	25,117	53,074

22. Equity and Other Equity Items

(1) Share Capital

The movement of authorized shares and issued shares is as follows:

(Shares)

	Year ended March 31, 2022	Year ended March 31, 2023
Authorized shares	1,000,000,000	1,000,000,000
Issued shares		
Number of shares at beginning of period	311,586,165	311,586,165
Changes during the year	—	(4,200,000)
Number of shares at end of period	311,586,165	307,386,165

Notes:

1. All shares issued by the Company are ordinary shares with no par value. They have no restrictions on any rights and are fully paid up.
2. The change in issued shares during the year ended March 31, 2023 was due to the cancellation of treasury shares.

(2) Treasury Shares

The movement of treasury shares is as follows:

(Shares)

	Year ended March 31, 2022	Year ended March 31, 2023
Number of shares at beginning of period	10,122,444	10,103,385
Changes during the year	(19,059)	2,976,894
Number of shares at end of period	10,103,385	13,080,279

Notes:

1. The changes in the number of treasury shares during the year ended March 31, 2022 consisted of the increases of 4,500 shares and 2,141shares due to free acquisition under the restricted share-based remuneration and the purchase of fractional shares of less than one voting unit respectively, and the decreases of 25,700 shares due to grants under the restricted share-based remuneration.
2. The changes in the number of treasury shares during the year ended March 31, 2023 consisted of the increases of 7,200,000 shares, 4,500 shares and 2,194 shares due to the purchase of treasury shares based on a resolution of the Board of Directors meeting, free acquisition under the restricted share-based remuneration and the purchase of fractional shares of less than one voting unit respectively, and the decreases of 4,200,000 shares and 29,800 shares due to the cancellation of treasury shares and grants under the restricted share-based remuneration, respectively.
3. In the year ended March 31, 2023, the Company disposed of 3,000,000 shares of the Company's stock to the trust account of Sumitomo Mitsui Trust Bank, Limited (re-trust trustee: Custody Bank of Japan, Ltd. (Trust Account)) for the Shionogi Infectious Disease Research Promotion Foundation, and such shares are treated as treasury shares. Therefore, 3,000,000 shares of the Company's stock held by the trust account of Sumitomo Mitsui Trust Bank, Limited (re-trust trustee: Custody Bank of Japan, Ltd. (Trust Account)) are included in the balance at the end of the current fiscal year.

(3) Surplus

1) Capital Surplus

Capital surplus is as follows:

(i) Capital Reserve

The Companies Act of Japan ("Companies Act") requires that one-half or more of the proceeds from the issuance of shares shall be credited to share capital, and the remaining proceeds shall be credited to capital reserve incorporated in capital surplus.

(ii) Other Capital Surplus

The surplus arising from certain equity transactions and reversals of share capital and capital reserve are recognized in other capital surplus.

2) Retained Earnings

Retained earnings are as follows:

(i) Legal Reserve

The Companies Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals to 25% of share capital. Some overseas subsidiaries are also subject to similar reserve regulations in their country of domicile.

(ii) Other Retained Earnings

Other retained earnings represent accumulated profit for SHIONOGI.

(4) Other Components of Equity

The breakdown and movement of other components of equity are as follows:

Millions of yen

	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of cash flow hedges	Total
As of April 1, 2021	117,395	—	2,182	(2,741)	116,836
Amounts arising during the year	17,369	(480)	30,702	(4,814)	42,777
Reclassification adjustments to profit or loss	—	—	—	6,289	6,289
Tax effects	476	146	(909)	(451)	(736)
Total other comprehensive income (loss), net of tax	17,846	(333)	29,793	1,023	48,330
Attributable to non-controlling interests	—	—	650	—	650
Total other comprehensive income (loss), net of tax attributable to owners of parent	17,846	(333)	29,142	1,023	47,679
Transfer to retained earnings	(24)	333	—	—	308
As of March 31, 2022	135,217	—	31,325	(1,718)	164,824
Amounts arising during the year	4,887	1,421	22,173	(4,288)	24,194
Reclassification adjustments to profit or loss	—	—	—	4,872	4,872
Tax effects	(2,064)	(435)	(1,635)	(178)	(4,313)
Total other comprehensive income (loss), net of tax	2,823	986	20,538	405	24,753
Attributable to non-controlling interests	—	—	712	—	712
Total other comprehensive income (loss), net of tax attributable to owners of parent	2,823	986	19,826	405	24,041
Transfer to retained earnings	(1,849)	(986)	—	—	(2,835)
As of March 31, 2023	136,191	—	51,151	(1,313)	186,030

23. Dividends

1) Total Dividends and Dividends per Share

(i) Year ended March 31, 2022

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 22, 2021	Ordinary shares	16,580	55.00	March 31, 2021	June 23, 2021
Board of Directors meeting held on November 1, 2021	Ordinary shares	16,581	55.00	September 30, 2021	December 1, 2021

(ii) Year ended March 31, 2023

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 23, 2022	Ordinary shares	18,088	60.00	March 31, 2022	June 24, 2022
Board of Directors meeting held on October 31, 2022	Ordinary shares	18,067	60.00	September 30,2022	December 1, 2022

Note:The total amount of dividends resolved by the Board of Directors on October 31, 2022 includes ¥180 million of dividends for the Company shares held by the trust of Sumitomo Mitsui Trust Bank, Limited (re-trustee: Custody Bank of Japan, Ltd. (Trust Account)) for Shionogi Infectious Disease Research Promotion Foundation.

2) Dividends Declared for Which the Effective Date was in the Following Fiscal Year

(i) Year ended March 31, 2022

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 23, 2022	Ordinary shares	18,088	60.00	March 31, 2022	June 24, 2022

(ii) Year ended March 31, 2023

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 21, 2023	Ordinary shares	22,297	75.00	March 31, 2023	June 22, 2023

Note:The total amount of dividends resolved at the Ordinary General Meeting of Shareholders on June 21, 2023 includes ¥225 million of dividends for the Company's shares held by the trust (re-trustee: Custody Bank of Japan, Ltd. (Trust Account)) of Sumitomo Mitsui Trust Bank, Limited in relation to the Shionogi Infectious Disease Research Promotion Foundation.

24. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Financial liabilities measured at amortized cost:		
Other payables	18,618	22,542
Other	3,594	510
Subtotal	22,212	23,053
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	4,636	4,130
Contingent consideration	794	7,381
Subtotal	5,430	11,512
Total	27,643	34,565
Non-current liabilities	5,616	4,844
Current liabilities	22,027	29,720

25. Employee Benefits

(1) Retirement Benefits

The Company has a defined benefit pension plan known as a cash balance plan under which the pension benefits are determined in accordance with market interest rates, and the Company also has a lump-sum payment plan and a defined contribution pension plan (with optional prepaid retirement benefits). Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In addition, other certain consolidated subsidiaries have defined contribution pension plans.

Plan assets are managed under the assumption of sound management but are exposed to investment risks related to financial instruments. In addition, defined benefit obligations are measured based on various actuarial assumptions such as the discount rate, etc. and are therefore exposed to the risk of changes in those assumptions.

The defined contribution pension plan is a post retirement benefit plan in which the employer contributes specified amounts to independent entities and does not bear any legal or presumptive liability for payments in excess of the contributed amount.

1) Defined Benefit Plans

(i) Retirement Benefit Liability and Asset

The breakdown of retirement benefit liability and asset is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Funded plans:		
Present value of defined benefit plan obligations	56,863	51,920
Fair value of plan assets	(80,995)	(77,663)
Subtotal	(24,131)	(25,742)
Effect of the asset ceiling (Note)	37,450	36,600
Subtotal	13,318	10,857
Unfunded plans:		
Present value of defined benefit plan obligations	2,093	2,009
Subtotal	2,093	2,009
Net amount of retirement benefit (asset) liability	15,412	12,867
Amounts in the consolidated statement of financial position		
Retirement benefit liability	15,412	12,867
Retirement benefit asset	—	—

Note: Some of SHIONOGI's defined benefit plans set an asset ceiling and calculate liabilities because future economic benefits will not be available in the form of no refunds from or no reductions in contributions.

(ii) Defined Benefit Plan Obligations

The movement of the present value of defined benefit plan obligations is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	63,124	58,957
Current service cost	1,689	1,546
Interest cost	348	411
Remeasurements of defined benefit plans:		
Changes in financial assumptions	(803)	(2,352)
Experience adjustments	(188)	324
Benefits paid	(5,213)	(4,956)
Balance at end of period	58,957	53,930

Significant actuarial assumptions used to determine the present value of defined benefit plan obligations are as follows:

	As of March 31, 2022	As of March 31, 2023
Discount rates	0.5-0.8%	0.8-1.2%

The effect of changes in significant actuarial assumptions (discount rates) on the defined benefit plan obligations at the end of the reporting period is as follows. This sensitivity analysis assumes that all other assumptions are held constant.

Millions of yen

	As of March 31, 2022	As of March 31, 2023
0.5% increase in discount rates	(2,719)	(2,349)
0.5% decrease in discount rates	2,967	2,555

In addition, the weighted average durations of defined benefit plan obligations were 15.3 years on March 31, 2022 and 15.1 years on March 31, 2023.

(iii) Plan Assets

The movement of the fair value of plan assets is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	82,480	80,995
Interest income	456	571
Benefits paid	(4,159)	(4,073)
Contributions to the plans by employer	2,112	1,885
Remeasurements of defined benefit plans:		
Return on plan assets	105	(1,714)
Balance at end of period	80,995	77,663

Note: SHIONOGI plans to contribute ¥1,364 million to the defined benefit plans for the fiscal year ending March 31, 2024.

The breakdown of fair value of plan assets by asset class is as follows:

Millions of yen

	As of March 31, 2022			As of March 31, 2023		
	Quoted Prices in Active Markets			Quoted Prices in Active Markets		
	Yes	No	Total	Yes	No	Total
Equities	6,251	－	6,251	5,945	－	5,945
Bonds	25,020	－	25,020	22,776	－	22,776
General accounts	－	18,210	18,210	－	18,466	18,466
Other	－	31,512	31,512	－	30,474	30,474
Total	31,272	49,722	80,995	28,722	48,941	77,663

Notes:

1. General accounts are accounts with guaranteed expected interest rates and capital by life insurance companies.
2. The defined benefit pension plan stipulates regular contributions at least once annually. Contributions are calculated to enable the financial balance between expected future benefit expenses and expected returns on plan assets based on expected interest rates, expected mortality rates, expected withdrawal rates and the rates that serve as the basis of the calculation of expected expenses for other required benefits. Also, contributions are recalculated every five years. In addition, an additional contribution is required if the reserve fund for benefits is less than the minimum reserve criteria.

   Plan assets are legally independent from SHIONOGI. The asset management trustee is responsible for the plan assets, has a fiduciary obligation to pension plan members, and has fund management obligations that include diversified investment. Conflicts of interest are prohibited.

   Plan assets are managed to secure the necessary total returns over the long-term within acceptable risk levels to ensure payments of pension benefits in the future. The acceptable risk level of uncertainty in the return rate on the plan assets is derived from a detailed study considering the mid- to long-term trends and the changes in income such as contributions and benefit payments. Based on policies and studies, after consideration of issues such as the expected rate of return and risks, the asset management trustee formulates a basic asset mix which aims at an optimal portfolio on a long-term basis with the selection of appropriate investment assets.

(iv) Effect of the Asset Ceiling

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	35,674	37,450
Interest income	197	259
Remeasurement of asset ceiling:		
Changes in the effect of asset ceiling on net defined benefit plans	1,578	(1,108)
Balance at end of period	37,450	36,600

2) Defined Contribution Plans

SHIONOGI recognized defined contribution costs in the amount of ¥4,853 million and ¥5,032 million for the years ended March 31, 2022 and 2023, respectively.

(2) Other Employee Benefit Expenses

Personnel expenses included in the consolidated statement of profit or loss totaled ¥67,092 million and ¥72,497 million for the years ended March 31, 2022 and 2023, respectively.

26. Share-based Payment

The Company has implemented a share option plan and a restricted share-based remuneration plan. The Company has also implemented a cash-settled share-based payment linked to the Company's share price for corporate officers who reside overseas.

(1) Share Option Plan

The Company issued share acquisition rights in the form of share options to directors and corporate officers as incentives for them to enhance corporate value and improve medium- to long-term business performance because they share with shareholders of the Company both the benefits of share price appreciation and the risk of share price declines. The Company replaced the share options plan with a restricted share-based remuneration plan in 2018 and did not issue share options during the years ended March 31, 2022 and 2023.

(a) Outline of Share Option Plan

	Options Granted (Shares)	Exercise Price (Yen)	Recipients	Grant Date	Exercise Period
Share acquisition rights granted in 2011	52,200	1	3 directors 9 corporate officers	July 11, 2011	From July 12, 2011 to July 11, 2041
Share acquisition rights granted in 2012	79,100	1	2 directors 11 corporate officers	July 12, 2012	From July 13, 2012 to July 12, 2042
Share acquisition rights granted in 2013	43,900	1	2 directors 12 corporate officers	July 11, 2013	From July 12, 2013 to July 11, 2043
Share acquisition rights granted in 2014	42,400	1	2 directors 11 corporate officers	July 10, 2014	From July 11, 2014 to July 10, 2044
Share acquisition rights granted in 2015	21,100	1	3 directors 11 corporate officers	July 9, 2015	From July 10, 2015 to July 9, 2045
Share acquisition rights granted in 2016	17,300	1	3 directors 10 corporate officers	July 8, 2016	From July 9, 2016 to July 8, 2046
Share acquisition rights granted in 2017	19,300	1	3 directors 12 corporate officers	July 7, 2017	From July 8, 2017 to July 7, 2047

Note: Options granted are presented as converted into number of shares.
The plan has no vesting conditions.
During the exercise period, recipients can only exercise granted share acquisition rights at one time within 10 days from the date directors lose their position, the date corporate officers retire or their employment contracts with the Company terminate.
The number of shares to be issued per share acquisition rights is 100 shares. However, when the Company conducts its ordinary shares split (including gratis allotment of ordinary shares of the Company) or a reverse stock split, the number of granted shares will be adjusted according to a specified formula.

(b) Movement of the number of share options and their weighted average exercise prices is as follows:

	Year ended March 31, 2022		Year ended March 31, 2023	
	Number of Options	Weighted Average Exercise Price (Yen)	Number of Options	Weighted Average Exercise Price (Yen)
Outstanding at the beginning of the year	1,008	1	1,008	1
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited or expired	–	–	–	–
Outstanding at the end of the year	1,008	1	1,008	1
Exercisable at the end of the year	1,008	1	1,008	1

Note: The weighted average remaining contractual terms as of March 31, 2022 and 2023 were 21.8 years and 20.8 years, respectively.

(c) Measurement of Fair Value of Share Options Granted during the Reporting Period

No share options were granted during the years ended March 31, 2022 and 2023.

(2) Restricted Share-based Remuneration Plan

The Company has implemented a restricted share-based remuneration plan, granting incentives to directors other than outside directors and to corporate officers of the Company (collectively, eligible officers) with the aim of achieving medium- to long-term performance targets and participating in shareholder value.

(a) Outline of Restricted Share-based Remuneration Plans

This plan consists of “Long-term share-based remuneration,” which is conditional on eligible officers remaining in the Company for a specified period of time as a director or corporate officer not concurrently serving as a director, and “Medium-term performance-linked share-based remuneration,” which is conditional on the achievement of performance conditions aimed at improving the corporate value of the Company over the medium to long term in addition to the vesting condition described above.

Eligible officers make contributions in kind, with all the monetary compensation receivables awarded by the Company, and in turn receive ordinary shares in the Company that are newly issued or disposed of from treasury.

In addition, when issuing or disposing of the Company’s ordinary shares under this plan, it is conditional on the agreement on allotment of restricted shares between the Company and the eligible officers, which includes the following items 1) to 4) and so on.

1) The transfer, pledge or other disposal of shares to a third-party is prohibited for a specified period of time.
2) Under certain circumstances, the Company will acquire all or part of the restricted shares without payment of consideration.
3) Eligible officer has held any of the positions of director or corporate officer who does not concurrently serve as director throughout the restriction period.
4) As for the “Medium-term performance-linked share-based remuneration,” adding to the condition of 3) above, the Company shall lift the transfer restriction for vested shares of which the number is determined based on the level of achievement of the performance conditions, originally set by the Board of Directors meeting, such as Return on Equity (ROE), etc., at the end of the restriction period.

The transfer restriction period is 30 years for “Long-term share-based remuneration” for which the primary objective is to allow eligible officers to participate in shareholder value, and 3 years for “Medium-term performance-linked share-based remuneration” for which the primary objective is to incentivize eligible officers to achieve the performance targets of medium-term management plans.

The transfer restrictions are lifted immediately when a director, or corporate officer who does not concurrently serve as director, steps down or retires due to the expiration of their term of office, compulsory retirement or any other legitimate reasons.

(b) Shares Granted during the Reporting Period and Fair Value

	Year ended March 31, 2022	Year ended March 31, 2023
Grant date	July 21, 2021	July 22, 2022
Shares granted:		
Long-term share-based remuneration	14,200 shares	17,300 shares
Medium-term share-based remuneration	11,500 shares	12,500 shares
Fair value at grant date	¥5,518	¥6,786

(3) Share-based Remuneration Expenses

The breakdown of share-based remuneration expenses is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Equity-settled	144	199
Cash-settled	5	6
Total	149	206

Note: Cash-settled share-based remuneration pays the difference between exercise price and share price on the date of exercise in cash to corporate officers who reside overseas. During the exercise period, the corporate officer can only exercise at one time, up to 10 days subsequent to the day after the retirement of the corporate officer.

The carrying amount of liabilities arising from cash-settled remuneration plans were ¥47 million and ¥53 million as of March 31, 2022 and 2023, respectively.

27. Trade Payables

The breakdown of trade payables is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Trade payables	16,372	14,005

28. Government Grants

Government grants related to assets recognized as deferred income included in "Other non-current liabilities" and "Other current liabilities" in the consolidated statement of financial position are as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Other non-current liabilities	262	1,261
Other current liabilities	—	2

Government grants related to assets are mainly received for the purchase of property, plant and equipment.

No outstanding conditions or other contingencies are associated with these above government grants.

Government grants related to income are mainly related to R&D activities. The amounts of ¥14,304 million and ¥14,337 million were deducted from R&D expenses for the years ended March 31, 2022 and 2023, respectively.

29. Other Liabilities

The breakdown of other liabilities is as follows:

Millions of yen

	As of March 31, 2022	As of March 31, 2023
Accrued bonuses	8,466	9,450
Accrued paid absences	2,736	3,091
Refund liabilities	2,340	4,288
Accrued expenses	13,065	16,581
Taxes and dues payables	2,307	5,560
Deposits	1,000	1,108
Other	35,514	30,857
Total	65,432	70,938
Non-current liabilities	354	1,343
Current liabilities	65,078	69,595

30. Financial Instruments

(1) Capital Management

The fundamental principles of SHIONOGI's capital risk management are to build and retain a steady financial base for the purpose of maintaining soundness and efficiency of operations and achieving sustainable growth.

According to these principles, SHIONOGI conducts business investment, profit distribution such as dividends, and repayment of borrowings based on steady operating cash flows through the development and sales of competitive products.

SHIONOGI uses the following primary indicators for capital management:

	Year ended March 31, 2022	Year ended March 31, 2023
Return on equity attributable to owners of parent (ROE)	12.5%	17.8%
Ratio of equity attributable to owners of parent to total assets	84.8%	83.9%
Ratio of fair value of equity attributable to owners of parent to total assets	197.3%	134.1%

(2) Financial Risk Management

SHIONOGI is exposed to financial risks including credit risk, liquidity risk, foreign exchange risk, and market price fluctuation risk, etc. in the course of conducting its business activities, and manages risks based on its policy to avoid or mitigate these risks.

In addition, SHIONOGI obtains necessary funding primarily through bank borrowings and bond issuance based on its business plan for its main business, the production and sales of pharmaceuticals. Temporary surplus funds are managed through the investment in lower-risk financial assets. Derivatives are utilized for mitigating the risks described in latter part of this note, and not utilized for speculative purpose.

(3) Credit Risk

Notes and accounts receivable included in trade receivables are exposed to the credit risk of customers. In accordance with the internal procedures determined by the Company, the Finance & Accounting Department and related departments of the Company periodically monitor the conditions of major customers, manage the collection due dates and balances for 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 risk management in accordance with the internal rules of the Company. The amount of trade receivables due from the largest customers comprises 67.9% and 66.3% as of March 31, 2022 and 2023, respectively.

Derivative transactions are also exposed to the credit risk of counterparty. The Company enters into derivative transactions with only financial institutions with high credit ratings to mitigate the counterparty risk.

SHIONOGI's maximum exposure to credit risk as of March 31, 2022 and 2023 is represented by the carrying amount after impairment of financial assets exposed to credit risk shown in the consolidated statement of financial position.

The maximum exposure to credit risk arising from the financial guarantee contracts is the amount of guarantee obligation as described in "33. Contingent Liabilities."

1) Recognition and Measurement of Allowance for Doubtful Accounts

SHIONOGI calculates the allowance for doubtful accounts for trade receivables, lease receivables and other financial assets. A financial asset is treated as credit-impaired if terms and conditions for repayment stipulated by contract cannot be fulfilled.

(i) Trade Receivables and Lease Receivables

Allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses, and is estimated based on past credit loss experience for similar assets.

(ii) Other Financial Assets

Allowance for doubtful accounts is generally recognized at an amount equal to the 12-month expected credit losses, and is estimated based on past credit loss experience for similar assets.

However, in principle, credit risk is considered to have increased significantly since initial recognition if repayment is overdue more than 30 days, and allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses. Allowance for doubtful accounts is estimated based on the recoverability of each individual asset.

All financial assets with particular collection risk due to extended default or insolvency or legal and formal bankruptcy proceedings on the part of the debtor are treated as credit-impaired financial assets. The allowance for doubtful accounts is recognized at an amount equal to lifetime expected credit losses for the entire period and is estimated based on the recoverability of each individual asset.

For any amount that is clearly unrecoverable in the future, the carrying amount of the financial asset is directly reduced, and the corresponding amount of allowance for doubtful accounts is also reversed.

2) Movement of Allowance for Doubtful Accounts

The movement of allowance for doubtful accounts during the years ended March 31, 2022 and 2023 is as follows:

(i) Allowance for Doubtful Accounts on Trade Receivables and Lease Receivables

Millions of yen

	Allowance for Doubtful Accounts on Trade Receivables and Lease Receivables		
	Credit Unimpaired	Credit Impaired	Total
As of April 1, 2021	(71)	—	(71)
Increases during the period	(50)	—	(50)
Decreases during the period (Utilized)	—	—	—
Decreases during the period (Reversed)	71	—	71
As of March 31, 2022	(50)	—	(50)
Increases during the period	(48)	—	(48)
Decreases during the period (Utilized)	—	—	—
Decreases during the period (Reversed)	50	—	50
As of March 31, 2023	(48)	—	(48)

(ii) Allowance for Doubtful Accounts for Other Financial Assets and Financial Guarantee Contracts

Disclosure of allowance for doubtful accounts for other financial assets and financial guarantee contracts is omitted because they are not material.

In the years ended March 31, 2022 and 2023, no significant increases or decreases occurred in the gross carrying amount of any assets that could affect the changes in allowance for doubtful accounts.

(4) Liquidity Risk

Liquidity risk is the risk that SHIONOGI will be unable to fulfill repayment obligations for financial liabilities due. The Company manages liquidity risk by having the Finance & Accounting Department prepare and update a timely cash flow plan based on reports from business units.

Major financial liabilities by contractual maturities are as follows:

(i) As of March 31, 2022

Millions of yen

	Carrying Amount	Contractual Cash Flow	Within 1 Year	After 1 Year but Not More Than 2 Years	After 2 Years but Not More Than 3 Years	After 3 Years but Not More Than 4 Years	After 4 Years but Not More Than 5 Years	More Than 5 Years
Non-derivative financial liabilities:								
Other financial liabilities	23,007	23,007	18,084	287	168	0	0	4,465
Trade payables	16,372	16,372	16,372	—	—	—	—	—
Lease liabilities	6,675	6,675	2,945	2,559	553	522	94	—
Derivative liabilities	4,636	4,636	3,942	451	—	—	—	242
Total	50,690	50,690	41,344	3,298	722	522	94	4,707

(ii) As of March 31, 2023

Millions of yen

	Carrying Amount	Contractual Cash Flow	Within 1 Year	After 1 Year but Not More Than 2 Years	After 2 Years but Not More Than 3 Years	After 3 Years but Not More Than 4 Years	After 4 Years but Not More Than 5 Years	More Than 5 Years
Non-derivative financial liabilities:								
Other financial liabilities	30,434	30,434	25,873	353	209	2,807	0	1,191
Trade payables	14,005	14,005	14,005	—	—	—	—	—
Lease liabilities	9,411	9,411	3,014	2,786	995	565	464	1,584
Derivative liabilities	4,130	4,130	3,846	283	—	—	—	—
Total	57,981	57,981	46,739	3,422	1,205	3,372	465	2,776

The cash flows included in the maturity analysis are not expected to occur significantly earlier or in significantly different amounts.

Financial guarantee contracts are not included above. The financial guarantee contracts are subject to payment obligations based on their performance claims. The maximum amount based on performance claims is the amount of the guarantee obligations as stated in Note "33. Contingent Liabilities."

(5) Market Risk

1) Foreign Exchange Risk

SHIONOGI operates internationally, and therefore has trade receivables and payables, forecasted transactions, and loans receivable and long-term loans to Group companies denominated in foreign currencies that are exposed to the risks arising from changes in foreign exchange rates. The Company hedges trade receivables and payables denominated in foreign currencies by using forward foreign exchange contracts and currency option contracts to mitigate the risks of foreign exchange fluctuations identified by currency.

(i) Exposure to Currency Risk

Exposure to currency risk (net) is as follows. The amount of currency risk hedged with derivative transactions is excluded.

	As of March 31, 2022	As of March 31, 2023
USD (Thousands of USD)	42,814	18,063
EUR (Thousands of EUR)	32,607	30,380
CNY (Thousands of CNY)	331,397	433
GBP (Thousands of GBP)	422,938	273,429
TWD (Thousands of TWD)	84,542	104,801

(ii) Foreign Exchange Sensitivity Analysis

The following sensitivity analysis for financial instruments denominated in foreign currencies held as of the end of each fiscal year shows the impact from a ¥1.00 appreciation on profit before income taxes. This sensitivity analysis assumes that all other assumptions are held constant.

Millions of yen

	As of March 31, 2022	As of March 31, 2023
USD	(42)	(18)
EUR	(32)	(30)
CNY	(331)	(0)
GBP	(422)	(273)
TWD	(84)	(104)

2) Market Price Fluctuation Risk

SHIONOGI holds bonds and the equity instruments of business partners, and is therefore exposed to the risk of market price fluctuations. SHIONOGI manages the fair value and financial status of issuers (business partners) on a regular basis, and continuously reviews the status of equity holdings.

(6) Fair Values of Financial Instruments

1) Comparison between Fair Value and Carrying Amount

Millions of yen

	As of March 31, 2022		As of March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments measured at amortized cost:				
Debt securities (non-current)	4,613	4,914	2,666	2,875

The fair value of debt securities (non-current) is mainly determined by quoted market price or price offered by financial institutions. The fair value of financial assets other than the above approximates carrying amount.

2) Fair Value Hierarchy

The fair value hierarchy of financial instruments is classified as follows:

Level 1: Fair value measured at quoted market prices in an active market without adjustment;

Level 2: Fair value measured at directly or indirectly observable prices other than the quoted prices included in Level 1;

Level 3: Fair value measured using valuation techniques that include unobservable inputs

Transfers between levels are recognized on the date when the event or change in circumstances that caused the transfer occurred.

(i) As of March 31, 2022

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at amortized costs:				
Debt securities (non-current)	4,302	―	612	4,914
Financial assets measured at fair value through profit or loss:				
Other	―	―	3,176	3,176
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	38,148	―	193,720	231,868
Other	―	―	698	698
Subtotal	38,148	―	194,418	232,567
Total	42,450	―	198,207	240,658
Financial Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	―	4,636	―	4,636
Contingent consideration	―	―	794	794
Total	―	4,636	794	5,430

(ii) As of March 31, 2023

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at amortized costs:				
Debt securities (non-current)	2,207	–	667	2,875
Financial assets measured at fair value through profit or loss:				
Derivative assets	–	1,008	–	1,008
Other	1,524	–	1,801	3,325
Subtotal	1,524	1,008	1,801	4,334
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	36,854	–	203,266	240,121
Other	–	–	426	426
Subtotal	36,854	–	203,692	240,547
Total	40,586	1,008	206,161	247,757
Financial Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	–	4,130	–	4,130
Contingent consideration	–	–	7,381	7,381
Total	–	4,130	7,381	11,512

Notes:

1. Level 1 financial assets include interest-bearing government bonds and listed shares.
2. Level 2 financial assets and financial liabilities are derivative financial assets and derivative financial liabilities such as forward foreign exchange contracts. Fair values of these financial assets and liabilities are calculated based on the prices offered by financial institutions.
3. Level 3 financial assets are mainly unlisted shares and investments. Fair values of these assets are calculated using valuation techniques based on net asset value, discounted future cash flows or other valuation techniques. Fair value is calculated after a responsible person(s) determines the valuation technique that can appropriately reflect the risk, characteristics, and nature of the asset in accordance with the relevant internal regulations or using an external valuation expert. Unobservable inputs such as future cash flows and discount rates, etc. are used to measure fair value. The weighted-average cost of capital is utilized to measure fair value based on discounted future cash flows; it was 7.0% to 7.2% for the year ended March 31, 2022 and 8.0% to 8.5% for the year ended March 31, 2023. Fair value decreases or increases when the weighted-average cost of capital increases or decreases.

   The effects on fair value as of March 31, 2022 and 2023 when the weighted-average cost of capital is increased or decreased by 1% are as follows:

Millions of yen

	Weighted-average Cost of Capital	
	+1%	-1%
As of March 31, 2022	(4,988)	5,149
As of March 31, 2023	(4,305)	4,636

4. The contingent consideration represents milestone payments based on the status of research and development, and its fair value is calculated in consideration of the possibility of success of the research and development and the time value of money. Fair value increases when research and development, a significant non-observable input, has a greater likelihood of success.

3) Reconciliation of Level 3 Financial Instruments at the Beginning and End of the Reporting Period

A reconciliation of fair value at the beginning and end of the reporting period of financial instruments classified as Level 3 in the fair value hierarchy is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of period	163,955	197,595
Total gain or loss:		
Profit (loss) (Note 1)	132	1,867
Other comprehensive income (Note 2)	31,063	8,723
Purchases	2,508	971
Sales	(0)	(500)
Transfers from Level 3 (Note 3)	—	(3,150)
Other	(64)	(12)
Balance at end of period	197,595	205,493

Changes in unrealized gains and losses recognized in profit or loss for assets held at the end of reporting period	132	(55)

Notes:

1. Included in “Finance income” and “Finance costs” in the consolidated statement of profit or loss
2. Included in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” and “Exchange differences on translation of foreign operations” in the consolidated statement of comprehensive income.
3. Transfer due to the listing of the shares held

(7) Derivatives and Hedge Accounting

The Company uses forward foreign exchange contracts, currency option contracts and interest rate option contracts to hedge foreign exchange fluctuation risk associated with monetary claims and liabilities denominated in foreign currencies and forecasted transactions. The maximum period for which cash flow fluctuations due to foreign exchange fluctuation risk are hedged is approximately 14 months.

Regarding derivative transactions, the Company enters into forward foreign exchange contracts and currency option contracts within the normal scope of transactions in accordance with internal procedures. The Finance & Accounting Department conducts the transactions, and regularly reports results to the Board of Directors meeting to manage transaction information. Consolidated subsidiaries do not engage in derivative transactions.

When applying hedge accounting, in principle, the Company confirms the existence of an economic relationship between the hedged item and the hedging instrument, through qualitative assessment of whether significant terms and conditions of the hedged item match or conform closely to those of the hedging instrument, in order to ensure that the hedged item and the hedging instrument have an economic relationship in which changes in the fair value or cash flows of the hedged item that is attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. The Company performs highly effective hedging, and therefore generally expects that no significant ineffective portion should arise.

In addition, the Company sets an appropriate hedging ratio in light of the economic relationship between the hedging instrument and the hedged item and the risk management strategy.

1) Effect of Hedge Accounting on the Consolidated Statement of Financial Position

Significant derivatives designated as hedging instruments as of March 31, 2022 and 2023 are as follows:

(i) As of March 31, 2022

Hedged Risk	Hedging Instrument	Contract Amount (Total)	Expected Rate (Average)	Carrying Amount (Millions of yen)	
				Derivative Assets	Derivative Liabilities
Foreign Exchange Rate Fluctuation Risk	Forward Foreign Exchange Contracts: GBP sell/JPY buy	GBP 780,000 thousand	JPY 153.40/GBP	—	4,394
	Total			—	4,394

(ii) As of March 31, 2023

Hedged Risk	Hedging Instrument	Contract Amount (Total)	Expected Rate (Average)	Carrying Amount (Millions of yen)	
				Derivative Assets	Derivative Liabilities
Foreign Exchange Rate Fluctuation Risk	Forward Foreign Exchange Contracts: GBP sell/JPY buy	GBP 817,000 thousand	JPY 155.74/GBP	—	4,130
	Total			—	4,130

Derivative assets and liabilities are included in “Other financial assets” or “Other financial liabilities” in the consolidated statement of financial position.

“Effective portion of cash flow hedges” related to ongoing hedging as of March 31, 2022 and 2023 is as follows:

Millions of yen

Hedged Risk	As of March 31, 2022	As of March 31, 2023
Foreign Exchange Rate Fluctuation Risk	(1,718)	(1,313)

Information on changes in fair value of hedged items and hedging instruments used as the basis for recognition of the ineffective portion of hedges has been omitted because the amounts of the ineffective portion of hedges recognized in profit or loss for the years ended March 31, 2022 and 2023 were not material.

2) Effect of Hedge Accounting on the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income

The effects of applying hedge accounting on profit or loss and other comprehensive income for the years ended March 31, 2022 and 2023 are as follows. The amounts of the ineffective portion of hedges recognized in profit or loss for the years ended March 31, 2022 and 2023 were not material.

(i) Year ended March 31, 2022

Millions of yen

Hedged Risk	Gain (Loss) Recognized in Other Comprehensive Income	Reclassification Adjustments from Other Components of Equity into Profit or Loss	Line Item of the Consolidated Statements of Profit or Loss for Reclassification Adjustments
Foreign Exchange Rate Fluctuation Risk	(4,814)	6,289	Revenue and Foreign exchange gain (loss)

(ii) Year ended March 31, 2023

Millions of yen

Hedged Risk	Gain (Loss) Recognized in Other Comprehensive Income	Reclassification Adjustments from Other Components of Equity into Profit or Loss	Line Item of the Consolidated Statements of Profit or Loss for Reclassification Adjustments
Foreign Exchange Rate Fluctuation Risk	(4,288)	4,872	Revenue and Foreign exchange gain (loss)

3) Derivative transactions to which hedge accounting is not applied

(i) Year ended March 31, 2022

Millions of yen

Transaction	Contract amount	Fair value
Currency interest rate swaps	32,156	(242)

(ii) Year ended March 31, 2023

Millions of yen

Transaction	Contract amount	Fair value
Currency interest rate swaps	32,156	992

Transaction	Contract amount (Total)	Valuation gain or loss (Millions of yen)
Forward foreign exchange contracts	GBP 25,000 thousands	16

(8) Movement of Liabilities Arising from Financing Activities

The movement of liabilities arising from financing activities is as follows:

Millions of yen

	Lease liabilities
As of April 1, 2021	7,988
Cash flows from financing activities	
Repayments of lease liabilities	(3,453)
Changes in non-cash items:	
New leases	2,069
Cancellation of leases	(40)
Other	111
As of March 31, 2022	6,675
Cash flows from financing activities	
Repayments of lease liabilities	(3,158)
Changes in non-cash items:	
New leases	6,319
Cancellation of leases	(238)
Other	(186)
As of March 31, 2023	9,411

31. Principal Subsidiaries

(1) Principal subsidiaries

Principal subsidiaries of the Company as of March 31, 2023 are as follows:

No non-controlling interests in a company are material to the Company.

Company name	Location	Main business status	Ownership (%)
Shionogi Pharma Co., Ltd.	Osaka, Japan	Pharmaceutical Business	100
Shionogi Healthcare Co., Ltd.	Osaka, Japan	Pharmaceutical Business	51
Shionogi Techno Advance Research Co., Ltd.	Osaka, Japan	Pharmaceutical Business	100
Shionogi Business Partner Co., Ltd.	Osaka, Japan	Pharmaceutical Business	100
Shionogi Pharmacovigilance Center Co., Ltd.	Osaka, Japan	Pharmaceutical Business	100
UMN Pharma Inc.	Akita, Japan	Pharmaceutical Business	100
Pharmira Co., Ltd.	Hyogo, Japan	Pharmaceutical Business	50.05
Shionogi Inc.	New Jersey, U.S.A.	Pharmaceutical Business	100
Tetra Therapeutics Inc. (Official name: Tetra Discovery Partners Inc.)	Michigan, U.S.A.	Pharmaceutical Business	100
Shionogi B.V.	Amsterdam, Netherlands	Pharmaceutical Business	100
Taiwan Shionogi & Co., Ltd.	Taipei, Taiwan, R.O.C.	Pharmaceutical Business	100
Beijing Shionogi Pharmaceutical Technology Limited	Beijing, China	Pharmaceutical Business	100
Ping An-Shionogi (Hong Kong) Limited	Hong Kong, China	Pharmaceutical Business	51
Ping An-Shionogi Co., Ltd.	Shanghai, China	Pharmaceutical Business	51

(2) Changes in the ownership interest of the parent company in the subsidiary that does not result in loss of control

Year ended March 31, 2022

Not applicable.

Year ended March 31, 2023

On April 1, 2022, Pharmira Co., Ltd., a consolidated subsidiary, issued new shares to a third party and received ¥4,714 million from six companies outside SHIONOGI. As a result, capital surplus and non-controlling interests increased by ¥748 million and ¥3,965 million, respectively.

32. Related Parties

(1) Transactions with Related Parties

Transactions, payables and receivables with related parties have been omitted because they were not material in the years ended March 31, 2022 and 2023

(2) Remuneration for Key Management Personnel

Remuneration for key management personnel is as follows:

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
Basic remuneration	314	332
Bonuses	137	182
Share-based remuneration	98	126
Total	550	640

33. Contingent Liabilities

The Company guarantees the obligations of the following company.

Millions of yen

	Year ended March 31, 2022	Year ended March 31, 2023
PeptiStar Inc.	9,000	9,000

Notes:

1. The obligation is based on the environmental improvement agreement concluded by the Japan Agency for Medical Research and Development (AMED) as Cyclic Innovation for Clinical Empowerment (CiCLE) program.
2. The Company has jointly guaranteed with two companies outside SHIONOGI.

34. Subsequent Events

(Receipt of lump-sum payment associated with termination of the license agreement for the joint development and commercialization of Intuniv and Vyvanse)

In the year ended March 31, 2023, Takeda Pharmaceutical Company Limited (“Takeda”) exercised an option right to acquire any and all of the Company’s interest in Intuniv and Vyvanse, which are treatment drugs for the attention-deficit/hyperactivity disorder (ADHD) under the license agreement for co-development and commercialization in Japan signed by Shire (which integrated with Takeda in 2019) and the Company in November 2011. As a result of Takeda’s exercise of the option, the license agreement for the co-development and commercialization of Intuniv and Vyvanse was terminated, and the transfer of assets pursuant to the exercise of the option began on April 1, 2023. In addition, the Company received a lump-sum payment for the transfer.

The impact on the Company’s financial position and operating results related to the receipt of the lump sum payment under the agreement is currently under review.

(2) Others

1) Quarterly Information for the current fiscal year

(Millions of yen, unless otherwise stated)

(Cumulative period)	Three months ended June 30, 2022	Six months ended September 30, 2022	Nine months ended December 31, 2022	Year ended March 31, 2023
Revenue	71,839	150,779	338,347	426,684
Profit before income tax	40,310	67,978	198,786	220,332
Net profit attributable to owners of the parent	34,722	57,264	157,729	184,965
Basic earnings per share (Yen)	115.17	190.21	527.81	621.31

(Each quarter)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings per share (Yen)	115.17	74.98	340.10	92.55

Note: In September 2022, the Company disposed of 3,000,000 shares of the Company's stock to the trust account of Sumitomo Mitsui Trust Bank, Limited (re-trust trustee: Custody Bank of Japan, Ltd. (Trust Account)) for the Shionogi Infectious Disease Research Promotion Foundation, and such shares are treated as treasury shares. Therefore, the number of such shares is deducted from the average number of ordinary shares during the period in the calculation of basic earnings per share.

2) Significant Legal Actions

・In February 2020, the Company, ViiV Healthcare Company, and ViiV Healthcare UK (No.3) Limited jointly filed a patent infringement action in the U.S. District Court for the District of Delaware against Lupin Limited and Cipla Limited in June 2020, which have filed an application to market a generic version of a compound containing dolutegravir and rilpivirine (brand name in Japan: Juluca) in the United States. The patent infringement action seeks, among other relief, an order that the effective date of any FDA approval based on the aforementioned application shall not be earlier than the expiration dates of the patent for the crystalline form of dolutegravir, which the Company shares with ViiV Healthcare, and the patent related to the compound of dolutegravir and rilpivirine, which is held by ViiV Healthcare. A settlement was reached with Lupin Limited in March 2022, and with Cipla Limited in March 2023.

・In August 2021, the Company, ViiV Healthcare Company, and GlaxoSmithKline Brazil Ltda jointly filed a patent infringement action against Blanver S.A. and Lafepe, which have obtained Partnership for Productive Development (PDP) for dolutegravir (Japanese brand name: Tivicay) in Brazil, over the substance patent for dolutegravir held by the Company with ViiV Healthcare.

・In November 2021, the Company, ViiV Healthcare Company, and ViiV Healthcare UK (No. 3) Limited jointly filed a patent infringement action in the U.S. District Court for the District of Delaware against Lupin Limited and Lupin Pharmaceuticals, Inc., which filed an application to market a generic version of dolutegravir (brand name: TIVICAY PD) in the United States. The patent infringement action seeks, among other relief, an order that the effective date of any FDA approval based on the aforementioned application shall not be earlier than the expiration date of the patent for the crystalline form of dolutegravir, which is held by the Company with ViiV Healthcare. In February 2023, a settlement was reached with Lupin Limited and Lupin Pharmaceuticals, Inc.

・In February 2023, the Company, HOFFMANN-LA ROCHE INC., and GENENTECH, INC. jointly filed a patent infringement action in the U.S. District Court for the District of Delaware against NORWICH PHARMACEUTICALS, INC. and ALVOGEN PB RESEARCH & DEVELOPMENT LLC, which filed an application to market a generic version of baloxavir marboxil (brand name: XOFLUZA) in the United States. The patent infringement action seeks, among other relief, an order that the effective date of any FDA approval based on the aforementioned application shall not be earlier than the expiration date written in the Orange Book of the substance patent for the baloxavir marboxil, etc. held by the Company.

VI. Overview of Stock-related Administration for the Filing Company

Fiscal year	From April 1 to March 31
Ordinary General Meeting of Shareholders	June
Date of record	March 31
Record date for dividends from surplus	September 30 March 31
Number of shares constituting one unit	100 shares
Purchase of shares less than one unit	
Handling office	(Special account) 4-5-33, Kitahama, Chuo-ku, Osaka Stock Transfer Agency Department, Sumitomo Mitsui Trust Bank, Limited
Shareholder registry administrator	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forward office	–
Purchase fee	Gratis
Method of public notice	Electronic public notice (Note)
Special benefit for shareholders	None

Note: Electronic public notices are posted on the Company's website (https://www.shionogi.com).
However, in the event of a failure or other unavoidable circumstances preventing electronic public notice, public notices will be published in the Nikkei (Nihon Keizai Shimbun).

VII. Reference Information on the Filing Company

1. Information on the Parent Company, etc. of the Filing Company

The Company has no parent company, etc. as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

The Company filed the following documents between the beginning of the fiscal year under review and the date of submittal of the Annual Securities Report.

(1) Annual Securities Report and documents attached thereto, and the Confirmation Letter thereof

For the fiscal year (157th fiscal year) (from April 1, 2021 to March 31, 2022) Submitted to the Director, Kanto Local Finance Bureau on June 24, 2022

(2) Amendment to the Annual Securities Report and the Confirmation Letter thereof

For the fiscal year (156th fiscal year) (from April 1, 2020 to March 31, 2021) Submitted to the Director, Kanto Local Finance Bureau on June 22, 2023

(3) Internal Control Report and documents attached thereto

Submitted to the Director, Kanto Local Finance Bureau on June 24, 2022

(4) Quarterly Securities Report and the Confirmation Letter thereof

For the first quarter of the 158th fiscal year (from April 1, 2022 to June 30, 2022) Submitted to the Director, Kanto Local Finance Bureau on August 10, 2022

For the second quarter of the 158th fiscal year (from July 1, 2022 to September 30, 2022) Submitted to the Director, Kanto Local Finance Bureau on November 10, 2022

For the third quarter of the 158th fiscal year (from October 1, 2022 to December 31, 2022) Submitted to the Director, Kanto Local Finance Bureau on February 13, 2023

(5) Extraordinary Report

An extraordinary report according to the provision of Article 19, Paragraph 2, Item 9-2 (Matters that require a resolution of a general meeting of shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Submitted to the Director, Kanto Local Finance Bureau on June 24, 2022

(6) Securities Registration Statement (disposal of treasury shares as restricted stock-based compensation) and documents attached thereto

Submitted to the Director, Kanto Local Finance Bureau on June 23, 2022

Submitted to the Director, Kanto Local Finance Bureau on June 21, 2023

(7) Amendment to the Securities Registration Statement (disposal of treasury shares as restricted stock-based compensation) and documents attached thereto

Submitted to the Director, Kanto Local Finance Bureau on June 24, 2022

(8) Share Buyback Report

Reporting period (from June 1, 2022 to June 30, 2022) Submitted to the Director, Kanto Local Finance Bureau on July 15, 2022

Reporting period (from July 1, 2022 to July 31, 2022) Submitted to the Director, Kanto Local Finance Bureau on August 8, 2022

Reporting period (from August 1, 2022 to August 31, 2022) Submitted to the Director, Kanto Local Finance Bureau on September 9, 2022

Reporting period (from September 1, 2022 to September 30, 2022) Submitted to the Director, Kanto Local Finance Bureau on October 11, 2022

Reporting period (from October 1, 2022 to October 31, 2022) Submitted to the Director, Kanto Local Finance Bureau on November 10, 2022

Reporting period (from November 1, 2022 to November 30, 2022) Submitted to the Director, Kanto Local Finance Bureau on December 9, 2022

Reporting period (from December 1, 2022 to December 31, 2022) Submitted to the Director, Kanto Local Finance Bureau on January 10, 2023

Part II Information on Guarantors, etc. for the Filing Company

Not applicable.

English Translation

Independent Auditor's Reports on the Audit of Financial Statements and the Internal Controls over Financial Reporting

NOTE TO READERS:
The following is an English translation of the Independent Auditor's Report filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

June 21, 2023

The Board of Directors
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC
Osaka, Japan

Yasuhiro Kozaki
Designated Engagement Partner
Certified Public Accountant

Naoki Nakazawa
Designated Engagement Partner
Certified Public Accountant

<The Audit of the Financial Statements>

Opinion

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements of Shionogi & Co., Ltd. and its subsidiaries (SHIONOGI), which comprise the consolidated statement of financial position as of March 31, 2023, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of SHIONOGI as of March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as provided for in Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent SHIONOGI in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Fair Value Measurement of Unlisted Shares (ViiV Healthcare Ltd.)
Description of Key Audit Matter and Reasons Therefor
As described in "Note 17. Other Financial Assets" of the Consolidated Financial Statements, as of March 31, 2023, the Company recorded the shares of ViiV Healthcare Ltd. (hereinafter "ViiV") in the amount of ¥196,046 million, which are classified as financial assets measured at fair value through other comprehensive income, and account for a significant portion, 14.9% of total assets in the consolidated statement of financial position. The evaluation target ViiV is an unlisted company engaged in the development, manufacture, and marketing of anti-HIV drugs, from which the Company receives royalty income according to sales of HIV franchises out-licensed from the Company in prior years. The Company has identified three material issues (materiality) in its attempt at value creation through solving healthcare social issues: (i) Protect people from the threat of infectious diseases; (ii) Contribute to a healthy and prosperous life; and (iii) Improve access to medical services. Among them, the Company places particular emphasis on protecting people from the threat of infectious diseases. In this, the fair value of the stock of ViiV, a company working on treatment and prevention drugs for HIV, one of the three major infectious diseases in the world and whose treatment requires a lengthy period of time, is important for users of financial statements to understand the consolidated financial statements. As described in "Note 2. Basis of Preparation" and "Note 30. Financial Instruments" of the Consolidated Financial Statements, the fair value of the shares of ViiV was measured using valuation techniques that use inputs that are not based on observable market data, such as future cash flows or discount rates. Among many assumptions incorporated in the measurement, significant assumptions are peak sales of products and discount rates due to the reasons below. ・Regarding HIV infection, as anti-HIV drugs have been improved to have high levels of antiviral efficacy, safety, and resistance barrier, the mortality rate of the disease has substantially decreased despite an increase in the number of HIV infections. However, treatment requires a lengthy period of time because drugs should be continuously taken in order to maintain low virus levels in the blood. Therefore, it is necessary to further improve the quality of life of patients (QOL). There are several unmet needs that cannot be satisfied with conventional oral drugs, such as (1) to reduce the burden and anxiety of daily medications, and (2) to live a life without being aware of HIV. As products to satisfy these unmet needs, ViiV has developed and launched Cabenuva for treatment and Apretude for prevention, which are long-acting-type medications that patients are required to take once every two months. Management's estimates for peak sales of the products, including these, which are still at the introductory/growth stage after launch, may have a significant impact on future cash flows. Since they are also affected by sales trends and strategies of competing products, they are associated with the management's subjectivity and uncertainties. Due to the above, significant judgments by management on peak sales of products will be necessary. ・ In estimation of discount rates, advanced expertise on valuation is required in selecting the calculation method and input data. Thus, measurement of the fair value of ViiV shares is affected by significant assumptions involving management's judgments, such as peak sales of products and discount rates, and advanced expertise. As such, we determined this issue as a Key Audit Matter of the consolidated financial statements.
Auditor's Response
In order to evaluate the reasonableness of the fair value measurement of ViiV shares, we performed the following audit procedures among others. ・We involved a valuation expert from our network firm to verify the valuation techniques of fair value measurement related to financial assets. ・Regarding peak sales of products, we discussed with management based on the sales trends and sales strategies of competing products, and examined their consistency with available external data, such as past performance and objective reports by analysts ・Regarding the results of fair value measurement, including discount rates, we compared them with the estimates made by the valuation expert from our network firm using available external data. ・We conducted sensitivity analysis on the discount rate, which is an assumption highly sensitive to the fair value measurement results, and examined the impact on fair value.

Evaluation of intangible assets (in-process research and development) identified from the business combination of Tetra Therapeutics Inc.
Description of Key Audit Matter and Reasons Therefor
As described in “Note 3. Significant Accounting Policies” and “Note 13. Intangible Assets” of the Consolidated Financial Statements, the Company recognizes product or technology in-license agreements, and products or research and development rights acquired through business combinations which are still in the research and development phase and have not yet received marketing approval from regulatory authorities (regulatory approval) as in-process research and development, and includes them in “Intangible assets associated with products.” The Company recognized an impairment loss of ¥11,580 million on in-process research and development for the fiscal year under review. This is mainly the impairment loss of ¥10,497 million associated with the revision of the development plan of Zatolmilast, which is in the stage of Phase II testing as a treatment drug for Alzheimer’s disease, identified from the business combination of Tetra Therapeutics Inc. (hereinafter, “Tetra”). The intangible assets recorded as in-process research and development are not yet available for use and are therefore not amortized until they obtain regulatory approval and become available for use. They are tested for impairment at least annually, and whenever there is an indication of impairment. In testing for impairment of Zatolmilast, the Company measured the recoverable amount at fair value after deducting the disposal cost. Fair value is measured by the excess earnings method, in which many assumptions are incorporated. The significant assumptions used are the likelihood of regulatory marketing approval for pre-launch products, as well as the estimated unit selling prices, the estimated number of patients, and the discount rates used in calculating the current value of excess earnings, which are the elements for sales forecasts after launch. The reasons for selecting these significant assumptions are as follows. ・In general, drug discovery comprises the following processes: 1. basic research such as discovery of a lead compound, which is a candidate compound for a new drug, and optimization of the lead compound to increase its efficacy and safety; 2. non-clinical studies targeting non-humans to evaluate the candidate compound’s efficacy, safety, in vivo kinetics, etc.; and 3. clinical studies targeting humans to confirm the efficacy and safety of the candidate compound. Clinical studies consist of (1) Phase I studies, the initial phase of testing in humans to test safety, (2) Phase II studies, to test efficacy and safety by administering the drug to a relatively small number of patients and to determine the effective dose regimen, and (3) Phase III studies, to test efficacy and safety by administering the drug to a larger number of patients. These research and development activities generally take over 10 years and require a large amount of expenses. The results of research and development activities in each stage and the likelihood of regulatory approval for sales are associated with uncertainties. Therefore, if the recoverable amount declines along with changes in the likelihood of marketing approval, an impairment loss may be recorded. The Company has set “Contribute to a healthy and prosperous life” as one of its material issues (materiality) in value creation through solving healthcare social issues. In its medium-term business plan STS2030 Phase 2, the Company declares its intention to address QOL (Quality of Life) diseases, which have a high social impact, with the aim of satisfying unmet needs. Mentioning dementia and children’s diseases as examples of diseases under specific examination, the Company is accelerating efforts to expand and enhance its product portfolio. In this, the Company is considering continuing research and development on Zatolmilast as a new option for the treatment of Alzheimer’s disease by improving cognitive function. This Zatolmilast is also one of the core pipelines in the STS2030 Revision. For Zatolmilast, since the Company is currently reviewing the development plan targeting the Alzheimer’s disease patients, estimation of the likelihood of regulatory marketing approval in the future is important. Management will be required to make important judgments based on the status of product development and the progress of discussions with regulatory authorities. ・The estimated unit selling prices fluctuate according to changes in the situation, such as the emergence of a competitive product. Therefore, the estimation of unit selling prices, which are an element constituting the sales forecasts after-market launch, are associated with uncertainties. Therefore, estimation of unit selling prices is important, for which significant judgments by management in view of the emergence of competing products and other situations will be required. ・In the central nerve area, such as neuropsychiatric diseases, many patients have not received sufficient treatment effects of drugs because their mechanism of occurrence is still unknown and the factors of occurrence are complex. Although treatment effects may be obtained by using drugs with different mechanisms of action, there are patients who cannot continue to take the drugs because of their side effects. Therefore, estimation of the number of patients in this area in particular is associated with uncertainties. It is also necessary to estimate the number of patients after-market launch by taking into consideration the status of product development and the progress in negotiations with regulatory authorities at the moment and based on external data. It is therefore associated with uncertainties. As such, estimation of the number of patients who will be the target of administration of this treatment drug is important, and thus significant judgment by management will be necessary for the number of patients after the product launch. ・In estimation of discount rates, advanced expertise on valuation is required in selecting the calculation method and input data. Thus, the recoverable amount of Zatolmilast identified from the business combination of Tetra is affected by significant assumptions involving management’s judgments or advanced expertise, such as the likelihood of regulatory approval, the estimated unit selling prices, the estimated number of patients, and the discount rates. As such, we determined this issue as a Key Audit Matter of the consolidated financial statements.
Auditor’s Response
In considering testing for impairment of in-process research and development, we performed the following audit procedures among others. ・We involved a valuation expert from our network firm to verify the valuation techniques of fair value measurement. ・For the likelihood of regulatory marketing approval, we discussed with management and responsible persons of departments in charge on the development status and the probability of success of the products and examined their consistency with past results related to the probability of success at each stage of research and development and consistency with available external data. ・We understood the management’s estimation method for the unit selling price and the number of patients. Moreover, with regard to the efficacy of the treatment drug and the status of competing products, we discussed with management and responsible persons of departments in charge based on the status of product development and the status of competing products and evaluated in view of available external data, which serve as bases of the estimated unit selling prices and the estimated number of patients. ・For discount rates, we evaluated the adequacy of the method of discount rate calculation using a valuation expert from our network firm by employing available external data, and also compared the input data with external information sources.

Other Information

The other information comprises the information included in the Annual Securities Report that contains audited consolidated and non-consolidated financial statements but does not include the consolidated and non-consolidated financial statements and our audit reports thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditors and Board of Corporate Auditors is responsible for overseeing SHIONOGI’s reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, the Corporate Auditors and Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing SHIONOGI’s ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Corporate Auditors and Board of Corporate Auditors is responsible for overseeing SHIONOGI’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

・Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

・Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of SHIONOGI’s internal control.

・Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

・Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SHIONOGI’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause SHIONOGI to cease to continue as a going concern.

・Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.

・Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within SHIONOGI to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditors and Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the Corporate Auditors and Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the Corporate Auditors and Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<The Audit of the Internal Control over Financial Reporting>

Opinion

Pursuant to Article 193-2, paragraph 2 of the Financial Instruments and Exchange Act, we also have audited the accompanying management’s report on internal control over financial reporting of Shionogi & Co., Ltd. and its subsidiaries (SHIONOGI) as of March 31, 2023.
In our opinion, the accompanying management’s report on internal control over financial reporting, which states that the internal control over financial reporting was effective as of March 31, 2023, present fairly, in all material respects, the results of the internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control over financial reporting in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Internal Control over Financial Reporting section of our report. We are independent of SHIONOGI in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditors and Board of Corporate Auditors for the Management’s Report on the Internal Control over Financial Reporting

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the management’s report on the internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.
The Corporate Auditors and Board of Corporate Auditors are responsible for overseeing and examining the design and operation of internal control over financial reporting.
Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor’s Responsibilities for the Audit of the Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the management’s report on internal control over financial reporting is free from material misstatement based on our audit of the internal control over financial reporting and to issue an auditor’s report that includes our opinion.
As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

・Perform audit procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the management’s report on the internal control over financial reporting. The audit procedures for the audit of the internal control over financial reporting are selected and performed, depending on the auditor’s judgment, based on significance of effect on the reliability of financial reporting.
・Evaluate the overall presentation of the management’s report on the internal control over financial reporting, including the appropriateness of the scope, procedures and results of the assessments that management presents.

・Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the management's report on the internal control over financial reporting. We are responsible for the direction, supervision and performance of the audit of the management's report on the internal control over financial reporting. We remain solely responsible for our audit opinion.

We also provide the Corporate Auditors and Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Reports:

This is an English translation of the Independent Auditor's Reports as required by the Financial Instruments and Exchange Act for the convenience of the reader.

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[Document Filed]	Confirmation Letter
[Applicable Law]	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act
[Filed to]	Director, Kanto Local Finance Bureau
[Filing Date]	June 22, 2023
[Company Name]	Shionogi Seiyaku Kabushiki Kaisha
[Company Name in English]	Shionogi & Co., Ltd.
[Title and Name of Representative]	Isao Teshirogi, Representative Director, President and CEO
[Title and Name of Chief Financial Officer]	Not applicable.
[Address of Registered Office]	3-1-8, Doshomachi, Chuo-ku, Osaka
[Place Where Available for Public Inspection]	Shionogi & Co., Ltd. Tokyo Branch Office (Tekko Building, 1-8-2, Marunouchi, Chiyoda-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo)

1. Matters related to the appropriateness of the content presented in the Annual Securities Report

Isao Teshirogi, Representative Director, President and CEO of the Company, has confirmed that the contents of the Annual Securities Report for the Company’s 158th fiscal year (from April 1, 2022 to March 31, 2023) are properly presented in accordance with the Financial Instruments and Exchange Act.

2. Special notes

No material items to report.

[Cover Page]

[Document Filed]	Internal Control Report
[Applicable Law]	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act
[Filed to]	Director, Kanto Local Finance Bureau
[Filing Date]	June 22, 2023
[Company Name]	Shionogi Seiyaku Kabushiki Kaisha
[Company Name in English]	Shionogi & Co., Ltd.
[Title and Name of Representative]	Isao Teshirogi, Representative Director, President and CEO
[Title and Name of Chief Financial Officer]	Not applicable.
[Address of Registered Office]	3-1-8, Doshomachi, Chuo-ku, Osaka
[Place Where Available for Public Inspection]	Shionogi & Co., Ltd. Tokyo Branch Office (Tekko Building, 1-8-2, Marunouchi, Chiyoda-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo)

1. Matters relating to the basic framework for internal control over financial reporting

Isao Teshirogi, Representative Director, President and CEO of the Company, is responsible for designing and operating effective internal control over financial reporting of SHIONOGI (the Company and its affiliates), and has designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The assessment of internal control over financial reporting was performed as of March 31, 2023, which is the final day of the fiscal year ended March 31, 2023. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls that may have a material effect on financial reporting overall on a consolidation basis (entity-level controls), and based on the results of this assessment, we selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of our financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of internal controls.

We determined the necessary scope for assessment of internal control over financial reporting for the Company and its consolidated subsidiaries from the perspective of materiality that may affect the reliability of financial reporting. Materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. In light of the results of assessment of entity-level internal controls, which covered the Company and 14 consolidated subsidiaries, we reasonably determined the scope of assessment of internal controls over business processes. Note that 31 consolidated subsidiaries are not included in the scope of assessment of entity-level internal controls, because they are considered to be immaterial in terms of quantitative and qualitative impacts.

Regarding the scope of assessment of internal control over business processes, we accumulated the business locations to be tested in descending order of revenue (after elimination of intercompany transactions) for the fiscal year ended March 31, 2022, and the one location whose combined consolidated revenue reached two-thirds of the total amount on a consolidation basis was selected as a "significant business location." We included in the scope of assessment, at the selected significant business location, business processes leading to revenue, accounts receivable - trade, and inventories as significant accounts that may have a material impact on the business objectives of SHIONOGI. Further, not only for the selected significant business location, but also for all the business locations, we also selected for testing, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates or forecasts and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of the fiscal year ended March 31, 2023, we concluded that SHIONOGI's internal control over financial reporting was effectively maintained.

4. Additional notes

No material items to report.

5. Special notes

No material items to report.