

## Items Disclosed on Internet Concerning Notice of Convocation of the 155th Annual General Meeting of Shareholders

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**SHIONOGI & CO., LTD.**

Pursuant to the Companies Act and Article 14 of Shionogi's Articles of Incorporation,  
the above are available to shareholders through our Internet website

(<http://www.shionogi.co.jp/en/>)

# 1 Overview of Operations

## (1) Business Results and Financial Position

### 1) Business Results and Financial Position of the Corporate Group

(Millions of yen)

Classification	FY2015	FY2016	FY2017	FY2018	FY2019
Net sales	309,973	338,890	344,667	363,721	334,958
Operating income	91,406	108,178	115,219	138,537	125,231
Ordinary income	100,869	123,031	138,692	166,575	151,751
Profit attributable to owners of parent	66,687	83,879	108,866	132,759	121,295
R&D expenses	49,787	59,907	59,945	68,325	47,193
Total assets	631,599	661,499	711,463	778,741	773,650
Net assets	513,877	526,211	604,840	672,429	683,647
Earnings per share	yen 204.83	yen 259.88	yen 342.71	yen 424.31	yen 392.80
Net assets per share	yen 1,564.73	yen 1,638.46	yen 1911.36	yen 2,144.33	yen 2,248.69
Dividend per share	yen 62.00	yen 72.00	yen 82.00	yen 94.00	yen 103.00 <sup>*1</sup>
Return on Equity	% 13.6	% 16.3	% 19.4	% 20.9	% 18.0
Dividend on Equity	% 4.1	% 4.5	% 4.6	% 4.6	% 4.7 <sup>*1</sup>

Notes:

1. The figures presented for dividend per share and dividend on equity are the amounts in the event Proposal No. 1 is approved without changes by the 155th Annual General Meeting of Shareholders.
2. Shionogi has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) to FY2018. This accounting standard has been retrospectively applied to figures for FY2015 through FY2017.

## 2) Business Results and Financial Position of the Company

(Millions of yen)

Classification	FY2015	FY2016	FY2017	FY2018	FY2019
Net sales	283,428	305,256	315,941	327,991	293,865
Operating income	102,212	108,513	116,907	138,366	116,107
Ordinary income	103,642	108,113	117,534	139,836	121,265
Profit (loss)	74,975	28,767	89,135	100,037	88,640
Total assets	589,765	559,714	584,964	612,336	580,804
Net assets	485,167	451,572	500,510	533,261	530,482
Earnings (losses) per share	yen 230.28	yen 89.13	yen 280.60	yen 319.73	yen 287.05
Net assets per share	yen 1,489.09	yen 1,415.22	yen 1,590.50	yen 1,711.39	yen 1,744.81

Note: Shionogi has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) to FY2018. This accounting standard has been retrospectively applied to figures for FY2015 through FY2017.

### (2) Main Operations of the Shionogi Group

The Shionogi Group mainly manufactures and sells pharmaceutical products.

### (3) Main Offices, Plants, and Laboratories of the Shionogi Group

		Name	Location
Domestic	Head Office and Branches	Head Office	Osaka, Osaka Prefecture
		Tokyo Branch Office	Chiyoda-ku, Tokyo
	Sites	Administration Office of Kuise Site	Amagasaki, Hyogo Prefecture
		Umeda office	Osaka, Osaka Prefecture
		Human Health Care Division Office	Osaka, Osaka Prefecture
	Research Laboratories	Shionogi Pharmaceutical Research Center	Toyonaka, Osaka Prefecture
	Plants <sup>*2</sup>	Settsu Plant	Settsu, Osaka Prefecture
		Kanegasaki Plant	Isawa-gun, Iwate Prefecture
		Tokushima Plant	Tokushima, Tokushima Prefecture
Overseas <sup>*2</sup>	Shionogi Inc.		New Jersey, U.S.
	Shionogi B.V.		Amsterdam, Netherlands
	Taiwan Shionogi & Co., Ltd.		Taipei, Taiwan, R.O.C.
	C&O Pharmaceutical Technology (Holdings) Limited		Shenzhen, China

Notes:

1. In addition to the above list, the Company has business offices in every major city in Japan.
2. Bases in subsidiaries

#### **(4) Employees**

##### **1) Number of Employees of the Corporate Group**

Number of Employees	Y on Y Change
5,222	(11)

Note: The number of employees includes personnel that external companies assign to the Shionogi Group and excludes personnel that the Shionogi Group assigns to external companies and temporary personnel.

##### **2) Number of Employees of the Company**

Number of Employees	Y on Y Change	Average Age	Average Number of Years with the Company
2,667	(929)	41.3	15.9

Note: The number of employees decreased by 929 compared to the end of the previous fiscal year, mainly because of the transfer to Shionogi Pharma Co., Ltd..

#### **(5) Main Loans from Banks**

Not applicable.

## 2. Stock Acquisition Rights

### 1) Stock Acquisition Rights Issued as Remuneration to and held by Company Directors as of March 31, 2020

Title (Issue Date)	Date of issue resolution	Number of stock acquisition rights	Class and number of shares to be issued	Issue price per stock acquisition rights	Exercise price per stock acquisition rights	Stock acquisition rights exercise period	Status of director holdings (Rights holders)
FY2011 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2011)	June 24, 2011	252	25,200 shares of common stock	113,000 yen	100 yen	July 12, 2011 to July 11, 2041	217 (3)
FY2012 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 12, 2012)	June 27, 2012	316	31,600 shares of common stock	91,700 yen	100 yen	July 13, 2012 to July 12, 2042	371 (3)
FY2013 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2013)	June 26, 2013	172	17,200 shares of common stock	193,100 yen	100 yen	July 12, 2013 to July 11, 2043	201 (3)
FY2014 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 10, 2014)	June 25, 2014	178	17,800 shares of common stock	190,000 yen	100 yen	July 11, 2014 to July 10, 2044	206 (3)
FY2015 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 9, 2015)	June 24, 2015	99	9,900 shares of common stock	455,400yen	100 yen	July 10, 2015 to July 9, 2045	99 (3)
FY2016 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 8, 2016)	June 23, 2016	85	8,500 shares of common stock	525,700yen	100 yen	July 9, 2016 to July 8, 2046	85 (3)
FY2017 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 7, 2017)	June 22, 2017	85	8,500 shares of common stock	574,200yen	100 yen	July 8, 2017 to July 7, 2047	85 (3)

Notes:

1. Each stock acquisition right is exercisable into 100 shares of common stock.
2. The issue price is the sum of the fair value of the stock acquisition rights on the allotment date and the amount to be paid upon exercise (¥1 per share) of the stock acquisition rights. The recipients of the allotted stock acquisition rights (stock acquisition rights holders) will have an amount equal to the issue price deducted from their remuneration as payment.
3. During the stock acquisition rights exercise period, Company directors who are stock acquisition rights holders who cease to be a Company director may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction. Other conditions for exercising the rights are stipulated in the Stock Acquisition Rights Agreement concluded between the Company and the stock acquisition rights holders.
4. Of the above, FY2011 stock acquisition rights, FY2012 stock acquisition rights, FY2013 stock acquisition rights and FY2014 stock acquisition rights granted to one director were granted before the director was appointed.
5. Shionogi does not allot share subscription rights to outside directors and corporate auditors.

### 2) Stock Acquisition Rights Issued as Remuneration to Company Employees during Fiscal 2019

Not applicable.

### **3. Independent Accounting Auditor**

#### **(1) Name of Independent Accounting Auditor**

Ernst & Young ShinNihon LLC

#### **(2) Compensation Paid to Independent Accounting Auditor for the Fiscal Year Ended March 31, 2020**

1. Compensation paid to the Independent Accounting Auditor for the fiscal year ended on March 31, 2020:

106 million yen

2. Total of cash and other financial profits payable by the Company and its subsidiaries to the Independent Accounting Auditor:

106 million yen

Notes:

1. The audit agreement entered into between the Independent Accounting Auditor and the Company does not clearly distinguish the amount of the auditor's compensation being derived from the audit under the Companies Act and that being derived from the audit under the Financial Instruments and Exchange Law, and the two amounts cannot be substantially distinguished from each other. Therefore, the amount in 1 above includes both of these two kinds of amounts.
2. For the amount in 1 above, the Board of Corporate Auditors received explanations from the Independent Accounting Auditor about the audit plan (including audit policies, items, team structure, expected time, and changes from the previous year) and the estimated amount of compensation, performed comparisons with the previous year's plan and actual results, compensation amount and compensation rate per unit of time, and checked and considered the opinions of related internal departments. As a result, the Board of Corporate Auditors judged and agreed that the amount of compensation was reasonable.

#### **(3) Company Policy regarding Dismissal or Decision Not to Reappoint Independent Accounting Auditor**

In the event that the Company concludes that the Independent Accounting Auditor falls within the scope of any of the items in Article 340, Paragraph 1 of the Companies Act, its policy is for the Board of Corporate Auditors to dismiss the Independent Accounting Auditor with the consent of all Corporate Auditors.

In addition, in the event that the Company concludes that the appropriateness of the Independent Accounting Auditor's execution of its duties cannot be ensured in light of the criteria for proper evaluation of the Independent Accounting Auditor established by the Company, its policy is not to reappoint the Independent Accounting Auditor by resolution of the Board of Corporate Auditors.

#### **(4) Reason the Board of Corporate Auditors Did Not Make a Decision Not to Reappoint the Independent Accounting Auditor**

The Board of Corporate Auditors received a report and requested an explanation from the Independent Accounting Auditor concerning the execution status of duties. The Board of Corporate Auditors conducted a rigorous evaluation and held discussions through an appropriate process based on the Board's Evaluation Criteria for Independent Accounting Auditors. As a result of this process, the Board of Corporate Auditors reached a decision that reappointment was appropriate, but will continue to monitor the Independent Accounting Auditor's operations.

## 4. Systems and Policies of the Company

**The systems to assure appropriate execution of the Directors' duties in accordance with the related regulations and the Articles of Incorporation; and other systems to assure appropriate business operations.**

### **(1) Summary of status of systems to assure appropriate business operations**

The status of these systems in the fiscal year ended March 31, 2020 in accordance with the basic policy for construction of systems to assure appropriate business operations (the Basic Policy for Construction and Operation of Internal Control System) is summarized below.

#### 1) Matters concerning directors' execution of duties

The Board of Directors (composed of six directors, including three outside directors) met 13 times in the fiscal year ended March 31, 2020, and made appropriate decisions on important matters that require management's judgment in accordance with laws and regulations and the Company's Articles of Incorporation. The five corporate auditors supervised directors' execution of their duties.

The Company has adopted the corporate officer system to clarify the executive and supervisory roles of management while facilitating responsive and flexible business operations. Important matters concerning business execution are decided efficiently and in accordance with laws by the Board of Directors based on discussions of the Corporate Executive Meeting, which is composed of directors, standing corporate auditors and corporate officers responsible for business execution and meets regularly (weekly). The Board also monitors the execution of business by business execution departments and major Group companies by having them report regularly on the condition of their business operations.

In accordance with the Basic Views and Guidelines on Corporate Governance, the Company carried on from FY2019 to report the status of cross-shareholdings and the status of investment of corporate pension funds to the Board of Directors.

To ensure the reliability of financial reporting, the Board of Directors performs evaluations of internal controls based on plans, and calls attention to any improvements that are needed.

For protection and management of information, the Company has updated the Shionogi Group Information Management Policy and established an information security system, and properly stores and manages information by using electronic records and others, in accordance with laws and regulations.

#### 2) Matters concerning compliance

To assure legal compliance and ethical behavior in its business activities, President and CEO repeatedly refers to the importance of corporate ethics in the president's message issued quarterly. This helps to ensure thorough awareness of compliance among the Group's officers and employees.

The Compliance Committee (chaired by President and CEO) holds discussions on compliance issues on a quarterly basis and provides regular compliance training and harassment training to support compliance in business execution departments. To promote the compliance system, the supervisory role of the Board of Directors is further strengthened by having the Compliance Committee make reports to the Board of Directors on the state of its compliance activities twice a year.

To verify the effectiveness of its internal control system, the Company continued monitoring by the Internal Control Department and set up a compliance hotline and a whistleblowing hotline as an internal reporting system in the Bureau of the Compliance Committee (the Company's Corporate Social Responsibility Department) and at an external law firm, and also set up a harassment hotline and overtime hotline internally and in the Company labor union to promote prevention and early detection of compliance violations, harassment and overwork, and to prevent their recurrence.

#### 3) Matters concerning risk management

To maintain and promote a comprehensive crisis management system, including a business continuity plan (BCP), the Shionogi Group significantly enhanced its BCP in FY2019, assuming the occurrence of a major earthquake or pandemic. Although the BCP, which was first established in 2014, had been updated on a regular basis, it only included business continuity and not the prior measures and initial reaction phases. This resulted in low correlation, leaving room for improvement in the responses to be taken when a disaster occurs. Therefore, the plan was re-established as a new BCP by integrating the individual plans and the actions to be taken at each phase comprehensively reviewed by all organizations and plants. So as to further ensure the commitment of the head of each organization to the process of the re-establishment, members of management and heads of organizations were appointed as BCP managers and were once again taught the concept and philosophy of the Shionogi Group's BCP, which led to the enhancement of the BCP.

As a result, although new coronavirus infections broke out across the world in the end of FY2019, including some cases at the Shionogi Group, the responses subsequently taken in accordance with the revised BCP have enabled the Group to end the fiscal year without major trouble in the company's operations. On the other hand, the Company has found issues in identifying work that can be done from home, allowing business to continue, and developing IT infrastructure for working from home. With the coronavirus threat continuing in FY2020, Shionogi will continue to tackle the various issues including the above and strengthen the resiliency of the Shionogi Group. For enterprise risk management, the Corporate Strategy Meeting led by the head of the Corporate Strategy Division will take charge.

While Shionogi had regularly identified negative risks that have a major impact on a company, it is making efforts to extract managerial risks further by expanding its views and interpretations toward risk. In particular, it has identified significant inherent risks with the secretariats of important meeting bodies, as well as executive officers and heads of organizations important within the value chain. The Company will take more effective risk responses by planning and developing appropriate countermeasures against these risks and implementing the PDCA cycle of verification and action. In addition, the Company, with its Sustainability Management Office taking the lead, is focusing on actualizing the Shionogi Group EHS\* Policy, which was established in October 2015. Shionogi has set the Shionogi Group EHS Action Targets, and built a Group-wide EHS system to help create safe and secure workplaces and enrich society by protecting the global environment, preventing pollution, and ensuring the health and safety of all those who work with us as well as the communities in which we operate. At the same time, it has established EHS management rules as part of a management system at the Shionogi Group.

The Internal Control Department, which is in charge of internal auditing, conducts verifications and evaluations from an independent position on the state of risk management within the Company.

\*EHS: Environment, Health and Safety

4) Matters concerning the Group company management system

Based on the Rules for Management of Shionogi Group Companies, individual departments in charge of relevant Company business guide and supervise the business of subsidiaries, and the Company dispatches directors and corporate auditors to subsidiaries to supervise and audit their business execution.

In order to enhance the corporate value of the Group as a whole and fulfill its social responsibility, the Company familiarizes Group companies with the Company Policy and Action Guideline. In addition, the Human Resources & Administration Department promotes appropriate subsidiary management with measures such as training for Group company executives, while the Internal Control Department verifies the appropriateness and effectiveness of business execution at Group companies.

5) Matters concerning corporate auditors' execution of duties

Corporate auditors attend Board of Directors meetings, the Corporate Executive Meeting and other key meetings, obtain information related to business execution and management and information related to internal controls in a timely manner, and regularly meet with representative directors and department general managers to exchange opinions. In addition, they have established a framework for close cooperation with the Independent Accounting Auditor and the Internal Control Department to ensure the effectiveness of audits.



At the request of the corporate auditors, multiple employees were assigned to assist the auditors in their duties. Under the direction of the corporate auditors, they provided assistance as necessary in the corporate auditors' work, including assessment of the Independent Accounting Auditor by the Board of Corporate Auditors.

The Group Company Audit Liaison Committee, led by a standing corporate auditor, holds meetings regularly to verify the status of audits of the overall Group through measures including the exchange of opinions on the issue and risks of each Group company, and to ensure the effectiveness of audits.

In the fiscal year ended March 31, 2019, the Group Company Audit Liaison Committee held eight meetings, and also held extraordinary meetings on important matters. The Committee broadly tested the appropriateness and effectiveness of management, compliance, risk management and the effectiveness of internal controls, and provided advice and suggestions to management as necessary.

## **(2) Systems to assure appropriate business operations**

Based on operations during the fiscal year in accordance with the Basic Policy for Construction and Operation of Internal Control System on April 24, 2020, at the meeting of the Board of Directors, the Company passed a resolution to amend the basic policy for construction of systems to assure appropriate business operations ("The Basic Policy for Construction and Operation of Internal Control System") as follows:

The Company will promote clear and reliable operations by sharing their philosophy and their sense of values contained in “Shionogi’s Policy” among the Company, officers and employees and by execution of the Company’s duties satisfying the requirements of “compliance”.

For the purpose of enhancing effective execution, the company will prepare and operate the systems to assure appropriate business operations as follows:

**(1) A system to assure appropriate execution of the Directors’ duties in accordance with the related regulations and the Articles of Incorporation.**

The Board of Directors will make decisions on material matters of management based on appropriate business judgments in accordance with the Board of Directors Regulations, and each director will supervise the execution of the other directors’ duties and prevent the other directors’ violation of the related laws, regulations and the Articles of Incorporation.

The Board of Directors will strive to achieve sustainable growth for the Shionogi Group and work to increase corporate value over the medium and long term by practicing the Basic Views and Guidelines on Corporate Governance, which were established to realize the best possible corporate governance.

In the event that a director finds the instance of another directors’ violation of the related laws, regulations and the Articles of Incorporation, such director will immediately report to the corporate auditors and the Board of Directors and correct such violation.

In order to establish proper corporate governance systems, the Company introduced outside directors to make decisions with a broader view of the matter taking into consideration the objective views of third parties including shareholders.

The outside directors recognize the corporate responsibility which the Company should achieve from their perspective as independent directors, and contribute to the improvement of management transparency.

To ensure the reliability of financial reporting, the Company maintains and implements internal controls over financial reporting, and appropriately evaluates and reports on their effectiveness.

The corporate auditors will audit the execution of duties by the directors, and the directors will co-operate in such audit.

The Company will constantly keep the officers and employees informed about “Shionogi’s Policy” and “Shionogi’s Action Guidelines” set forth as the Company’s philosophy and “Shionogi’s Behavior Charter” providing how the officers and employees should act, and the compliance committee presided by a representative director will establish and promote the measures for the compliance with the related laws, regulations and ethical behavior in its business operations.

Based on Shionogi’s “Behavior Charter”, the Company consistently and resolutely resists the influence of antisocial forces and precludes any connection with them

**(2) A system for storage and management of information related to execution of the directors’ duties.**

The Company has established a security system for the information related to execution of the directors’ duties, including documents and signatures electronically recorded.

The minutes of the Board of Directors’ meetings, the corporate executive meetings and the compliance committee meetings, and the documents on decisions approved by the representative director, etc., will be properly and strictly stored in the manner appropriate to the form they have been recorded in and will be accessible for the appropriate period in accordance with the related laws and regulations.

**(3) A system and other rules for management of risk of loss**

The Company will establish, improve and maintain a comprehensive risk management system, including a business continuity plan, in accordance with the Shionogi Group Risk Management Policy.

Each division will understand the internal risk factors, and take an appropriate action for avoidance or decrease of such risks by means of countermeasures according to the degree of such risk.

Especially, countermeasures for material risks which may have an influence on the Company's management will be discussed and determined at the corporate executive meeting and the responsible department will take appropriate action in cooperation with the related divisions based on such determination.

Moreover, with regard to emergency risks such as disasters, accidents and company scandals, etc., the Company enacted the "Crisis Management Policy" and defined the "Compendium for Disaster Measures", the "Compendium for Pandemic Measures" and the "Compendium for Corporate Scandals Measures" based on the policy, and the Company will promote crisis management while aiming to reflect respect for human life, be considerate of and contribute to regional communities and suppress derogation of corporate value.

In accordance with the Shionogi Group EHS\* Policy, the Shionogi Group strives to conduct business activities in a manner that gives consideration to protection of the global environment, prevention of pollution, and support of the health and safety of its employees and the local communities in which Shionogi Group companies operate.

The Internal Control Department (section for internal control) will verify the management system for various risks independently from the Company's other divisions.

\*EHS: Environment, Health and Safety

#### (4) A system to assure efficient execution of the directors' duties.

The Company has clearly allocated the role of execution and supervision of operations, and for the purpose of the flexible operation, the corporate executive officer system was introduced.

The regularly (weekly)-held corporate executive meeting will fully discuss the material matters regarding the business operation, and the Board of Directors will make a decision based on the result of such deliberation.

The decision at the Board of Directors meeting and the results of deliberation at the corporate executive meeting will be communicated to the general manager of the related department allocated the role of execution of business operations, and such general manager will follow the necessary procedures for business operations in accordance with the regulations concerning allocation of responsibility and duties.

#### (5) A system to assure appropriate execution of the employees' duties in accordance with the related laws, regulations and the Articles of Incorporation.

The Company will further promote the measures for the compliance with the related laws, regulations and ethical behavior in its business operations mainly through the compliance committee in accordance with "Shionogi Group Compliance Policy".

A secretariat of the Compliance Committee has been established in the General Administration Department. It will implement compliance training and harassment training, as well as assist each department in managing compliance and harassment risk.

In addition, to verify the effectiveness of its internal control system, the Company will enhance internal audits by the Internal Control Department to strengthen its monitoring

capabilities, and will make full use of its internal reporting system and consultation hotlines to work for the prevention and early detection of misconduct and prevention of its recurrence.

**(6) A system to assure appropriate operation of business by the corporate group comprised of the company and subsidiaries.**

The Company and the group companies will improve the value of the corporate group, and keep the group companies informed about “Shionogi’s Policy” and “Shionogi’s Action Guidelines” in order to fulfill the corporate group’s social responsibility.

Directors will receive reports on business operations from group companies, and will properly manage and guide group companies based on the “Rules for Management of Shionogi Group Companies” in order to realize Shionogi’s Company Policy, Action Guidelines and Business Plan.

Group companies will promote appropriate and efficient business operations by conducting business management in accordance with the policies and guidelines mentioned above.

Operating divisions, including the Pharmaceutical Research Division and Pharmaceutical Commercial Division, and administrative divisions, including the General Administration Department and the Finance & Accounting Department, will manage and provide support for appropriate business operations of group companies, with the General Administration Department in charge of overall administration.

The Internal Control Department will conduct surveys as required to ensure the appropriateness and effectiveness of the business operations of group companies. In addition, the Finance & Accounting Department and the Internal Control Department conduct audits of group companies.

**(7) Matters regarding employees assigned to assist the corporate auditors’ duties by the request from the corporate auditors, and matters regarding independence of such employees from the directors.**

The Company will assign employees to assist the corporate auditors’ duties according to the request from the corporate auditors based upon their needs.

The Company will ensure the system that the employees assigned will be independent from the directors.

The Company will make it generally known among the directors and employees that employees assigned to assist the corporate auditors’ duties follow the instructions of the corporate auditors.

**(8) A system for reporting to the corporate auditors by directors and employees, and other systems regarding the reporting to the corporate auditors**

The corporate auditors will attend the material meeting such as the Board of Directors and the corporate executive meeting etc. and establish the system to obtain the information relating to the business operations and management, and efficacy of the internal control in a timely manner.

The corporate auditors may directly instruct directors and corporate officers etc. to report on the business operations.

The directors or responsible employees for execution will inform the corporate auditors, either in writing or orally, of a fact that could cause substantial damage to the Company or group companies, a potential and actual situation that markedly impairs the Company’s reputation, and illicit or wrongful acts by the officers or employees such as breaches of the law.

The Company will guarantee that officers or employees of the Company or group companies who make reports to the corporate auditors do not receive unfavorable treatment as a result of making such reports.

When a corporate auditor makes a claim to the Company for prepayment of expenses or other

reason related to the execution of these duties, the Company will promptly process such expenses or debt, except where it is considered unnecessary.

**(9) Other systems to assure effective audits by corporate auditors.**

The corporate auditors will improve upon the audit to make it more effective by cooperating with the accounting auditors and the Internal Control Department in conducting the audit as well as in advising and recommending, and by regularly holding opinion exchange meetings with the representative directors.

In addition, to ensure the effectiveness of audits throughout the group, the corporate auditors have established the “Group Company Audit Liaison Committee” and hold meetings regularly to exchange opinions on the issue and risks of Group companies.

## Consolidated Statements of Changes in Net Assets

(Year ended March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	21,279	20,512	639,461	(28,882)	652,371
Changes of items during period					
Dividends of surplus			(31,134)		(31,134)
Profit attributable to owners of parent			121,295		121,295
Purchase of treasury stock				(50,020)	(50,020)
Disposal of treasury stock		(420)		1,602	1,182
Change in equity due to acquisition of consolidated subsidiary shares		786			786
Other		420	(420)		-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	786	89,741	(48,409)	42,117
Balance at the end of current period	21,279	21,298	729,202	(77,292)	694,489

	Accumulated other comprehensive income					Subscription rights to shares	Non-Controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	28,927	747	(18,370)	3,826	15,130	527	4,400	672,429
Changes of items during period								
Dividends of surplus								(31,134)
Profit attributable to owners of parent								121,295
Purchase of treasury stock								(50,012)
Disposal of treasury stock								17,759
Change in equity due to acquisition of consolidated subsidiary shares								786
Other								-
Net changes of items other than shareholders' equity	(14,905)	3,540	(13,850)	(1,288)	(26,503)	(88)	(4,307)	(30,900)
Total changes of items during period	(14,905)	3,540	(13,850)	(1,288)	(26,503)	(88)	(4,307)	11,217
Balance at the end of current period	14,022	4,287	(32,220)	2,537	(11,372)	438	92	683,647

## Notes on Consolidated Financial Statements

### (Significant Basic Items for Preparing Consolidated Financial Statement)

#### 1. Scope of consolidation

Number of consolidated subsidiaries: 45

Names of significant consolidated subsidiaries

Shionogi Pharma Co., Ltd., Shionogi Healthcare Co., Ltd.,

Shionogi Inc., Shionogi B.V., Taiwan Shionogi & Co., Ltd.,

C&O Pharmaceutical Technology (Holdings), Limited

(Newly consolidated) Subsidiaries newly established: 1

Subsidiaries newly purchased: 1

(Exclusion) Decrease due to merger: 3

Decrease due to liquidation: 1

During the consolidated fiscal year, Shionogi Pharma Chemicals Co., Ltd. and Shionogi Analytics Center CO., Ltd. were dissolved in a merger with consolidated subsidiary Shionogi Pharma Co., Ltd. as the surviving company.

#### 2. Application of equity method

(1) Number of unconsolidated subsidiaries and affiliates accounted for by the equity method

No unconsolidated subsidiaries and affiliates were accounted for by the equity method.

(2) That portion of the net profit (loss) of the affiliates not accounted for by the equity method

which was attributable to six companies (TAKATA Pharmaceutical Co., Ltd., etc.) in

proportion to its shareholding ratio had no significant effect on the consolidated net income of the Company for the current period.

#### 3. Closing date of consolidated subsidiaries

Thirty consolidated subsidiaries are overseas consolidated subsidiaries.

Nineteen of these overseas consolidated subsidiaries close their accounts on December 31. In preparing the consolidated financial statements, the financial statements of these subsidiaries as of December 31 are used.

Moreover, one of these overseas consolidated subsidiaries close their accounts on June 30. In preparing the consolidated financial statements, the financial statements of these subsidiaries as of December 31 are used.

The necessary adjustments have been made to reflect any significant transactions occurring between this closing date and the date of the consolidated financial statements.

#### 4. Significant accounting policies

(1) Basis and method of valuation of significant assets

1. Securities

• Other securities

Market value available

At fair value, based on market price or other appropriate quotation as of period end (Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)

Market value not available

At cost determined by the moving average method

The securities based on the Financial Instruments and Exchange Law article 2.2 are evaluated at their net profit/loss (equity method).

2. Assets held in trust for management

Market value method

3. Derivatives

Market value method

4. Inventories

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

- (2) Depreciation method of significant depreciable assets
  1. Property, plant and equipment (excluding lease assets)
 

Items are depreciated by the straight-line method

The main useful life is as follows

Buildings and structures: from 2 years to 60 years

Machinery, equipment and vehicles: from 2 years to 17 years
  2. Intangible assets (excluding lease assets)
 

Items are depreciated by the straight-line method

Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).
  3. Lease assets
 

For lease transactions not involving transfer ownership, lease assets are depreciated over their useful lives using the straight-line method until the residual value reaches zero.
- (3) Basis for providing significant allowances and provisions
  1. Allowance for doubtful accounts
 

The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.
  2. Provision for bonuses
 

To prepare for payment of bonuses to employees, a provision for bonuses is provided based on the estimated amount of bonuses to be paid.
  3. Provision for sales returns
 

The Company provides for loss on product returns in an amount equivalent to the income on the sale of products that the Company estimates will be returned. Certain consolidated subsidiaries provide for loss on product returns in an amount equivalent to the income on the sale of products that they estimate will be returned.
- (4) Foreign currency translation
 

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates in effect as of the balance sheet date. Gain or loss on translation is credited or charged to income; however, assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the spot exchange rates in effect as of the balance sheet dates. Income and expenses of consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rate during the period. Adjustments resulting from translating the foreign currency financial statements are reported as foreign currency translation adjustments and non-controlling interests in net assets in the consolidated balance sheets.
- (5) Significant hedge accounting
  1. Method of hedge accounting
 

In principle, deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward foreign exchange contracts that meet specified conditions. Hedges that meet conditions for the special treatment of interest-rate swaps are accounted for separately.
  2. Hedging instruments and hedged items
    - Hedging instruments: Forward foreign exchange contracts, currency options and interest-rate swaps
    - Hedged items: Foreign currency-denominated claims and obligations, forecast transactions and debt
  3. Hedging policy
 

The Company enters into forward foreign exchange contracts and uses currency options with the objective of hedging the risk of exchange rate fluctuations in connection with its foreign currency-denominated claims and obligations and forecast transactions. Additionally, the Company also enters into interest-rate swaps with the objective of hedging the risk of interest rate fluctuations relating to its debt.
  4. Methods for evaluating the effectiveness of hedging
 

The Company evaluates the effectiveness of its hedging practices by comparing the cash flow fluctuations for hedged items and hedging methods and using changes in both as a basis for its evaluation. However, evaluations concerning the effectiveness of forward



foreign exchange contracts accounted for by the allocation method and interest rate swaps accounted for using special treatment are omitted.

(6) Amortization of goodwill

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

(7) Other significant accounting policies

1. Consumption tax

Amounts reflected in the consolidated financial statements are stated exclusive of consumption tax.

2. Net defined benefit liabilities

To prepare for the payment of retirement benefits to employees, a provision for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end.

i) Method of attributing expected benefit to periods

In calculating the retirement benefit obligation, the method of attributing expected benefits to periods up until the end of the fiscal year is based on the benefit formula basis.

ii) Amortization method of actuarial gain or loss and prior service cost

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

Unrecognized actuarial gains and losses and unrecognized prior service costs are recorded in remeasurements of defined benefit plan in accumulated other comprehensive income.

### (Notes on Consolidated Balance Sheets)

1. All amounts are rounded down to the nearest million yen.
2. Accumulated depreciation amount of property, plant and equipment 181,908 million yen

### (Notes on Consolidated Statements of Income)

1. All amounts are rounded down to the nearest million yen.
2. Gain on sales of non-current assets  
Mainly consists of gains from the sale of the training institute and real estates of Shionogi & Co., Ltd.
3. Gain on step acquisitions  
Consists of gain from step acquisition of stocks of UMN Pharma Inc.
4. Compensation Payment  
Transfer compensation for tenants due to urban redevelopment of rental property

### (Notes on Consolidated Statement of Changes in Net Assets)

1. Type and number of shares in issue and type and number of shares of treasury stock

(Shares)

	April 1, 2019	Increase	Decrease	March 31, 2020
Shares in issue				
Common stock	316,786,165	-	-	316,786,165
Total	316,786,165	-	-	316,786,165
Treasury stock				
Common stock	5,498,751	7,794,581	291,250	13,002,082
Total	5,498,751	7,794,581	291,250	13,002,082

Notes:

1. The increase in treasury stock by 7,794,581 shares reflects an increase of 7,792,500 shares due to the acquisition of treasury stock based on the Board of Directors resolution and an increase of 2,081 shares due to the purchase of odd-lot shares.
2. The decrease in treasury stock of 291,250 shares reflects the decrease of 217,505 shares due to conversion of convertible bonds with warrants, the decrease of 40,900 shares due to exercise of stock option and the decrease of 33,300 shares due to the disposal as restricted stock compensation.

### 2. Dividends

#### (1) Dividend payments

Resolution	Category	Total dividends	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders held on June 18, 2019	Common stock	15,564 million yen	50yen	March 31, 2019	June 19, 2019
Meeting of Board of directors on October 30, 2019	Common stock	15,570 million yen	50yen	September 30, 2019	December 2, 2019

#### (2) Dividends whose effective date is subsequent to March 31, 2020

The following is to be approved at the 155th Annual General Meeting of Shareholders to be held on June 23, 2020.

Resolution	Category	Total dividends	Resolution	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 23, 2020	Common stock	16,100 million yen	Retained earnings	53 yen	March 31, 2020	June 24, 2020

### 3. Shares Issuable during the Share Subscription Rights Exercise Period as of March 31, 2020

#### Subscription rights to shares

	FY 2011 Subscription Rights to Shares for Shionogi & Co., Ltd.	FY 2012 Subscription Rights to Shares for Shionogi & Co., Ltd.	FY 2013 Subscription Rights to Shares for Shionogi & Co., Ltd.	FY 2014 Subscription Rights to Shares for Shionogi & Co., Ltd.
Date of resolution issuance	June 24, 2011	June 27, 2012	June 26, 2013	June 25, 2014
Class of shares to be issued upon exercise of the subscription rights to shares	Common stock	Common stock	Common stock	Common stock
Number of shares to be issued upon exercise of the subscription rights to shares	30,800	50,400	27,100	29,700

	FY 2015 Subscription Rights to Shares for Shionogi & Co., Ltd.	FY 2016 Subscription Rights to Shares for Shionogi & Co., Ltd.	FY 2017 Subscription Rights to Shares for Shionogi & Co., Ltd.
Date of resolution issuance	June 24, 2015	June 23, 2016	June 22, 2017
Class of shares to be issued upon exercise of the subscription rights to shares	Common stock	Common stock	Common stock
Number of shares to be issued upon exercise of the subscription rights to shares	17,000	14,600	16,500

Notes: The Stock Acquisition Rights Agreement concluded between the Company and the stock acquisition rights holders stipulates the following during the exercise period:

1. During the stock acquisition rights exercise period, Company directors who are stock acquisition rights holders who cease to be a Company director may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction.
2. During the stock acquisition rights exercise period, Company corporate officers who are stock acquisition rights holders who cease to be a Company corporate officer or whose employment contract with the Company expires (excluding the re-employment contract after retirement) may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction. Corporate officers who are stock acquisition rights holders and who are elected as directors may not exercise their stock acquisition rights until they officially retire as directors.

## (Notes on Financial Instruments)

### 1. Matters relating to financial instruments

The Shionogi Group manages surplus capital using financial instruments that carry little or no risk, and procures the required capital from bank loans and bond issues.

As for credit risk of customers concerning notes and accounts receivable-trade, the risk reduction is promoted through the periodical monitoring of counterparty status by the Financial & Accounting Department and related departments in accordance with the established internal procedures. For listed stocks among short-term and long term investments, the Shionogi Group examines their fair value quarterly.

Short-term and long-term loans and bonds are financed based on the business plan, and the Group performs the fixing of interest cost by carrying out interest rate swap transactions against the interest rate risk for a portion of short-term and long-term loans. For derivatives transactions, the Group uses ordinary transactions in accordance with established internal procedures.

### 2. Matters relating to fair value of financial instruments

Fair value and difference compared to the carrying value reported in the balance sheets as of March 31, 2020 were as follows. Note 2 provides information on financial instruments that are not included because of the difficulty of determining their fair value.

(Millions of yen)

	Carrying value reported in the balance sheets*1	Fair value*1	Difference
(1) Cash and deposits	228,908	228,908	-
(2) Notes and accounts receivable-trade	46,191	46,191	-
(3) Short-term and long-term investment securities			
Other marketable securities	174,955	174,955	-
(4) Notes and accounts payable-trade	(10,763)	(10,763)	-
(5) Income taxes payable	(22,510)	(22,510)	-
(6) Derivatives transactions*2			
For which hedge Accounting applies	6,178	6,178	

(1) Parentheses indicate liabilities.

(2) Derivatives transactions are presented as net amounts receivable or payable, with net amounts payable in parentheses.

Notes:

1. Marketable securities, derivatives transactions and methods for estimating the fair value of financial instruments

(1) Cash and deposits

All deposits are short-term. Therefore, carrying value is used for the fair value of deposits because these amounts are essentially the same.

(2) Notes and accounts receivable-trade

Carrying value is used for the fair value of these short-term receivable because these amounts are essentially equivalent.

(3) Short-term and long-term investment securities

Domestic certificates of deposit and money held in trust included in short-term investments are all short term.

Therefore, carrying value is used for the fair value of deposits because these amounts are essentially the same. The fair value of short-term investments and investments in securities excluding domestic certificates of deposit and money held in trust is the price listed on securities exchanges or quoted by financial institutions mainly, for bonds and the price listed on securities exchanges for equities.

(4) Notes and accounts payable-trade

Carrying value is used for the fair value of these short-term payable because these amounts are essentially equivalent.

(5) Income taxes payable

Carrying value is used for the fair value of these short-term payable because these amounts are essentially equivalent.

(6) Derivatives transactions

Fair value is estimated based on the price quoted by financial institutions.

2. Financial instruments for which determining fair value is difficult

(Millions of yen)

Classification	Carrying value reported in the balance sheets
Unlisted stocks	68,707

Financial instruments for which determining fair value is difficult because no market price is available are not included in “(3) Short-term and long-term investment securities”.

(Notes on Amounts per Share)

- |                                 |              |
|---------------------------------|--------------|
| 1. Net assets per share         | 2,248.69 yen |
| 2. Earnings per share           | 392.80 yen   |
| 3. Earnings per share (diluted) | 392.38 yen   |

(Notes on significant subsequent events)

(Cancellation of treasury stocks)

Based on the resolution of the Board of Directors held on September 30, 2019 and March 30, 2020, the Company canceled treasury stock on April 6, 2020 based on Article 178 of the Companies Act.

- Reason for canceling treasury stock  
To increase shareholder return by reducing the total number of issued shares
- Type of stocks canceled  
Common stocks
- Total number of stocks canceled  
5,200,000 stocks
- Cancellation date  
April 6, 2020

(Notes on Business combination)

(Business combination through acquisition)

1. Outline of business combination

Based on a resolution of the Board of Directors on October 30, 2019, Shionogi acquired common shares and subscription rights to shares in UMN Pharma Inc. (hereinafter, “UMN”), an affiliate of Shionogi, through a tender offer under the Financial Instruments and Exchange Act between October 31, 2019 and December 12, 2019.

(1) Name and description of business of acquired company

Name of acquired company: UMN Pharma Inc.

Description of business: Research, development, manufacture and marketing of biopharmaceuticals

(2) Main reason for conducting business combination

The Company believes that it is essential to further develop the infectious disease area as the Company's focus area, in order to deal with the rapid changes in the market environment, to win in the global new drug development race and to achieve medium- and long-term growth. The Company and UMN entered into a capital and business alliance agreement on October 31, 2017 (hereinafter, the "Capital and Business Alliance") and have aimed to improve their corporate value by jointly achieving R&D, the filing of applications for approval and marketing of biopharmaceuticals, including human infectious disease vaccines, using UMN's knowledge, know-how and technologies on next-generation vaccines that utilizes UMN's genetic recombination technology. Since the basic technology improvement and basic research on development candidates pertaining to the Capital and Business Alliance were seeing steady progress, the Company and UMN have carried out discussions since July 2019 to select the development products from the development candidates for human infectious disease vaccines and start further development and business after non-clinical study. In the course of the discussions, the Company decided that it was necessary to revitalize the project and improve its efficiency by consolidating both companies' R&D, manufacture and marketing systems instead of forming a business alliance for each development candidate in order to make prompt decisions and invest management resources more actively and flexibly in this project.

(3) Date of business combination

December 19, 2019

(4) Legal form of business combination

Cash acquisition of shares by the Company

(5) Name of company after combination

There will be no change in the name of the company.

(6) Percentage of voting rights acquired

Voting rights held prior to the acquisition: 31.08%

Voting rights additionally acquired on the business combination date: 52.43%

Voting rights after the acquisition: 83.51%

(7) Main grounds for determining acquiring company

The Company's cash acquisition of UMN shares.

2. Period of operating performance of acquired company included in consolidated statements of income for fiscal year under review

The financial statements as of December 31 are used in the preparation of consolidated financial statements, since the fiscal year end date of the acquired company is December 31 and the difference with the consolidated fiscal year end date is not more than three months. As the deemed acquisition date of the business combination is September 30, 2019, the consolidated statements of income include the acquired company's operating performance between October 1 and December 31, 2019.

3. Acquisition cost of acquired company and breakdown by type of consideration

Fair value of equity interest immediately prior to the business combination as of the business combination date: ¥2,970 million

Cash expenditure following additional acquisition: ¥5,010 million

Acquisition cost: ¥7,980 million

4. Description and amount of major acquisition-related cost

Advisory fee, etc.: ¥157 million

5. Difference between acquisition cost of acquired company and sum of acquisition costs for each transaction leading to acquisition

Gain on step acquisitions: ¥1,331 million

6. Amount, cause, amortization method and period of goodwill generated

(1) Amount of goodwill generated

¥7,518 million

The amount of goodwill is a provisional estimate since the allocation of acquisition costs was not completed at the end of the fiscal year under review.

(2) Cause of generation

Mainly due to future excess earning ability expected from future business development

(3) Method and period of amortization

Straight-line method over 20 years

7. Amounts and major breakdown of assets accepted and liabilities assumed on the business combination date

Current assets: ¥563 million  
Noncurrent assets: ¥97 million  
Total assets: ¥660 million  
Current liabilities: ¥62 million  
Noncurrent liabilities: ¥27 million  
Total liabilities: ¥90 million

8. Allocation of acquisition costs

Since the calculation of fair value of the identifiable assets and liabilities as of the business combination date was not completed at the end of the fiscal year under review, the allocation of acquisition costs is not completed. Therefore, the accounting treatment is provisional based on reasonable information available at the time.

9. Estimated amount of impact of the business combination on consolidated statements of income for the fiscal year under review when assuming that the combination had been completed at the beginning of the fiscal year under review

The amount is omitted due to its insignificance. This note has not received audit certification.

(Notes on Transaction under Common Control)

1. Outline of transaction

(1) Name and details of target business

Name of business: Pharmaceutical manufacturing business

Details of business: Manufacture and contract manufacture of prescription drugs

(2) Date of business combination

April 1, 2019

(3) Legal form of business combination

Simplified absorption-type split with the Company as the splitting company and Shionogi Pharma Co., Ltd., a wholly owned subsidiary of the Company, as the successor company

(4) Name of company after combination

Shionogi Pharma Co., Ltd.

(5) Other matters related to the outline of transaction

The transaction is aimed at providing stable supplies of products with high quality and at competitive prices to domestic and overseas markets, with Shionogi Pharma Co., Ltd. responsible for the Group's production-related functions and making innovative developments in production technology.

2. Outline of accounting treatment

The transaction is treated as a transaction under common control in accordance with the Accounting Standard for Business Combinations and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

3. Other significant matters

On the same date, Shionogi Pharma Co., Ltd., the successor company, carried out an absorption-type merger of Shionogi Pharma Chemicals Co., Ltd. and Shionogi Analysis Center Co., Ltd., which were wholly owned subsidiaries of the Company.

(Additional Information)

(Disposal of treasury stocks)

At the Board of Directors meeting held on March 30, 2020, the Company will make a basic agreement on a capital and business alliance with Ping An Insurance (Group) Company of China, Ltd.

(hereinafter referred to as "Ping An Insurance of China") and Ping An Insurance of China has resolved to dispose of treasury stock by a third-party allotment, which is a subsidiary of Ping An life Insurance China, Ltd. (hereinafter referred to as "Ping An life Insurance").

1. Disposal summary

(1) Disposal period: From July 1, 2020 to July 31, 2020 (planned)

(2) Number of disposal stocks: 6,356,000 stocks

- (3) Disposal price: ¥5,276 per share
- (4) Amount of funds raised: ¥33,534,256,000
- (5) Allottee: Ping An life Insurance
- (6) Others: Each of the above items is subject to the securities registration statement based on the Financial Instruments and Exchange Act becoming effective.

Notes: The followings are a prerequisite for the execution.

- A joint venture agreement concerning the establishment of a joint venture company has been concluded between the Company and Ping An Insurance of China or its subsidiary
- The allottee has obtained various permits and licenses necessary for undertaking this third-party allotment.

2. Purpose and reason for disposal

It will be implemented as part of a capital and business alliance with Ping An Insurance of China, the parent company of Ping An life insurance and to build a long-term and strong strategic partnership with Ping An Insurance of China to realize our basic policy globally.



## Non-consolidated Statements of Changes in Net Assets

(Year ended March 31, 2020)

(Millions of yen)

	Capital stock	Capital surplus		Retained earnings			
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings		
					Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward
Balance at the beginning of the period	21,279	16,392	-	5,388	3,820	368,645	116,414
Changes of items during period							
Reversal of reserve for advanced depreciation of non-current assets					(91)		91
Dividends of surplus							(31,134)
Net income							88,640
Purchase of treasury stock							
Disposal of treasury stock			(420)				
Decrease due to company split			(715)		(715)		715
Other			420				(420)
Net changes of items other than shareholders' equity							
Total changes of items during period	-	-	-	-	(807)	-	57,893
Balance at the end of current period	21,279	16,392	-	5,388	3,012	368,645	174,304

	Treasury stock	Total shareholders' equity	Valuation and translation adjustments			Subscription rights to shares	Total net assets
			Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of the period	(28,882)	503,058	28,928	747	29,675	527	533,261
Changes of items during period							
Reversal of reserve for advanced depreciation of non-current assets		-					-
Dividends of surplus		(31,134)					(31,134)
Net income		88,640					88,640
Purchase of treasury stock	(50,012)	(50,012)					(50,012)
Disposal of treasury stock	1,602	1,182					1,182
Decrease due to company split		-					-
Other		-					-
Net changes of items other than shareholders' equity			(14,905)	3,540	(11,365)	(88)	(11,454)
Total changes of items during period	(48,409)	8,675	(14,905)	3,540	(11,365)	(88)	(2,778)
Balance at the end of current period	(77,292)	511,733	14,022	4,287	18,310	438	530,482

## Notes on Non-consolidated Financial Statements

### (Significant Accounting Policies)

1. Basis and method of valuation of significant assets
  - (1) Securities
    1. Stocks of subsidiaries and affiliates  
At cost determined by the moving average method
    2. Other securities  
Market value available  
At fair value, based on market price or other appropriate quotation as of period end  
(Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)  
Market value not available  
At cost determined by the moving average method  
(The securities based on the Financial Instruments and Exchange Law article 2.2 are evaluated at their net profit/loss (equity method).)
  - (2) Assets held in trust for management  
Market value method
  - (3) Derivatives  
Market value method
  - (4) Inventories  
Inventories are stated at the lower of cost, determined by the average method, or net selling value.
2. Method of depreciation for noncurrent assets
  - (1) Property, plant and equipment (excluding lease assets)  
Straight-line method  
The main useful life is as follows  
Buildings: from 3 years to 50 years  
Machinery and equipment: from 4 years to 17 years
  - (2) Intangible assets (excluding lease assets)  
Straight-line method  
Expenditures relating to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).
  - (3) Lease assets  
For lease transactions not involving transfer of ownership, lease assets are depreciated over their useful lives using the straight-line method until the residual value reaches zero.
3. Basis for providing significant allowances and provisions
  - (1) Allowance for doubtful accounts  
The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.
  - (2) Provision for bonuses  
To prepare for payment of bonuses to employees, a provision for bonuses is provided based on the estimated amount of bonuses to be paid.
  - (3) Provision for directors' bonuses  
To prepare for payment of bonuses to directors and corporate auditors, a provision for directors' bonuses is provided based on the estimated amount of bonuses to be paid.

- (4) Provision for sales returns  
The Company provides for loss on product returns in an amount equivalent to the income on the sale of products that the Company estimates will be returned.
- (5) Provision for retirement benefits  
To prepare for the payment of retirement benefits to employees, a provision for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end.
- i) Method of attributing expected benefit to periods  
In calculating the retirement benefit obligation, the method of attributing expected benefits to periods up until the end of the fiscal year is based on the benefit formula basis.
- ii) Amortization method of actuarial gain or loss and prior service cost  
Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.  
Actuarial gain or loss is proportionally amortized each year following the year in which the gain or loss is recognized, principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.  
The method of accounting for unrecognized actuarial gains and losses and unrecognized prior service cost related to retirement benefits differs from the method of accounting for these items in the consolidated financial statements.
4. Foreign currency translation  
Monetary receivables and payable denominated in foreign currencies are translated into Japanese yen using the spot exchange rate on the balance sheet date. Gain or loss resulting from translation is credited or charged to income.
5. Significant hedge accounting
- (1) Method of hedge accounting  
In principle, deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward foreign exchange contracts that meet specified conditions. Hedges that meet conditions for the special treatment of interest-rate swaps are accounted for separately.
- (2) Hedging instruments and hedged items
- Hedging instruments:  
Forward foreign exchange contracts, currency options and interest-rate swaps
  - Hedged items:  
Foreign currency-denominated claims and obligations, forecast transactions and debt
- (3) Hedging policy  
The Company enters into forward foreign exchange contracts and uses currency options with the objective of hedging the risk of exchange rate fluctuations in connection with its foreign currency-denominated claims and obligations and forecast transactions. Additionally, the Company also enters into interest-rate swaps with the objective of hedging the risk of interest rate fluctuations relating to its debt.
- (4) Methods for evaluating the effectiveness of hedging  
The Company evaluates the effectiveness of its hedging practices by comparing the cash flow fluctuations for hedged items and hedging methods and using changes in both as a basis for its evaluation. However, evaluations concerning the effectiveness of forward foreign exchange contracts accounted for by the allocation method and interest rate swaps accounted for using special treatment are omitted.
6. Consumption tax  
Amounts reflected in the non-consolidated financial statements are stated exclusive of consumption tax.

(Notes on Non-consolidated Balance Sheets)

- |   |                    |
|---|--------------------|
| 1. All amounts are rounded down to the nearest million yen.         |                    |
| 2. Accumulated depreciation amount of property, plant and equipment | 76,253million yen  |
| 3. Short-term credit for subsidiaries and affiliates                | 3,381 million yen  |
| Short-term debts to subsidiaries and affiliates                     | 10,958 million yen |

(Notes on Non-consolidated Statements of Income)

- |   |                        |
|---|------------------------|
| 1. All amounts are rounded down to the nearest million yen  |                        |
| 2. Transactions with subsidiaries and affiliates  |                        |
| Business transactions   | 87,959 Millions of yen |
| Transactions other than business transactions   | 65,87 Millions of yen  |
| 3. Gain on sales of non-current assets  |                        |
| Mainly due to the sales of a training center and rental property  |                        |
| 4. Loss on valuation of shares of subsidiaries and associates   |                        |
| Loss on valuation of shares of subsidiary Shionogi Ireland Ltd. and Shionogi Singapore Pte. Ltd.              |                        |
| 5. Payment compensation   |                        |
| Expenses due to compensation for relocation paid to tenant companies for the redevelopment of rental property |                        |

## (Notes on Non-consolidated Statements of Changes in Net Assets)

Shares held as of March 31, 2020

Common stock

13,002,082 shares

## (Notes on Tax Effects)

### 1. Principal components of deferred tax assets and deferred tax liabilities

Deferred tax assets:

Loss on valuation of stocks of subsidiaries and affiliates	25,744 Millions of yen
Revision of carrying value of stocks of subsidiaries and affiliates	12,503 Millions of yen
R&D expenses	7,433 Millions of yen
Loss on revaluation of investments in securities	2,538 Millions of yen
Provision for bonuses	1,745 Millions of yen
Accrued enterprise taxes	400 Millions of yen
Other	3,105 Millions of yen
Subtotal deferred tax assets	53,499 Millions of yen
Valuation Allowance	(40,269) Millions of yen
Total deferred tax assets	13,229 Millions of yen
Deferred tax liabilities:	
Unrealized gain on other securities	(3,396) Millions of yen
Asset for retirement benefits	(3,479) Millions of yen
Reserve for advanced depreciation of property, plant and equipment	(1,328) Millions of yen
Investments in securities	(965) Millions of yen
Other	(2,090) Millions of yen
Total deferred tax liabilities	(11,260) Millions of yen
Net deferred tax assets	1,969 Millions of yen

## (Notes on Related-Party transactions)

(Millions of yen)

Attribute	Company Name	Rate of ownership of voting	Relationship	Transaction Content	Transaction Amount	Account	Balance at end of current period
Subsidiary	Shionogi Pharma Co., Ltd.	Directly owned 100%	Contract manufacture of the Company's products Contract testing and analysis	Company split*1	50,960	—	—
				Assets to be demerged	43		
				Liabilities to be demerged			
				Purchase*2	60,928	Accounts payable	5,115

Transaction terms and method of determining transaction terms, etc.

\*1 On April 1, 2019, Shionogi Pharma Co., Ltd. succeeded the Company's pharmaceutical manufacturing business through an absorption-type split.

\*2 Prices and other terms have been decided upon negotiation and at fair prices.

## (Notes on Amounts per Share)

1. Net assets per share	1,744.81 yen
2. Earnings per share	287.05 yen
3. Earnings per share (diluted)	286.74 yen

## (Notes on significant subsequent events)

Please refer "Notes on Consolidated Financial Statements (Notes on significant subsequent events)".

## (Notes on Business combination)

Please refer "Notes on Consolidated Financial Statements (Notes on Business combination)".

[\(Additional information\)](#)

Please refer “Notes on Consolidated Financial Statements (Additional information)”.