Translation for reference only

Items Disclosed on Internet Concerning Notice of Convocation of the 156th Annual General Meeting of Shareholders

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 (https://www.shionogi.com/global/en/investors.html)

[Business Report]

FY2020 (Year ended March 31, 2021)

1. Current State of the Shionogi Group

(1) Overview of Operations

1) Business Results and Financial Position

【IFRS】

(Million of yen)

Classification	FY2018 154th term	FY2019 155th term	FY2020 156th term (Fiscal year ended March 31, 2021)
Revenue	367,960	333,371	297,177
Operating profit	145,081	130,628	117,438
Profit before tax	174,043	158,516	143,018
Profit attributable to owners of parent	137,191	122,193	111,858
Research and development expenses	52,058	47,949	54,249
Total assets	938,540	873,695	998,992
Total equity	813,087	765,203	864,550
Basic earnings per share	yen 438.47	yen 395.71	yen 365.03
Equity attributable to owners of parent per share	yen 2,598.16	yen 2,518.74	yen 2,806.67
Dividend per share	yen 94.00	yen 103.00	yen 108.00*1
Return on equity attributable to owners of parent (ROE)	% 17.8	% 15.5	% 13.9
Dividend on equity attributable to owners of the parent (DOE)	% 3.8	% 4.0	% 4.1*2

Notes:

1. The Group's consolidated financial statements, starting from FY2020, have been prepared in accordance with the International Financial Reporting Standards ("IFRS") pursuant to Article 120, Paragraph 1 of the Ordinance on Company Accounting.
2. The figures presented for dividend per share and dividend on equity attributable to owners of the parent are the amounts in the event Proposal No. 1 is approved without changes by the 156th Annual General Meeting of Shareholders.

【JGAAP】

(Million of yen)

Classification	FY2016 152nd term	FY2017 153rd term	FY2018 154th term	FY2019 155th term
Net sales	338,890	344,667	363,721	334,958
Operating income	108,178	115,219	138,537	125,231
Ordinary income	123,031	138,692	166,575	151,751
Profit attributable to owners of parent	83,879	108,866	132,759	121,295
R&D expenses	59,907	59,945	68,325	47,193
Total assets	661,499	711,463	778,741	773,650
Net assets	526,211	604,840	672,429	683,647
Earnings per share	yen 259.88	yen 342.71	yen 424,31	yen 392.80
Net assets per share	yen 1,638.46	yen 1,911.36	yen 2,144.33	yen 2,248.69
Dividend per share	yen 72.00	yen 82.00	yen 94.00	yen 103.00
Return on Equity (ROE)	% 16.3	% 19.4	% 20.9	% 18.0
Dividend on Equity (DOE)	% 4.5	% 4.6	% 4.6	% 4.7

Notes:

Shionogi has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) since FY2018. This accounting standard has been retrospectively applied to figures for FY2016 through FY2017.

2) Business Results and Financial Position of the Company
【JGAAP】

(Million of yen)

Classification	FY2016 152nd term	FY2017 153rd term	FY2018 154th term	FY2019 155th term	FY2020 156th term (Fiscal year ended March 31, 2021)
Net sales	305,256	315,941	327,991	293,865	260,986
Operating income	108,513	116,907	138,366	116,107	76,192
Ordinary income	108,113	117,534	139,836	121,265	81,714
Profit (loss)	28,767	89,135	100,037	88,640	32,181
Total assets	559,714	584,964	612,336	580,804	617,123
Net assets	451,572	500,510	533,261	530,482	536,405
Earnings (losses) per share	yen 89.13	yen 280.60	yen 319.73	yen 287.05	yen 105.02
Net assets per share	yen 1,415.22	yen 1,590.50	yen 1,711.39	yen 1,744.81	yen 1,778.50

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 FY2016 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	Umeda office	Osaka, Osaka Prefecture
		Pharmaceutical Commercial Division Office	Osaka, Osaka Prefecture
	Research Laboratories	Shionogi Pharmaceutical Research Center	Toyonaka, Osaka Prefecture
		Shionogi CMC Research Innovation Center	Amagasaki, Hyogo Prefecture
	Plants*2	Settsu Plant	Settsu, Osaka Prefecture
		Kanegasaki Plant	Isawa-gun, Iwate Prefecture
		Tokushima Plant	Tokushima, Tokushima Prefecture
Overseas*2		Shionogi Inc.	New Jersey, U.S.
		Shionogi B.V.	Amsterdam, Netherlands
		Ping An-Shionogi (Hong Kong) Limited	Hong Kong Special Administrative Region of the People's Republic of China
		Ping An-Shionogi Co., Ltd.	Shanghai, People's Republic of 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	
5,485	(Increase)	263

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
2,589	(78)	41.2	15.7

(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, 2021

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	127 (2)
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	213 (2)
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	115 (2)
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	124 (2)
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	62 (2)
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	53 (2)
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	53 (2)

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 fair value of the stock acquisition rights 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 2020

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, 2021

1. Compensation paid to the Independent Accounting Auditor for the fiscal year ended on March 31, 2021:

   98 million yen

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

   107 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, 2021 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 five directors, including three outside directors) met 14 times in the fiscal year ended March 31, 2021, 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.

Note that starting from FY2020 we employed a process to secure the transparency and traceability of decision-making and execution of duties from organizational approval to Board of Director resolutions to ensure their fair, speedy and decisive execution. As a part of this process, Shionogi shall constantly anticipate business risks, interpreting positive risks (offensive risks, business opportunities) and negative risks (defensive risks) as being one in the same, setting criteria for decision-making based on the level of business risk, and executing duties in a manner that will maximize results.

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

The Shionogi Group recognizes business risks related to decision-making and the execution of duties at each organization, and basically carries out risk management and implements solutions on its own initiative. In addition to taking a proper response, including creating opportunities, avoiding and alleviating risks, it is also aiming to build and operate a Enterprise Risk Management, a companywide risk management system that is part of its management strategy, to control business risk in the Group overall, which includes risks such as pandemics, natural disasters, terrorism and cyber terrorism (crisis). In particular, material risks that could impact management and solutions to these risks shall be discussed and decided at corporate executive meetings and Board of Directors' meetings. In accordance with these solutions, the organization in charge collaborates with related organizations to implement measures.

Crisis risk management, in accordance with regulations, aims to establish and carry out a comprehensive management system, including business continuity plans. The main purpose for implementing this management is to ensure respect for human life, give consideration to the local community, contribute and prevent the erosion of corporate value. In the event a crisis occurs, the Company exerts efforts to overcome the said crisis through quick response. In specific, to establish and maintain a comprehensive risk management system, including a business continuity plan, in the fiscal year ended March 31, 2021, reviews of business continuity plans were conducted at each organization envisaging the occurrence of a large-scale earthquake and/or pandemic. However, owing to the full-fledged spread of COVID-19 in the fiscal year under review, the business continuity plan for pandemics proved insufficient. The plan was therefore reexamined, factoring in business continuity by having employees work from home, a factor that had not been amply taken into account. Accordingly, business continuity to fulfill the Company's social mission, including the stable supply of product, became possible. Moreover, for Shionogi, which has established infectious diseases as one of its core disease areas, the group is working as one to undertake the research, development and manufacturing of diagnostic products, vaccines, and drug therapies to fulfill its mission as pharmaceutical company pertaining to the expansion of COVID-19, and is pouring energies into contributing to the health of its stakeholders. Meanwhile, in response to the cyber attack on the Shionogi subsidiary in Taiwan, which occurred in October 2020, a project team was launched as an initiative (IT-BCP) to ensure more reliable business continuity through the establishment of an IT infrastructure, and is strengthening its response.

Furthermore, Shionogi is implementing sustainability activities that aim at contribution to a sustainable society and the Group's continuous growth by utilizing its business activities to solve various social needs, including economic, social and environmental needs, and address medical needs. Particularly, to carry out business activities that take into consideration the protection of the global environment, the prevention of pollution, and the health and safety of all the people we work with and local communities, Shionogi established the Shionogi EHS* action goals in accordance with the Shionogi Group EHS policy, and is conducting relevant activities. Note that the Internal Control Department, which is in charge of internal audits, implements verifications and evaluations on an independent basis.

*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, lead 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 status of management at each Group company, to ensure the effectiveness of audits.

In the fiscal year ended March 31, 2021, the Board of Auditors met 10 times including the Group Company Audit Liaison Committee meetings from time to time 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 FY2020 in accordance with the Basic Policy for Construction and Operation of Internal Control System, at a meeting of the Board of Director's held on April 26, 2021, the Company passed as 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 Group constantly implements transparent and proper management, taking into account the stance of our four stakeholders, customers, society, shareholders and employees, to meet the expectations of society.
Shionogi implements the Basic Views on Corporate Governance, which was enacted to realize optimal corporate governance. By doing so, Shionogi aims to secure the transparency and traceability of and fairly, speedily and decisively conduct decision-making and the execution of duties, from organizational approvals to Board of Directors' resolutions, keeping in mind its aim to achieve the sustainable growth of the Shionogi Group and improve its corporate value in the medium and long term.
To establish a proper corporate governance system, Shionogi introduced outside directors based on the institutional design for a company with a Board of Corporate Auditors. This will facilitate the implementation of global decisions that factor in an objective viewpoint from outside the Company, including its shareholders. Note that as advisory bodies, the Company established a Nominating Advisory Committee and a Compensation Advisory Committee.
The Board of Directors, in accordance with the Board of Director Regulations, will made decisions based on appropriate business judgments and will also grasp and supervise the execution of duties in a timely manner, and prevent the violation of laws and regulations, and the Articles of Incorporation. In the event a director discovers that another director has violated laws and regulations, and/or the Articles of Incorporation, the director shall immediately report to the Board of Corporate Auditors and the Board of Directors and make corrections.
Outside directors, as an independent director, shall recognize the corporate responsibility the Company should fulfill, and contribute to the achievement of highly transparent management based on their expert knowledge. Directors shall maintain and implement an internal control system to secure the reliability of financial reporting, and adequately evaluate and report on internal control reports and 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 "The Company Policy of Shionogi" set forth as the Company's philosophy and "Shionogi Group Code of Conduct" providing how the officers and employees should act, and the compliance committee presided by a representative director will establish and promote the measure for the compliance with related laws, regulations and ethical behavior in its business operations.
Based on the Shionogi Group Code of Conduct, the Company consistently and resolutely resists the influence of antisocial forecast and precludes any connection with them.

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

The minutes of the Board of Directors' meetings, the corporate executive meetings and the compliance committee meetings, and approval information and other matters approval information and other matters 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 Group recognizes the business risks related to the decision-making and execution of duties by each organization, and shall basically independently carry out risk management and solutions. In addition to providing an adequate response, including creating opportunities and avoiding and/or reducing risk, the Company also aims to build and operate a Enterprise Risk Management, that is part of its management strategy, to control business risk in the group overall, which includes risks such as pandemics, natural disasters, terrorism and cyber terrorism (crisis). In particular, material risks that could impact management and solutions to these risks shall be discussed and decided at corporate executive meetings and Board of Directors' meetings. In accordance with these solutions, the organization in charge collaborates with related organizations to implement measures.

Crisis risk management, in accordance with regulations, aims to establish and carry out a comprehensive management system, including business continuity plans. The main purpose for implementing this management is to ensure respect for human life, give consideration to the local community, contribute to and prevent the erosion of corporate value. In the event a crisis occurs, the Company exerts efforts to overcome the said crisis through quick response.

Furthermore, the Shionogi Group shall implement sustainability activities aimed to contribute to the sustainability of society and at the group's continuous growth by utilizing its business activities to solve various social needs, including economic, social and environmental needs, and to address medical needs.

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

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

The Company aims to clarify its role of executing and supervising operations and also is introducing a corporate executive officer system to implement agile and flexible management. 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. A suitable individual, within the scope of their authority and responsibilities, shall perform procedures to implement the smooth execution of operations in accordance with rules for administrative duties and the division of duties.

In the execution of operations, Shionogi shall constantly anticipate business risks, interpreting positive risks (offensive risks, business opportunities) and negative risks (defensive risks) as being one in the same, setting criteria for decision-making based on the level of business risk, and making sure not to miss any opportunities.

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 and 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 The Company Policy of Shionogi and Shionogi Group Code of Conduct 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 The Company Policy of Shionogi, Shionogi Group Code of Conduct, 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 Human Healthcare 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 Human Resources & 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 operation 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 necessary.

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 status of management at Group companies.

Consolidated statement of changes in equity

FY2020 (Year ended March 31, 2021)

(Million of yen)

	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, 2020	21,279	21,025	(77,292)	708,291	91,848	765,152	51	765,203
Profit				111,858		111,858	203	112,061
Total other comprehensive income, net of tax					25,548	25,548	(101)	25,447
Comprehensive income	-	-	-	111,858	25,548	137,407	101	137,509
Purchase of treasury shares			(50,013)			(50,013)		(50,013)
Disposal of treasury shares		(4,705)	38,404			33,698		33,698
Cancellation of treasury shares		(30,912)	30,912			-		-
Dividends				(32,543)		(32,543)		(32,543)
Change in scope of consolidation						-	10,696	10,696
Changes in ownership interest in subsidiaries		(7,593)				(7,593)	7,593	-
Transfer from other components of equity to retained earnings				71	(71)	-		-
Other		35,919		(35,430)	(488)	(0)		(0)
Balance as of March 31, 2021	21,279	13,733	(57,989)	752,248	116,836	846,108	18,442	864,550

Notes on Consolidated Financial Statements

(Significant Basic Items for Preparing Consolidated Financial Statement)

1. Standards for Preparation of Consolidated Financial Statements
   Pursuant to Article 120-1 of the Corporate Accounting Rules, the consolidated financial statements of the Shionogi Group are being prepared in accordance with publicly disclosed International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Note that the consolidated financial statements omit some line items required under IFRS owing to stipulations cited in the latter clauses of the Article.
2. Scope of consolidation
   Number of consolidated subsidiaries: 51
   Names of significant consolidated subsidiaries
   Shionogi Pharma Co., Ltd., Shionogi Healthcare Co., Ltd.,
   Shionogi Inc., Shionogi B.V., Ping An-Shionogi (Hong Kong) Ltd.,
   Ping An-Shionogi Co., Ltd.
   (New) Increase owing to establishment 4 companies
   Increase owing to acquisition 2 companies
3. Significant accounting policies
   (1) Basis and method of valuation of significant assets
   1) Non-derivative financial assets
   (i) Initial recognition and measurement
   Among financial assets, non-derivative financial assets are recognized as trade receivables on the occurrence date. All other financial assets are initially recognized on the transaction date on which the Group becomes the contracting party.
   Financial assets are categorized as financial assets measured at amortized cost or financial assets measured at fair value at the time of initial recognition.
   This categorization is carried out as following depending whether the financial asset is a debt instrument or a capital instrument.
   (a) Financial assets that are debt instruments
   Financial assets are categorized as financial assets measured at amortized cost when they satisfy the following criteria.
   ・The asset is held in accordance with a business model that aims to possess financial assets for the purpose of collecting contractual cash flows.
   ・Cash flow, which is solely payment of interest for the principal and principal amount outstanding, occurs on specific dates based on the contractual terms for the financial assets.
   Should the financial asset also fulfill the following criteria, it is categorized as a financial assets measured at fair value through other comprehensive income.
   ・The said financial assets is held in accordance with a business model that aims to both collect contractual cash flow and for sale.
   ・Cash flow, which is solely payment of interest for the principal and principal amount outstanding, occurs on specific dates based on the contractual terms for the financial assets.
   Should neither of the above apply, the financial asset shall be categorized as a financial asset measured at fair value through net income/loss.
   (b) Financial assets that are capital instruments
   In principle, these financial assets are measured at fair value through net income/loss.
   However, capital instruments, excluding those held for trading purposes, are allowed to be categorized as financial assets measures at fair value through other comprehensive income at the time of initial recognition.
   Financial assets, in principle, are measured at fair value adding in the trading cost directly attributable to the said financial asset.
   However, trade receivables that do not include significant financial factors are measured at the trading price.
   In addition, trading cost for financial assets measured at fair value through net income/loss is recognized in net income at the time it is incurred.
   (ii) Subsequent measurement
   (a) Financial assets measured at amortized cost
   The interest on financial assets measured at amortized cost, with the amortized cost being calculated using the effective interest method, is recognized under net income/loss as

financial expense. When necessary, an asset impairment loss is deducted.

(b) Financial assets measured at fair value

Financial assets are measured at fair value.

Capital instruments that were selected for categorization as financial assets measures at fair value through other comprehensive income. Changes in fair value are recognized under other comprehensive income. Cumulative gains or loss are transferred to retained earnings once recognition is terminated. However, the interest is under net income/loss as financial income.

In addition, among debt instruments, fluctuations in fair value for financial assets categorized as financial assets measured at fair value through other comprehensive income are recognized under other comprehensive income, excluding asset impairment losses (or reversal) and foreign exchange translations, up to the time recognition of the said financial asset is terminated or re-categorized. Once recognition of the said financial asset is terminated, gains/losses previously recognized under other comprehensive income are transferred over to net income/loss.

For financial assets other than those mentioned above, changes in fair value are recognized under net income/loss.

(iii) Asset impairment

In each fiscal year, financial assets measured at amortized cost and, from among debt instruments, financial assets which are measured at fair value through other comprehensive income are measured to ascertain whether there has been a pronounced increase in credit risk from the time of initial recognition. Depending on whether there has been a pronounced increase in credit risk at the time of initial recognition, the following amounts are recognized under allowance for doubtful accounts.

(a) Case where there is no pronounced increase in credit risk since the time of initial recognition

Amount equivalent to 12 months of estimated credit loss

(b) Case where there has been a pronounced increased in credit rise since the time of initial recognition

Amount equivalent to the estimated lifetime credit loss

However, regardless of the above, for trade receivables and lease receivables, an amount equivalent to the estimated lifetime credit loss for is always recognized under the allowance for doubtful accounts.

The monetary amount for estimated credit loss is calculated as the current value of the difference with contractual cash flows that should be paid to the Shionogi Group depending on the contract, and cash flow expected to be obtained by the Shionogi Group.

Reversal to the allowance for doubtful accounts is recognized under net income/loss. Should an event occur that results in depletion to the allowance for doubtful accounts, Shionogi shall recognize this reversal under net income/loss.

(iv) Termination of recognition

Recognition of financial assets is terminated when contractual rights to cash flow from the asset expires, when contractual rights to receive cash flow from the asset is transferred, or when almost all of the risk and economic value related to possession of the financial asset has been transferred.

2) Non-derivative financial liabilities

(i) Initial recognition and measurement

Financial liabilities are categorized as financial liabilities measured at amortized cost and financial assets measured at fair value through net income/loss. Financial liabilities are initially recognized on the transaction date on which the Group becomes the contracting party.

Financial liabilities are initially recognized at fair value. For financial liabilities measured at amortized cost, trade cost directly related to the financial asset are deducted.

(ii) Subsequent measurement

Measurements of financial liabilities after initial recognition are performed as follows depending on the category.

(a) Financial liabilities measured at amortized cost

Amortized cost is measured using the effective interest method. Gains or losses, in the cases where amortization via the effective interest method and recognition are terminated, are recognized under net income/loss as finance expense.

(b) Financial liabilities measured at fair value through net income

Measurements are conducted at fair value. Fluctuations in fair value are recognized under net income/loss.

(iii) Termination of recognition

The recognition of financial liabilities is terminated when a specific liability is waived or cancelled during the contract period or when the contract expires.

3) Derivatives and hedge accounting

The Group uses derivatives, such as forward foreign exchange contracts, to hedge foreign currency risks.

These derivatives are initially recognized at fair value at the time the contracts are entered into and subsequently measured at fair value on an ex-post basis. Changes in the fair value of derivatives are, in principle, recognized in net income or loss.

However, the Group designates some derivatives as cash flow hedges. If they satisfy requirements for hedge accounting, the effective portion of changes in the fair value of the derivatives used as hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized in net income or loss.

The amounts of hedging instruments recorded in other comprehensive income are reclassified into net income or loss when the hedged transactions affect net income or loss. However, if the hedging of forecast transactions results in the subsequent recognition of non-financial assets or liabilities, the amounts recognized in other comprehensive income are accounted for as adjustments to the original carrying amount of the non-financial assets or liabilities.

(2) Standards and Methods for Measuring Inventory

Inventories are measured based on acquisition cost or net realizable value, whichever is lower. The acquisition cost includes raw material costs, direct labor and other direct costs and indirect costs related to manufacturing. When calculating the cost of inventory, the weighted average method is employed. The net realizable value is the estimated selling price in the normal course of business less the estimated costs up to completion and the estimated costs required for sales.

(3) Valuation criteria and method, and depreciation method of property, plant and equipment

The cost model is used to measure property, plant and equipment after recognition. Property, plant and equipment are carried at their acquisition costs less accumulated depreciation and accumulated impairment losses.

The acquisition costs include costs directly related to the acquisition of assets, and costs of dismantling, removal and restoration.

The straight-line method of depreciation is used for property, plant and equipment other than land and construction in progress based on the estimated useful life of the respective asset.

The estimated useful life of major property, plant and equipment is as follows.

・Buildings and structures	2-60 years
・Machinery, equipment and vehicles	2-17 years

That said, the depreciation method, residual value and useful life are reviewed each year and are revised when necessary.

(4) Valuation criteria and method, and amortization method of intangible assets

The cost model is used to measure intangible assets after recognition. Intangible assets are carried at their acquisition costs less accumulated amortization and accumulated impairment losses.

Individually acquired intangible assets are measured at their acquisition costs, and the acquisition costs of intangible assets acquired in business combinations are measured at fair value at the date of the business combination.

Internally generated development costs are recognized as intangible assets only if all the criteria for recognition as assets are met. However, internally generated development costs that are incurred prior to obtaining manufacturing and marketing approval, such as clinical trial costs, are recognized as expenses when incurred, since they are considered not to meet the criteria for capitalization due to uncertainty associated with the length of time and their development.

The rights related to products and research and development acquired through product or technology in-licensing agreements or business combinations that are still in the research and development stage and have not yet been approved for marketing by regulatory authorities are recorded as in-process research and development and included in "intangible assets associated with products."

Expenditures related to acquired in-process research and development are recorded as assets only if they are expected to bring future economic benefits to the Group and are identifiable. Such expenditures include upfront payments made to third parties and milestone payments upon achievement of targets.

Intangible assets with a defined useful life are depreciated using the straight-line method over the useful life of each asset. The depreciation of these assets starts from the time point these assets become usable.

Useful life by type of major intangible assets

・Intangible assets related to products 8-15 years

・Software 5 years

That said, the depreciation method, residual value and useful life are reviewed each year and are revised when necessary.

However, intangible assets are not depreciated as they are still not usable. In cases where there are signs of impairment loss, an impairment test is conducted each time there is an indication of impairment and for a certain period each year regardless of whether there are signs of impairment loss.

(5) Depreciation method for right-of-use assets

Right-of-use assets are depreciated over the period up to the end of useful life of the underlying asset in the case where the title to the underlying asset is transferred to the borrower by the end of the lease period or where the cost of acquisition of the right-of-use asset reflects the purchase option the borrower is likely to exercise, or in other cases, over the shorter of the following periods: from the commencement date of lease to the end of the useful life of the right-of-use asset or to the end of the lease period.

(6) Valuation criteria and method, and depreciation method of invested real estates

It conforms to property, plant and equipment.

(7) Matters related to goodwill

The amount of cumulative losses deducted from the acquisition price is posted as goodwill.

Goodwill is not amortized. In the cases where there are signs of impairment loss, an impairment test is conducted each time there is an indication of impairment and for a certain period each year regardless of whether there are signs of impairment loss.

(8) Impairment losses on non-financial assets

Regarding non-financial assets (excluding inventories and deferred tax assets), the Company assesses whether there are signs of impairment losses on assets and cash-generating units. When there are indications of impairment loss, the recoverable amount for the said assets and cash-generating units is estimated and impairment tests are implemented.

For goodwill and intangible assets that are still not usable, regardless of where there are signs of impairment losses, an impairment test is conducted during a certain period each year. Furthermore, in the event of a sign of impairment losses, an impairment test is conducted at that time.

The recoverable amount is calculated with whichever is higher, fair value or utility value, after deducting the disposal cost. Utility value is calculated by discounting the current value, using the discount rate before taxes, which reflects the time value of money and intrinsic risks of said assets into the future expected cash flows generated by the assets or cash-generating units.

In the cases where the recoverable amount of assets and cash-generating units dips below book value, the book value is reduced down to the recoverable amount and the difference is recognized under net income/loss as an impairment loss.

Regarding asset impairment losses other than goodwill, the Company determines whether there is any indication of a reversal to asset impairment losses for those assets and cash-generating units for which asset impairment losses were recognized in past fiscal years. In the event there is any indication of a reversal, the Company will estimate the recoverable amount of the asset or cash-generating unit, should the recoverable amount exceed the book value, a reversal to impairment losses is carried out. The upper limit on a reversal to impairment loss is set at book value after deducting the depreciation/amortization amount, in the cases where impairment losses were not recognized in past years, and is recognized under net income/loss. There are no reversals to impairment losses on goodwill.

(9) Employee benefits

1) Post-employment benefits

(i) Defined benefit plan

Shionogi determines the present value of its defined benefit obligations and the related current service cost and past service cost using the projected unit credit method.

Calculations are carried out for each individual defined benefit plan. The discount rate is determined by referencing market yields for high-grade corporate bonds as of the final business day of the consolidated fiscal year for the period up to the expected future payout date for benefits. The assets and liabilities related to defined benefit plans are calculated by deducting the fair value of a defined benefit plan's assets from the present value of the plan's liabilities. In the event a defined benefit plan is overfunded, the asset ceiling is set at the present value of the potential future economic benefits, in the form of a reduction in future premiums or cash refunds. Remeasurement of the defined benefit asset plan is recognized collectively in other comprehensive income and reclassified to retained earnings for the period during which it is incurred.

(ii) Defined contribution plans

Retirement benefit costs for defined contribution plans are expensed for the fiscal year during which employees render services.

2) Short-term employee benefits

Short-term employee benefits are recognized as an expense on an undiscounted basis at the time the related service is provided. Bonuses and paid vacation come with a present legal or constructive obligation. In the event it is possible to create a reliable estimate, the expected amount of payment is recognized as liability in accordance with the applicable plan.

(10) Standards for recognizing revenue

With the exception of interest and dividend revenue under IFRS 9, the Shionogi Group recognizes revenue, which is the monetary amount that reflects expected compensation the Company is entitle to in exchange for those goods or services transferred to the customer in accordance with the following five step approach:

Step1: Identify contracts with customers
Step2: Identify performance obligations in contracts
Step3: Calculate transaction price
Step4: Allocate the contract transaction price to individual performance obligations
Step5: Recognize revenue when (or as) the entity satisfies a performance obligation

In addition, regarding the promise to provide licensing, which is an independent performance obligation, consideration should be made to ascertain whether the nature of the Company' s promise when providing licensing to a customer is in line with item (1) or (2) below, and the Company shall determine whether licensing is to be provided to the customer for a specific point in time or for a specified period of time.

(1) Right to access an intellectual property of the Shionogi Group during the licensing period
(2) Right to use an intellectual property of the Shionogi Group at the point and time licensing is provided

Should it be determined that the nature of the Company's promise at the time when licensing is provided to the customer is to grant the customer the right to access intellectual property in the Shionogi Group during the licensing period, the promise to deliver licensing to a customer will be accounted for as a performance obligation that is to be fulfilled over a specific period of time. Should it be determined that the nature of the Company's promise at the time when licensing is provided to the customer is to grant the customer the right to use intellectual property belonging to the Shionogi Group, the promise to deliver licensing to a customer will be accounted for as a performance obligation that is to be fulfilled at a specific point and time.

However, revenues in the form of, regardless of the above, sales-based or usage-based royalties are recognized based on the later of one of the two events below:

(1) Subsequent sale or usage occurs
(2) The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is fulfilled (or partially fulfilled).

(11) Foreign currency translations

1) Foreign currency-denominated transactions

Foreign currency-denominated transactions are being translated into functional currency at the exchange rate of the transaction date or a closer rate.

Foreign currency-denominated monetary assets on the settlement date are calculated using the foreign exchange rate for the settlement date. Foreign currency-denominated non-monetary assets measured at fair value are calculated using the foreign exchange rate for the calculation date for the said fair value. They are then re-translated into the Company's functional currency. The translation differences arising from the said translations and settlements are recognized as net income/loss. However, translation differences arising from finance assets measured at fair value through other comprehensive income and cash flow hedges are recognized as other comprehensive income.

2) Exchange differences on translation of foreign operations

Assets and liabilities of foreign operations are translated using the foreign exchange rate for the settlement date. Revenues and expenses are translated based on the foreign exchange rate for the transaction date or a closer exchange rate. Exchange differences arising from the said translations are recognized as other comprehensive income.

In the event that foreign operations are disposed of, the amount of cumulative translation differences related to the said operations are transferred to net income in the period which they were disposed of.

(12) Important matters related to the preparation of other consolidated financial statements

1) Accounting for consumption tax and others is conducted using the tax exclusion method.

2) Monetary figures shown have been rounded down to the nearest hundred million.

(Notes on changes to accounting policies)

Starting from the consolidated fiscal year under review, the Shionogi Group has adopted the following standards and interpretation guidelines. The adoption of these standards does not materially impact the consolidated financial statements.

Standards & interpretation guidelines		Summary
IFRS 3	Business combinations	Revised definitions related to business combinations

(Notes to accounting estimates)

1. Impairment of non-financial assets

In the consolidated financial statements for the fiscal year under review, Shionogi posted property, plant and equipment of 90,883 million yen, goodwill of 9,357 million yen and intangible assets of 76,558 million yen. In the calculation of the recoverable amount in the impairment test for these assets, assumptions are made regarding the sales forecast, discount rate and other factors in the business plan. There is a possibility that these estimates will be impacted by changes in future economic conditions. In the case of a decline in the recoverable amount, there is a possibility that Shionogi will post impairment losses.

2. Measuring the fair value of unlisted shares (ViiV Healthcare Ltd.)

As a financial asset measured at fair value through other comprehensive income, 154,138 million yen was posted as the value of the shares in ViiV Healthcare Ltd. (ViiV). The fair value of ViiV shares is calculated using an evaluation technique that uses input that is not based on observable market data, including future cash flows and discount rates. Important assumptions for measuring fair value are potential sales approval by regulatory authorities prior to market launch, and sales growth rate, profit margin and discount rate for each product. There is a possibility that these estimates will be impacted by changes in future economic conditions and subsequently have an impact on total assets and capital.

3. Measuring the fair value of intangible assets identified by the conversion of Tetra Therapeutics Inc. into a subsidiary

On May 26, 2020, Tetra Therapeutics Inc. (Tetra) was converted into a subsidiary. The fair value of intangible assets on the acquisition date was calculated at 26,247 million yen. The fair value for intangible assets identified through the conversion of Tetra into a subsidiary is calculated using the excess income method based on factors including future cash flow and discount rate. Important assumptions for measuring fair value are potential sales approval by regulatory authorities prior to market launch, and unit selling price, sales volume and discount rate for each product. In the event of a decline in the possibility of sales approval prior to market launch, there is a possibility that Shionogi will post impairment losses assets.

4. COVID-19 impact

There is a possibility that sales activities, production, sales and research and development will be delayed due to the spread of COVID-19. Given current conditions, it is difficult to estimate when COVID-19 will completely wind down. At present the impact to business activities is mild. For accounting estimates, including an impairment test for goodwill, Shionogi is assuming the impact from COVID-19 will be limited. Note that there is a possibility of significant impact to financial statements should conditions change for these assumptions.

(Notes to the Consolidated Statement of Financial Position)

1. Allowance for doubtful accounts with direct write-off from assets

Trade and other receivables	71 million yen
Other financial assets	42 million yen

2. Cumulative depreciation and impairment loss for property, plant and equipment

165,798 million yen

Accumulated depreciation amount of invested real estates	3,571 million yen

(Notes on Consolidated Profit and Loss Statement)

1. Main breakdown of other revenue

(Million of yen)

	Amount
Gain on exchange of land and buildings	22,937
Gain on step acquisitions	2,958
Other	507
Total	26,403

Notes:

1. The gain on exchange of land and buildings reflects the redevelopment of the Shionogi Shibuya Building.
2. Gain on step acquisitions is due to the step acquisition of equity in Tetra Therapeutics Inc.

2. Main breakdown of other expenses

(Million of yen)

	Amount
Donations	1,069
Impairment losses	825
Costs to handle leaks	663
Costs related to lawsuits	464
Other	1,234
Total	4,257

Notes:

1. Impairment losses are related to intangible assets related to products.
2. Costs to handle leaks is related to measures taken to address the leak of dichloromethane at the premises of Kanegasaki Plant.

(Notes to the consolidated statement of changes in equity)

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

(Shares)

	April 1, 2020	Increase	Decrease	March 31, 2021
Shares in issue				
Common stock	316,786,165	—	5,200,000	311,586,165
Total	316,786,165	—	5,200,000	311,586,165
Treasury stock				
Common stock	13,002,082	8,784,862	11,664,500	10,122,444
Total	13,002,082	8,784,862	11,664,500	10,122,444

Notes:
1. The decline in the number of common shares outstanding is due to the cancellation of treasury shares.
2. The increase in treasury stock of 8,784,862 shares reflects an increase of 8,777,500 shares due to the acquisition of treasure stock based on the Board of Directors resolution, an increase of 5,000 shares due to the acquisition of shares without compensation under the restricted stock compensation system and an increase of 2,362 shares due to the purchase of odd-lot shares.
3. The decrease in treasury stock of 11,664,500 shares reflects a decrease of 6,356,000 shares due to a third-party allocation, a decrease of 5,200,000 shares due to the cancelation of treasury stock, a decrease of 85,300 shares due to the exercise of stock options, and a decrease of 23,200 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 23, 2020	Common stock	16,100 million yen	53yen	March 31, 2020	June 24, 2020
Meeting of Board of directors on October 30, 2020	Common stock	16,442 million yen	53yen	September 30, 2020	December 1, 2020

(2) Dividends whose effective date is subsequent to March 31, 2021

The following is to be approved at the 156th Annual General Meeting of Shareholders to be held on June 22, 2021.

Resolution	Category	Total dividends	Resolution	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 22, 2021	Common stock	16,580 million yen	Retained earnings	55 yen	March 31, 2021	June 23, 2021

3. Shares Issuable during the Share Subscription Rights Exercise Period as of March 31, 2021
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	15,600	25,500	13,700	16,700

	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	10,100	8,700	10,500

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

(1) Financial risk management

In carrying out business activities, the Shionogi Group is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, risks of fluctuation in market prices, etc.), and the Group is implementing risk management based on specific policies to avoid or mitigate such risks.

In addition, the Shionogi Group procures the capital it requires (mainly through bank borrowing and the issuance of bonds), referencing business plans mainly for carrying out the manufacturing and sales of pharmaceuticals. The Company invests temporary surplus funds in the management of financial assets with a high degree of safety. Derivatives are used to avoid the risks mentioned below. And it is the policy of Shionogi to avoid speculative trades.

(2) Credit risk

Trade receivables, which are composed of notes and accounts receivables, are exposed to customer credit risk. The Company adheres to internally stipulated procedures and the Finance & Accounting Department and related departments regularly monitor the conditions of major business partners to manage due dates and amounts outstanding per account. Moreover, the Company aims to quickly grasp and mitigate possible exposure to doubtful receivables mainly due to deterioration of financial conditions. Shionogi is also carrying out similar management at its consolidated subsidiaries in accordance with its management rules.

On top of this, derivative transactions are exposed to counterparty risks. In light of this, such transactions are only carried out with financial institutes with a high credit rating.

(3) Liquidity risk

Liquidity risk is the risk of the Shionogi Group becoming unable to meet its repayment obligations for financial liabilities that have come due. The Company manages its liquidity risk by properly preparing and updating financing plans by the Finance & Accounting Department based on reports from related departments.

(4) Market risks

1) Foreign exchange volatility risk

Trade receivables and debts denominated in foreign currencies at businesses being deployed globally by the Shionogi Group, scheduled transactions, and loans to group companies are exposed to foreign exchange volatility risks. The Company hedges against foreign exchange volatility risks grasped for each currency for its foreign currency denominated trade receivables and debts by using foreign exchange forwards and currency options.

2) Market price fluctuation risks

The Shionogi Group maintains shareholdings, including bonds and equity in business partners, which are exposed to the risk of fluctuation in market prices. The Group regularly grasps the fair value of its shareholdings and the financial conditions of the issuing companies (business partners), and also manages its shareholdings by continuously reviewing the status of its holdings.

2. Matters related to the fair value of financial instruments

The following shows the book and fair values of financial instruments at the end of the consolidated fiscal year under review.

Note that in the Consolidated Statement of Financial Position, financial instruments measured at fair value and those financial instruments where the book value is similar to its fair value are not included in the table below.

(Million of yen)

	Book value	Fair value
Financial instruments measured at amortized cost		
Bonds (long-term)	8,559	8,981

Note: The fair value of long-term bonds is calculated mainly based on the price presented by the trading exchange or the corresponding financial institution.

(Notes on investment property)

1. Matters related to the status of investment property
   Shionogi and some of its subsidiaries own properties, chiefly consisting of office buildings for lease (including land), primarily in regions around Japan.
2. Matters related to the fair value of investment property

(Million of yen)

Amount posted on the Consolidated Statement of Financial Position	Fair value
26,759	29,642

Notes:
1. The amount posted on the Consolidated Statement of Financial Position is the amount deducting cumulative depreciation and cumulative asset impairment loss from the acquisition price.
2. The fair value of investment property consists mainly of the amount based on an appraisal by a third-party real-estate appraiser (including appraisals which were adjusted in-house by using certain indicators)

(Notes to revenue recognition)

1. Breakdown of revenue

(Million of yen)

	Amount
Domestic prescription pharmaceutical revenue	94,684
Export and overseas subsidiary revenue	24,645
Contract manufacturing revenue	19,744
OTC drug revenue	11,713
Revenue from royalty income	144,629
Other revenue	1,760
Total revenue	297,177

2. Background information for understanding revenue
   Revenue stated in the Consolidated Statement of Profit or Loss is revenue recognized from contracts with customers. Revenue recognized from other sources is included in other revenue or financial revenue in the Consolidated Statement of Profit or Loss.
   Revenue at the Shionogi Group is composed of the following content. Domestic prescription pharmaceutical revenue includes revenue from the sale of prescription pharmaceuticals in Japan and compensation from co-promotion contracts. Revenue from exports and overseas subsidiaries consist of revenue from export transactions, revenue generated by overseas subsidiaries, and royalty income. Contract manufacturing revenue includes revenue related to the contract manufacturing of pharmaceutical raw materials. OTC drug revenue includes revenue from OTC drug sales and royalty income. Royalty income comprises royalty income at Shionogi and its domestic subsidiaries. And other revenue includes revenue from the sale of diagnostic reagents and sales at domestic subsidiaries.
   In sales of prescription pharmaceuticals in Japan and abroad, unless otherwise stated separately in a contract, revenue is recognized at the time when the product arrives at the customer for domestic prescription pharmaceutical sales and for overseas sales, revenue is recognized once it is determined that Shionogi’s performance obligation has been fulfilled at the time the customer has taken control of the said product in accordance with various terms and conditions of trade. Revenue is recognized at the time this performance obligation is fulfilled. Compensation for the transaction is generally received within three (3) months after the fulfillment of the performance obligation.
   Note that in the case of some transactions, for the purpose of sales promotion of a product of the Shionogi Group, customers are given a rebate based mainly on the sales volume of the related product. Accordingly, the amount of compensation fluctuates. However, given the amount of the rebate given to a customer can be reasonably estimated, in general, there is not major reversal to the cumulative amount of the recognized revenue. Accordingly, the Company determines that

there are no restrictions on estimating this fluctuating compensation amount.
In addition, products sold by the Shionogi Group include those products for which the customer has right to return to the Group. For these products, the estimated amount of return (refund) is calculated based on the forecast rate of unsold goods and is deducted from revenue. In addition, the same amount is posted to refund liabilities. Moreover, products sold by the Shionogi Group are difficult to resell due to the nature of the products and therefore, at the time of settlement of refund liabilities, the Company does not recognize the assets for the right to recover the product to be returned.
In contract manufacturing of pharmaceutical raw materials, in principle, the Company determines that it has fulfilled its performance obligation at the time the product arrives at the customer and posts revenue when it has fulfilled the said performance obligations. In addition, the compensation for this transaction is generally received within two (2) months after the fulfillment of this performance obligation.
In licensing, the Shionogi Group provides the right to use intellectual properties, including patents possessed by the Shionogi Group, to the other party of a licensing agreement. The Shionogi Group determines that its performance obligation has been satisfied at a specific point and time as it deems it will not conduct activities that will have a material impact on the intellectual properties supplied under the agreement. The Company determines that its performance obligations have been fulfilled at the time when it provides licensing to the customer, and posts revenue at the time when it fulfills the said performance obligation.
Compensation for licensing mainly comes in the form of a contract fee received when the contract is entered into, milestone income in line with the fulfillment of certain terms, including progress in research and development or sales, and fixed-rate royalties based on sales or sales volume for the related product. Revenue is generally received two (2) months after the respective requirements for receiving compensation have been satisfied.
Among these forms of compensation for providing licensing, milestone revenue is received when certain conditions are met. The expected amount of variable compensation fluctuates when the Shionogi Group receives rights, given it is uncertain whether the licensee will fulfill the said conditions. In the cases where the compensation amount includes fluctuating components, the amount of compensation to be obtained for the rights is estimated, and when the uncertainties related to the variable compensation have been resolved, and only when there is a high level of certainty a major reversal will likely not arise for the cumulative amount of recognized revenue, milestone is included in the transaction price. Terms for receiving a milestone payment depend on the decision and actions of the customer after the customer receives licensing. Given that uncertainties are not resolved in the long term in this case, there is a possibility that a major reversal to revenue will occur once the uncertainties are resolved. In light of this, estimates for the variable compensation are limited for licensing agreements where a milestone payment is received once the prescribed conditions are fulfilled.
However, among the forms of licensing compensation, sales-based and usage-based royalties are recognized as revenue based on the later of subsequent sale or usage occurs, or the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is fulfilled (or partially fulfilled).
Note that significant financial components are not included in the compensation to be received by the Shionogi Group. At the time of the start of a contract, the Shionogi Group elects not to adjust for significant financial components in the cases where there is a period of 12 months or less between the time the Group provides products or services to the customer and the time the customer pays for the said products or services.
In addition, the Shionogi Group does not conduct sales of products with product warranties or similar rights.

(Notes on Amounts per Share)

Equity attributable to owners of parent per share	2,806.67 yen
Basic net income per share	365.03 yen
Diluted net income per share	364.89 yen

(Notes on significant subsequent events)

(Finalization of judgement in a lawsuit)

Regarding a tax reassessment notification and a notification of assessment and determination of additional tax for the year ended March 31, 2013 sent by the Osaka Regional Taxation Bureau on September 12, 2014, the Company filed a complaint for the rescission of the tax reassessment, and had been fighting in the Tokyo High Court. On April 14, 2021, the Tokyo High Court rendered its judgment, recognizing the Company's claims nearly in full. Thereafter, the government did not file any appeal or petition for acceptance of appeal by the deadline of April 28,2021, and thus the judgment was finalized. As a result of this judgement, a total of approximately 13.3 billion yen (including local taxes) is expected to be refunded, including the additional tax for the fiscal year ended March 31, 2013 that has already been paid and the tax for the fiscal year ended March 31, 2014 that was paid in connection with the loss carried forward that were eliminated due to the reassessment.

(Notes on Business combination)

(Acquisition of shares of Tetra Therapeutics Inc.)

On May 26, 2020, Shionogi additionally acquired shares of Tetra Therapeutics Inc. (Tetra), converting the company into a wholly-owned subsidiary.

(1) Overview of business combination

1) Change in the name and business operations of the acquired company

Tetra Therapeutics Inc. (Official name: Tetra Discovery Partners Inc.)

Business description: Pharmaceutical research and development

2) Main reasons for the business combination

In December 2018, Shionogi entered into a licensing and investment agreement with Tetra for BPN14770, an experimental drug for improving cognitive functions. Accordingly, Shionogi and Tetra cooperated in the research and development of this compound. In the US, Phase II trial was completed for use with Alzheimer patients. Although the results of this trial did not pass the primarily evaluation items, the Company decided the continuous development on this drug compound was significant. Consequently, Shionogi acquired 100% of Tetra's shares, converting it into a wholly-owned subsidiary.

3) Acquisition date

May 26, 2020

4) Method for acquisition of control in the acquired company

Acquisition of shares as compensation for upfront and milestone payments

5) Ratio of equity with voting rights acquired

Ratio of voting rights prior to acquisition	50.00%
Ratio of additionally acquired voting rights on the acquisition date	50.00%
Ratio of voting rights after acquisition	100.00%

(2) Fair value of acquisition price and breakdown

- The fair value of the shares of the acquired company on the trading day prior to the acquisition date: 11,152 million yen
- Cash acquisition price of additional shares acquired in the acquired company on the acquisition date: 10,290 million yen
- Fair value of the contingent price, including acquisition price, on the acquisition date: 698 million yen
- Acquisition price: 22,141 million yen

(3) Contingent price

The contingent price is the milestone payment to the made depending on the progress and achievements in development. This is a possible maximum payment of 380 million US dollars.

(4) Acquisition-related expenses

Expenses directly required for the acquisition totaled 219 million yen. In the previous consolidated fiscal year and the consolidated fiscal year under review, this was posted to "selling, general and administrative expenses" in the Consolidated Statement of Profit or Loss.

(5) Gain on step acquisitions

Shionogi remeasured the fair value of the equity it acquired in Tetra, which Shionogi held just before the acquisition date. Accordingly, the Company recognized a gain on step acquisitions of 2,958 million yen. This was posted to "Other income" in the Consolidated Statement of Profit or Loss.

(6) Fair value of acquisition price, fair value of acquired assets and assumed liabilities on the date of acquisition

(Million of yen)

	Amount
Fair value of acquisition price	22,141
Fair value of acquired assets and assumed liabilities	
Intangible assets (Note 2)	26,247
Other non-current assets	58
Other current assets	282
Cash and cash equivalents	1,754
Deferred tax liabilities	(6,163)
Other liabilities	(193)
Fair value of acquired assets and assumed liabilities (net)	21,985
Goodwill (Note 3)	155
Total	22,141

Notes: 1. At the end of the current consolidated fiscal year, the fair value of identifiable assets and liabilities as of the acquisition date was calculated and the allocation of consideration for acquisition was completed.

2. Intangible assets comprise of research and development assets related to products that are still in progress.

3. Goodwill was incurred mainly related to expected future profit capacity. Note, Shionogi does not anticipate any deductible expenses to the tax law in its identifiable goodwill.

(7) Cash flow in tandem with the acquisition

Acquisition price paid in cash	10,290 million yen
Cash and cash equivalents taken in on the acquisition date	1,754 million yen
Expenditures due to acquisition of a subsidiary	8,536 million yen

(Note) In the previous consolidated fiscal year, expenditures totaled 5,315 million yen and in the consolidated fiscal year under review expenditures totaled 3,221 million yen

(8) Impact on profits

Profit/loss information after the acquisition date for the business combination and profit/loss information assuming the business combination was conducted at the start of the fiscal year were omitted as they have minimal significant impact on the Consolidated Statement of Profit or Loss. Note that profit/loss information assuming the business combination was conducted at the start of the fiscal year does not undergo an audit by auditors.

(Acquisition of shares in Nagase Medicals Co., Ltd.)

On October 1, 2020, Shionogi Pharma Co., Ltd. (Shionogi Pharma), a wholly owned subsidiary of Shionogi, acquired all of the shares of Nagase Medicals Co., Ltd. (Nagase Medicals), which manufactures pharmaceutical products.

(1) Overview of business combination

1) Name of acquired company and business description

Name of acquired company: Nagase Medicals Co., Ltd.

Business description: Pharmaceutical manufacturing

2) Main reasons for the business combination

Shionogi Pharma aims to become the world' s most trusted CDMO (Contract Development and Manufacturing Organization) business operator. Shionogi Pharma aims to utilize the manufacturing capabilities and knowhow of Nagase Medicals to further promote the CDMO business going forward in its quest to become a leading company in CDMO.

3) Acquisition date

October 1, 2020

4) Method for acquisition of control in the acquired company

Acquired shares which were paid for in cash by Shionogi Pharma

5) Ratio of equity with voting right acquired

100.00%

(2) Fair value of the acquisition price and breakdown

Cash and cash equivalents: 415 million yen

Shionogi posted 111 million yen in expenses related to the acquisition under Selling, general and administrative expenses in the Consolidated Statement of Profit or Loss.

Note that Shionogi Pharma lent 4,014 million yen in cash to Nagase Medicals, in addition to the cash paid out for the acquisition, as a source for Nagase medicals to repay obligations.

(3) Acquisition-related costs

The costs directly required for the acquisition amounted to 111 million yen and are recorded as "Selling, general and administrative expenses" in the Consolidated Statement of Profit or Loss.

(4) Fair value of acquisition price, fair value of acquired assets and assumed liabilities on the date of acquisition

(Million of yen)

	Amount
Fair value of acquisition price	415
Fair value of acquired assets and assumed liabilities	
Property, plant and equipment	1,779
Inventory	698
Trade receivables	1,192
Other assets	625
Corporate bonds and borrowings (current)	(4,014)
Trade payables	(194)
Other financial liabilities	(581)
Other liabilities	(603)
Fair value of acquired assets and assumed liabilities (net)	(1,099)
Goodwill (Note 2)	1,514
Total	415

Notes:

1. At the end of the current consolidated fiscal year, the fair value of identifiable assets and liabilities as of the acquisition date was calculated and the allocation of consideration for acquisition was completed.
2. Goodwill was incurred mainly related to expected future profit capacity. Note, Shionogi does not anticipate any deductible expenses to the tax law in its identifiable goodwill.

(5) Cash flow in tandem with the acquisition

Acquisition price paid in cash	415 million yen
Cash and cash equivalents taken in on the acquisition date	0 million yen
Expenditures due to acquisition of a subsidiary	414 million yen

In addition to the above, Shionogi Pharma has provided a cash loan of 4,014 million yen to the acquired company as a source of debt repayment. The acquired company pays its liabilities using the loan as a source of debt repayment.

(6) Impact on profits

Profit/loss information after the acquisition date for the business combination and profit/loss information assuming the business combination was conducted at the start of the fiscal year were omitted as they have minimal significant impact on the Consolidated Statement of Profit or Loss. Note that profit/loss information assuming the business combination was conducted at the start of the fiscal year does not undergo an audit by auditors.

(Finalization of provisional accounting methods for the business combination with UMN Pharma Inc.)

On December 19, 2019, Shionogi acquired shares in UMN Pharma Inc. (UMN Pharma), which carries out the research, development, manufacturing and sales of biopharmaceuticals, and turned UMN Pharma into a consolidated subsidiary.

In the previous consolidated fiscal year, a provisional figure was used for the fair value of the acquired assets and assumed liabilities. In the consolidated fiscal year under review, the figures were finalized. The provisional figures were revised as follows after allocation of the acquired price was completed.

Fair value of acquired assets and assumed liabilities on the acquisition date (December 19, 2019)

(Million of yen)

	Initial provisional fair value	Revision	Revised fair value
Property, plant and equipment	80	-	80
Intangible assets (Note 1)	-	5,169	5,169
Inventory	42	-	42
Cash and cash equivalents	484	-	484
Other assets	52	-	52
Deferred tax liabilities	-	(1,576)	(1,576)
Other liabilities	(113)	-	(113)
Fair value of acquired assets and assumed liabilities (net)	546	3,592	4,139
Non-controlling interest	(90)	(592)	(682)
Goodwill (Note 2)	7,523	(3,000)	4,523
Total	7,980	-	7,980

Notes:

1. Intangible assets comprise of research and development assets related to products that are still in progress.
2. Goodwill are those items incurred mainly related to expected future profit capacity. Note, Shionogi does not anticipate any deductible expenses to the tax law in its identifiable goodwill.

The consolidated statements of financial position for the previous consolidated fiscal year has been retrospectively adjusted. The main revision to the initial provisional amount was a 3,000 million yen deduction to goodwill on the date when control was acquired. This primarily reflects increases in intangible assets of 5,169 million yen and deferred tax liabilities of 1,576 million yen.

Non-consolidated Statements of Changes in Net Assets

FY2020 (Year ended March 31, 2021)

(Million of yen)

	Capital stock	Capital surplus		Retained earnings			
					Other retained earnings		
		Legal capital surplus	Other capital surplus	Legal 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	3,012	368,645	174,307
Cumulative impact owing to changes in accounting policy							24,907
Balance at the beginning of the period reflecting change of accounting policy	21,279	16,392	—	5,388	3,012	368,645	199,215
Changes of items during period							
Reversal of reserve for advanced depreciation of non-current assets					(91)		91
Dividends of surplus							(32,543)
Net income							32,181
Purchase of treasury stock							
Disposal of treasury stock			(4,518)				
Cancellation of treasury stock			(30,912)				
Other			35,430				(35,744)
Net changes of items other than shareholders' equity							
Total changes of items during period	—	—	—	—	(91)	—	(36,014)
Balance at the end of current period	21,279	16,392	—	5,388	2,921	368,645	163,201

	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	(77,292)	511,733	14,022	4,287	18,310	438	530,482
Cumulative impact owing to changes in accounting policy		24,907					24,907
Balance at the beginning of the period reflecting change of accounting policy	(77,292)	536,641	14,022	4,287	18,310	438	555,390
Changes of items during period							
Reversal of reserve for advanced depreciation of non-current assets		—					—
Dividends of surplus		(32,543)					(32,543)
Net income		32,181					32,181
Purchase of treasury stock	(50,013)	(50,013)					(50,013)
Disposal of treasury stock	38,404	33,886					33,886
Cancellation of treasury stock	30,912	—					—
Other		(314)					(314)
Net changes of items other than shareholders' equity			5,035	(7,029)	(1,994)	(187)	(2,181)
Total changes of items during period	19,302	(16,803)	5,035	(7,029)	(1,994)	(187)	(18,984)
Balance at the end of current period	(57,989)	519,838	19,057	(2,741)	16,315	251	536,405

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. Standard for revenue and expense recognition

Shionogi has adopted “Accounting Standard for Revenue Recognition” (Corporate Accounting Standards No. 29, March 30, 2018) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (Corporate Accounting Standards No. 30, March 30, 2018). At the point and time when rights to promised goods and services are transferred to the customer revenue is recognized based on the amount expected to be received in exchange for the said goods and service.

5. 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.

6. Significant hedge accounting

(1) Method of hedge accounting

Deferred hedge accounting is used.

(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.

7. Consumption tax

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

(Notes to changes in accounting policy)

Application of accounting standards for revenue recognition

In tandem with the “Accounting Standard for Revenue Recognition” (Corporate Accounting Standards No. 29, March 30, 2018; “revenue recognition accounting standard”) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 of March 30, 2018), which can now be applied starting from the fiscal year beginning on or after April 1, 2018, the Company applied accounting standards for revenue recognition, etc. from the start of FY2020. In line with this, the Company recognized revenue in an amount expected to be received in exchange for promised goods or services when the controls of them are transferred to the customer.

Owing to this, regarding the sale of prescription pharmaceuticals and contract manufacturing of pharmaceutical raw materials, Shionogi changes its revenue recognition method to post revenue sales in Japan when products arrive at the customer; and for export sales when control is secured by the customer in accordance with the terms and conditions of trade. In addition, as compensation paid to customers for the purpose of sales promotions for Shionogi products was previously posted to selling, general and administrative expenses, the Company now applies the method of recognizing an amount after deducting compensation from value of the transaction. Sales with the right to return were previously posted to an allowance for sales returns, in accordance with an amount equivalent to gross profit. In accordance with the stipulated variable compensation, this amount is deducted from the revenue amount and the method was also revised so that the Company now posts an amount equivalent to return liabilities. Furthermore, among the forms of licensing compensation, sales-based and usage-based royalties are recognized based on the later of subsequent sale or usage occurs, or the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is fulfilled (or partially fulfilled).

The application of the Revenue Recognition Accounting Standard, etc. is in accordance with the transitional treatment as provided in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard, and if a new accounting policy is retroactively applied before the beginning of FY2020, the cumulative effect is added or deducted from retained earnings at the beginning of FY2020, and the new accounting policy is applied from the balance at the beginning of FY2020. However, Shionogi has not retroactively applied the policy prescribed in Paragraph 86 of the Revenue Recognition Accounting Standard to the contracts for which almost all amounts of revenue were recognized prior to the beginning of the current 1st quarter under the previous treatment.

Consequently, in comparison with conventional methods, in FY2020 sales declined 9,457 million yen, cost of sales fell 142 million yen, and selling, general and administrative expenses fell 1,770 million yen. Also, gross profit declined 9,314 million yen, and operating income, ordinary income, and income before for income taxes all dropped 7,543 million yen, respectively. Moreover, the balance for retained earnings at the start of the fiscal year under review increased 24,907 million yen.

Changes in significant hedge accounting

Shionogi previously adopted the allocation method for foreign exchange forward contracts which satisfied the requirements for appropriation, however, given conditions for foreign currency-denominated debts and credits, and derivative transactions, starting from FY2020, Shionogi is changing to a principle accounting method to properly reflect this in the financial statements.

Note that the said changes to accounting policy were not applied retroactively as the impact to past periods is minor. In addition, this change will have a minor impact on profit/loss in FY2020.

(Notes on changes in presentation methods)

Application of “Accounting Standard for Disclosure of Accounting Estimates”

The Company will adopt the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the financial statements for the end of the current fiscal year, and notes on significant accounting estimates are included in the financial statements.

(Notes on accounting estimates)

1. Valuation of shares of affiliates

   In the balance sheets, Shionogi posted 159,211 million yen for shares of affiliates. Of this, 18,593 million yen reflects the book value for Tetra Therapeutics Inc. (Tetra).

   When acquiring shares in some affiliates, including Tetra, shares are acquired at a value that factors in excess earning capacity and intangible assets identified at the time of acquisition. When calculating the real value of these shares, identifiable intangible assets secured from business combination are factored in based on the entities' financial statements. Key assumptions for calculation of real value include possible sales approval by regulatory authorities for targets products of the said intangible assets. In the event of a decline in the possibility of sales approval for product pre-launch, it is possible to post valuation loss.

2. COVID-19 impact

   There is a possibility of a delay in business activities, including production, sales, research and development, should COVID-19 further spread. It is difficult to forecast when COVID-19 will fully wind down. At present the impact to business activities is mild. For accounting estimates, including the valuation of shares of affiliates, Shionogi is assuming the impact from COVID-19 will be limited. Note that there is a possibility of significant impact to financial statements should conditions change for these assumptions.

(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	60,229 million yen
3. Short-term credit for subsidiaries and affiliates	3,695 million yen
Short-term debts to subsidiaries and affiliates	13,554 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	84,077 Million of yen
Transactions other than business transactions	5,718 Million of yen

3. Gain on sales of shares in an affiliate

   Owing to the sale of shares in Shionogi Healthcare Co., Ltd.

4. Loss on valuation of shares of subsidiaries and associates

   Related to the subsidiaries, Shionogi Inc., C&O Pharmaceutical Technology (Holding) Ltd., and Shionogi Singapore Pte. Ltd.

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

Shares held as of March 31, 2020

Common stock	10,122,444 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	36,211 million yen
Revision of carrying value of stocks of subsidiaries and affiliates	12,567 million yen
R&D expenses	10,277 million yen
Loss on revaluation of investments in securities	3,167 million yen
Provision for bonuses	1,430 million yen
Accrued enterprise taxes	1,271 million yen
Other	3,358 million yen
Subtotal deferred tax assets	68,284 million yen
Valuation Allowance	(48,000 million yen)
Total deferred tax assets	20,284 million yen
Deferred tax liabilities:	
Unrealized gain on other securities	(5,095 million yen)
Asset for retirement benefits	(4,699 million yen)
Reserve for advanced depreciation of property, plant and equipment	(1,287 million yen)
Investments in securities	(965 million yen)
Other	(232 million yen)
Total deferred tax liabilities	(12,280 million yen)
Net deferred tax assets	8,003 million yen

(Notes on Related-Party transactions)

(Million 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	Purchasing (Note 1)	57,692	Accounts payable	4,336
Subsidiary	Ping An-Shionogi (Hong Kong), Ltd.	Ownership 51.0% indirect holding	Joint venture based on a business and capital alliance with the Ping An Insurance Co. of China, Ltd.	Sale of shares (Note 2) Selling price Sales gain	4,675 3,516	–	–

Transaction terms and method of determining transaction terms, etc.

Notes:

1. Price and other transaction terms are determined using a negotiated reasonable price.
2. As of January 29, 2021, the outstanding shares in subsidiary (Shionogi Healthcare Co., Ltd.) were fully transferred. Note that the share sales price was decided after discussions between both companies and takes into consideration factors including actual market price.

(Notes on Amounts per Share)

1. Net assets per share	1,778.50 yen
2. Earnings per share	105.02 yen
3. Earnings per share (diluted)	104.98 yen

(Notes to revenue recognition)

Please refer ”Notes to the Consolidated Financial Statements (Notes to revenue recognition)”.

(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)”.