Translation for reference only

Items Disclosed on Internet Concerning Notice of Convocation of the 157th 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 FY2021 (Year ended March 31, 2022)

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	FY2021 157th term (Fiscal year ended March 31, 2022)
Revenue	367,960	333,371	297,177	335,138
Operating profit	145,081	130,628	117,438	110,312
Profit before tax	174,043	158,516	143,018	126,268
Profit attributable to owners of parent	137,191	122,193	111,858	114,185
Research and development expenses	52,058	47,949	54,249	72,996
Total assets	938,540	873,695	998,992	1,150,601
Total equity	813,087	765,203	864,550	993,285
Basic earnings per share	yen 438.47	yen 395.71	yen 365.03	yen 378.75
Equity attributable to owners of parent per share	yen 2,598.16	yen 2,518.74	yen 2,806.67	yen 3,236.21
Dividend per share	yen 94.00	yen 103.00	yen 108.00	yen 115.00*2
Return on equity attributable to owners of parent (ROE)	% 17.8	% 15.5	% 13.9	% 12.5
Dividend on equity attributable to owners of the parent (DOE)	% 3.8	% 4.0	% 4.1	% 3.8*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 157th Annual General Meeting of Shareholders.

【JGAAP】 (Million of yen)

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

2) Business Results and Financial Position of the Company

【JGAAP】 (Million of yen)

Classification	FY2017 153rd term	FY2018 154th term	FY2019 155th term	FY2020 156th term	FY2021 157th term (Fiscal year ended March 31, 2022)
Net sales	315,941	327,991	293,865	260,986	285,948
Operating income	116,907	138,366	116,107	76,192	95,969
Ordinary income	117,534	139,836	121,265	81,714	100,892
Profit (loss)	89,135	100,037	88,640	32,181	90,264
Total assets	584,964	612,336	580,804	617,123	730,120
Net assets	500,510	533,261	530,482	536,405	590,430
Earnings (losses) per share	yen 280.60	yen 319.73	yen 287.05	yen 105.02	yen 299.41
Net assets per share	yen 1,590.50	yen 1,711.39	yen 1,744.81	yen 1,778.50	yen 1,957.59

Notes:

1. 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 FY2017.
2. Shionogi has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) since FY2020.

(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	Yodoyabashi 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	
5,693	(Increase)	208

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
2,510	(79)	41.6	16.4

(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, 2022

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 2021

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, 2022

1) Compensation paid to the Independent Accounting Auditor for the fiscal year ended on March 31, 2022:

105 million yen

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

113 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. Some of the Company's subsidiaries are audited by an independent accounting auditor other than the accounting auditor of the Company

(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, 2022 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, 2022, 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 the monitoring function in place at the Board of Directors to clarify the executive and supervisory roles of management while facilitating responsive and flexible business operations. For business execution, the Company has adopted the corporate officer system. Important matters concerning business operations 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 internal directors, standing corporate auditors and corporate officers responsible for business execution and meets regularly (weekly). Moreover, by having the status of execution of duties by business execution departments and major Group companies reported regularly to the Board of Directors, the Company endeavors to monitor the execution of business.

Starting from FY2020 the Company has employed a process to ensure fair, speedy and decisive implementation of decision making and execution of duties while securing transparency and traceability in all stages from the organizational approval to the Board of Directors' resolutions. As a part of this process, the Company constantly anticipates business risks, interprets positive risks (offensive risks, business opportunities) and negative risks (defensive risks) as being one in the same, and sets criteria for the decision-making levels based on the scale of business risks, with the aim of ensuring the execution of duties in a manner that will maximize results.

In accordance with the Basic Views and Guidelines on Corporate Governance, the Company carried on from FY2020 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 further strengthen the compliance system, the Board of Directors monitors the state of the activities of the Compliance Committee by having the Committee to make regular reports to the Board twice a year.

To verify the effectiveness of its internal control system, the Company continued monitoring by the Internal Control Department, which is in charge of internal auditing. At the same time, the Company set up a whistleblowing hotline as an internal reporting system in the General Administration Department and at the company attorney's office and also set up a harassment hotline and overtime hotline inside the Company and in the Company's labor union, with the aim of promoting prevention and early detection of compliance violations, harassment and overwork, and preventing their recurrence.

3) Matters concerning risk management

The Shionogi Group works to properly manage its business risks from the perspective of sustainability through such actions as utilizing positive risks (business opportunities) and avoiding or reducing negative risks. At the same time, the Group has established, as an important framework for its management strategy and management foundation, an Enterprise Risk Management system to supervise the Group-wide risks, including crisis risks such as pandemics, natural disasters, terrorism and cyber attacks. In this system, basically the Company and its Group companies recognize the risks related to their decision-making and business execution, and manage the risks and implement countermeasures on their own initiative. Information on the risks is identified and gathered by the enterprise risk management function composed of the Sustainability Promotion Department, General Administration Department, and Corporate Planning Department. In particular, material risks that may affect business management are discussed and evaluated at the Corporate Executive Meetings and the Board of Directors' meetings, where policies for responsive measures are formulated and allocation of managerial resources to the measures are also determined. Based on the policies for responsive measures, the Company and its Group companies implement the measures in cooperation with relevant organizations. The enterprise risk management function submits an action plan for risk management for each year to the Corporate Executive Meeting and the Board of Directors at the beginning of the year to obtain approval from them. At the same time, the function monitors the status of implementation of the plan and reports the results at the end of the year. As necessary, the function reports on the progress in a timely manner and receives feedbacks, so that problems can be identified and solutions can be formulated quickly and flexibly even in the middle of the year.

Crisis risk management, in accordance with the risk management regulations, aims to establish and promote 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 and contribute to local communities, 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 particular, the Company upholds "release from the threat of infectious diseases" as one of the issues of materiality, which the Company will address to create new value for customers and society. Aiming to contribute to the health of our stakeholders as soon as possible, the Company has implemented measures to prevent the spread of infection and employed a flexible labor management system during the pandemic as part of its business continuity plan for the continuation of the core business operations related to R&D, manufacturing and stable supply of therapeutic medicines and vaccines toward early containment of COVID-19.

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 of the Company manage and support business operation of the Group companies, while the Company dispatches directors and corporate auditors to supervise and audit their execution of duties. 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 the Shionogi Group Code of Conduct. In addition, the General Administration Department takes the initiative in promoting appropriate management of Group companies 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 through internal audits.

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, 2022, the Board of Auditors met 11 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 FY2021 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 25, 2022, 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.
To this end, the Company will work to ensure the implementation of the Shionogi's Company Policy, which has been set as the Company's management philosophy, and the Shionogi Group Code of Conduct, which defines how the officers and employees should act, thereby having the significance of the Company's existence fully understood. At the same time, as for corporate ethics, focusing on the importance of behavior appropriate for respected members of society, the Compliance Committee, which is chaired by the representative director, will formulate and promote various measures to ensure and enhance compliance with laws/regulations and ethical behavior in our business activities.
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.
The Company will have a corporate governance system in which the Board of Directors is placed based on the institutional design for a company with a Board of Corporate Auditors. Outside directors shall account for a majority or more of the members of the Board. The Board of Directors will make overall management decisions taking into consideration the objective perspectives based on requests from the shareholders and other stakeholders. Note that as advisory bodies, the Company established a Nominating Advisory Committee and a Compensation Advisory Committee.
Shionogi implements the Basic Views on Corporate Governance, which was established to realize optimal corporate governance. By doing so, the Company aims to achieve sustainable growth of the Shionogi Group and improve its corporate value in the medium to long term. Keeping this in mind, in order to secure the transparency and traceability in execution of duties, the Company has established a process to trace the progress and results of decision-making in all stages from the organizational approval to the Board of Directors' resolutions. And by verifying the actual conditions, the Company promotes the execution of duties in fair, speedy and decisive manner.
To fulfill its role as a monitoring board, the Board of Directors will make decisions on important matters related to business management based on multifaceted business judgments in accordance with the Board of Directors' Regulations. The Board will also grasp and supervise the execution of duties in a timely manner, and prevent the violation of laws and regulations, or the Articles of Incorporation.
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. Representative directors shall maintain and operate an internal control system to secure the reliability of financial reporting, and adequately evaluate and report on the effectiveness of internal control.

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

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 Shionogi Group will work to properly manage its business risks from the perspective of sustainability through such actions as utilizing positive risks (business opportunities) and avoiding or reducing negative risks. At the same time, the Group has established, as an important framework for its management strategy and management foundation, an Enterprise Risk Management system to supervise the Group-wide risks, including crisis risks such as pandemics, natural disasters, terrorism and cyber attacks. In this system, basically the Company and its Group companies recognize the risks related to their decision-making and business execution, and manage the risks and implement countermeasures on their own initiative. The enterprise risk management function submits an action plan for risk management for each year to the Corporate Executive Meeting and the Board of Directors at the beginning of the year to obtain approval from them. At the same time, the function monitors the status of implementation of the plan and reports the results at the end of the year. As necessary, the function reports on the progress in a timely manner and, based on the feedbacks received, promotes activities to further identify problems and make improvements.

Crisis risk management, in accordance with the risk management regulations, aims to establish and promote 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 and contribute to local communities, and prevent the erosion of corporate value. In the event a crisis occurs, the Company will endeavor 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 confirm the appropriateness and effectiveness of business operations of Group companies through internal audits. At the same time, members of the Finance & Accounting Department and the Internal Control Department will be dispatched as auditors to conduct audits of the 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 ensure effective audits by corporate auditors

The corporate auditors will cooperate with the accounting auditors and the Internal Control Department in conducting audits and providing advice and recommendations, and will also regularly hold meetings with the representative directors to exchange opinions, thereby enhancing the effectiveness of audits.

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 FY2021 (Year ended March 31, 2022)

(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, 2021	21,279	13,733	(57,989)	752,248	116,836	846,108	18,442	864,550
Profit				114,185		114,185	(746)	113,439
Total other comprehensive income, net of tax					47,679	47,679	650	48,330
Comprehensive income	-	-	-	114,185	47,679	161,865	(95)	161,769
Purchase of treasury shares			(14)			(14)		(14)
Disposal of treasury shares		(5)	147			141		141
Dividends				(33,162)		(33,162)		(33,162)
Transfer from other components of equity to retained earnings				(308)	308	-		-
Other		727		(5)		722	(722)	-
Balance as of March 31, 2022	21,279	14,455	(57,857)	832,958	164,824	975,661	17,624	993,285

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: 48
   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: 1 companies
   (Exclusion) Decrease owing to liquidation: 4 companies

3. Matters on application of the equity method
   Number of affiliated companies and jointly controlled entities to which the equity method is applied
   Equity method applied to: 1 company

4. 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 acquisition.

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 assets and included in "intangible assets associated with products.”

Expenditures related to acquire 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

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

(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 108,893 million yen, goodwill of 9,638 million yen and intangible assets of 81,223 million yen. In calculating the recoverable amount in an impairment test of these assets, we set assumptions such as sales forecast and discount rates in business plans, and potential sales approval by the regulatory authority prior to market launch. 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.)

   In the Consolidated Statement of Financial Position, as a financial asset measured at fair value through other comprehensive income, 186,184 million yen was posted as the value of the shares in ViiV Healthcare Ltd. ("ViiV"), a non-listed company engaged in development, manufacturing and sales of anti-HIV drugs 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. Among them, sales growth rate and profit rate are affected by sales trends of competitive products and the development and sales strategies of the company while discount rate are affected by market interest rate and other market environment, which may influence total assets and capital.

3. 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	50 million yen
Other financial assets	42 million yen

2. Cumulative depreciation and impairment loss for property, plant and equipment
171,439 million yen

Accumulated depreciation amount of invested real estates	3,111 million yen

3. Guarantee obligations

The Company has provided a guarantee for obligations of the company below.

PeptiStar Inc	9,000 million yen

(Notes) 1. This is an obligation based on the environmental improvement contract concluded for the program granted by Japan Agency for Medical Research and Development (AMED) as a Cyclic Innovation for Clinical Empowerment (CiCLE) program.

2. Two companies other than the Shionogi Group companies jointly provide the guarantee.

(Notes on Consolidated Profit and Loss Statement)

1. Main breakdown of other revenue

(Million of yen)

	Amount
Gain on sales of non-current assets	1,552
Additional income taxes, etc. refund	913
Other	918
Total	3,384

Notes:
1. “Gain on sales of non-current assets” is mainly from sales of real estate for lease.
2. “Additional income taxes, etc. refund” is refund of additional income taxes, etc. from Osaka Regional Taxation Bureau associated with the success in lawsuit for the complaint filed for the rescission of the tax reassessment.

2. Main breakdown of other expenses

(Million of yen)

	Amount
Loss on retirement of fixed assets	1,639
Costs to handle leaks	1,256
Donations	817
Investment loss under equity method	20
Other	817
Total	4,551

Notes: Costs to handle leaks is related to measures taken to address the leak of dichloromethane at the premises of Kanegasaki Plant.

3. Income tax expense

Income tax expense includes 13,290 million yen refund from Osaka Regional Taxation Bureau associated with the success in lawsuit for the complaint filed for the rescission of the tax reassessment.

(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, 2021	Increase	Decrease	March 31, 2022
Shares in issue Common stock	311,586,165	—	—	311,586,165
Total	311,586,165	—	—	311,586,165
Treasury stock Common stock	10,122,444	6,641	25,700	10,103,385
Total	10,122,444	6,641	25,700	10,103,385

Notes:
1. The increase of 6,641 common shares in treasury stock reflects an increase of 4,500 shares due to the acquisition free of charge in the restricted stock compensation plan and an increase of 2,141 shares due to the purchase of odd-lot shares.
2. The decrease of 25,700 common shares in treasury stock reflects a decrease of 25,700 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 22, 2021	Common stock	16,580 million yen	55yen	March 31, 2021	June 23, 2021
Meeting of Board of directors on November 1, 2021	Common stock	16,581 million yen	55yen	September 30, 2021	December 1, 2021

(2) Dividends whose effective date is subsequent to March 31, 2022

The following is to be approved at the 157th Annual General Meeting of Shareholders to be held on June 23, 2022.

Resolution	Category	Total dividends	Resolution	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 23, 2022	Common stock	18,088 million yen	Retained earnings	60 yen	March 31, 2022	June 24, 2022

3. Shares Issuable during the Share Subscription Rights Exercise Period as of March 31, 2022
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 and borrowings 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)	4,613	4,914

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.

3. Matters related to the breakdown of financial instruments by each fair value level

(1) Fair value hierarchy

The hierarchy for fair value of financial institutions is as follows.

Level 1: Fair value calculated using the unadjusted market price in an active market

Level 2: Fair value calculated using prices that are directly or indirectly observable, other than the market price included in Level 1.

Level 3: Fair value calculated using a valuation method, including inputs that cannot be observed.

Transfer between levels of the fair value hierarchy is recognized on the day when the event or the change in the situation that caused the transfer occurs.

(2) Financial instruments measured at fair value

(Million yen)

	Level 1	Level 2	Level 3	Fair value
Financial assets				
Financial instruments measured at amortized cost				
Bonds (long-term)	4,302	−	612	4,914
Financial assets measured at fair value through net income/loss				
Other	−	−	3,176	3,176
Financial assets measured at fair value through other comprehensive income				
Stocks and investments in capital	38,148	−	193,720	231,868
Other	−	−	698	698
Subtotal	38,148	−	194,418	232,567
Total	42,450	−	198,207	240,658
Financial assets				
Financial liabilities measured at fair value through net income/loss				
Derivative liabilities	−	4,636	−	4,636
Contingent price	−	−	794	794
Total	−	4,636	794	5,430

(Notes) 1. The Level 1 financial assets include the interest-bearing national government bonds and listed shares.

2. The Level 2 financial assets and financial liabilities are derivative financial assets and derivative financial liabilities through foreign exchange forwards, etc. Their fair values are calculated based on the prices proposed by relevant financial institutions.

3. The Level 3 financial assets are mainly unlisted shares and capital investments. Their fair values are calculated using the valuation method based on net asset value, the valuation method based on a discounted future cash flow, or other valuation method. Fair value is calculated by the staff in charge in accordance with the relevant internal regulations or by using external valuation specialists after determining a valuation method that can properly reflect the risks, characteristics and features of the asset. For the calculation of fair value, inputs that cannot be observed, such as future cash flow and discount rate, are used. For the calculation of fair value based on a discounted future cash flow, the weighted average cost of capital between 7.0% and 7.2% was employed under review. When the weighted average cost of capital rises (declines), the fair value tends to decrease (increase).

The impact of a 1% increase or decrease in the weighted average cost of capital on the fair value at the end of FY2021 is as follows.

(Million yen)

	Weighted average cost of capital	
	＋1%	－1%
Balance as of March 31, 2022	(4,988)	5,149

4. The contingent price is the milestone payment to be made depending on the progress, etc. in research and development at the acquired company. Its fair value is calculated taking into consideration the possibility of success of the R&D project and the time value of money. When the possibility of success of an R&D project, which is an important input that cannot be observed, the fair value rises.

(3) Adjustments of financial instruments classified as Level 3 from the balance at the beginning of the period to the balance at the end of the period

Financial instruments classified as Level 3 in the fair value hierarchy were adjusted from the balance at the beginning of the period to the balance at the end of the period as follows.

(Million yen)

	Financial instruments measured at fair value
Balance at beginning of period	163,955
Total profits and losses	
Net income	132
Other comprehensive income	31,063
Purchase	2,508
Sale	(0)
Other	(64)
Balance at end of period	197,595
Changes in unrealized gains/losses recorded as net income/loss with respect to the assets possessed at the end of fiscal 2021	132

(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
26,672	30,417

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	89,127
Export and overseas subsidiary revenue	34,367
Contract manufacturing revenue	17,442
OTC drug revenue	11,156
Revenue from royalty income	181,253
Other revenue	1,790
Total revenue	335,138

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 and OTC drugs 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.

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.

3. Information to understand the amounts of revenues for the fiscal year under review and the subsequent years

(1) Contract balance

The contract balance is as follows.

(Million yen)

	Receivables arising from contracts with customers			Contract liabilities
	Trade notes	Accounts receivable	Total	
Balance as of April 1, 2021	869	77,249	78,118	439
Balance as of March 31, 2022	421	122,594	123,015	1,142

There is no balance of contract assets as of the end of consolidated fiscal 2021.
Of the amount of revenue, 226 million yen was included in the balance of contract liabilities at the beginning of the period.
For fiscal 2021, revenue recognized with respect to the performance obligations fulfilled in past fiscal years was 181,076 million yen. Among compensations related to licensing contracts under which the performance obligations are fulfilled at the time of licensing, the milestone income and royalties that will be received by the Shionogi Group for sure with the required conditions satisfied during the consolidated fiscal year under review were recorded as revenue.

(2) Transaction price allocated for remaining performance obligations

The Shionogi Group applies the practical expedient of IFRS 15, Paragraph 121 and does not disclose information regarding remaining performance obligations with an initially expected remaining period of one year or less. In addition, there are no important transactions with an individual contract period estimated to exceed a year at the Shionogi Group. Note that there are no significant amounts not included in the transaction price in the consideration arising from the contract with the customer.

(3) Assets recognized from costs to acquire or perform contracts with customers

As of the end of the consolidated fiscal 2021, there are no assets recognized from costs to acquire or perform contracts with customers. The Shionogi Group has chosen to recognize the costs to acquire or perform contracts with customers as expenses upon occurrence of such costs where the depreciation period for the assets recognized from such costs is one year or less.

(Notes on Amounts per Share)

Equity attributable to owners of parent per share	3,236.21 yen
Basic net income per share	378.75 yen
Diluted net income per share	378.63 yen

Non-consolidated Statements of Changes in Net Assets

FY2021 (Year ended March 31, 2022)

(Million of yen)

	Capital stock	Capital surplus		Retained earnings				
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earning			
					Reserve for advanced depreciation of noncurrent assets	Reserve for the Open Innovation Promotion Tax Program	General reserve	Retained earnings brought forward
Balance at the beginning of the period	21,279	16,392	―	5,388	2,921	―	368,645	163,201
Changes of items during period								
Reversal of reserve for advanced depreciation of non-current assets					(104)			104
Reserve for the Open Innovation Promotion Tax Program						230		(230)
Dividends of surplus								(33,162)
Net income								90,264
Purchase of treasury stock								
Disposal of treasury stock			(5)					
Other			5					(5)
Net changes of items other than shareholders' equity								
Total changes of items during period	―	―	―	―	(104)	230	―	56,971
Balance at the end of current period	21,279	16,392	―	5,388	2,816	230	368,645	220,172

	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	(57,989)	519,838	19,057	(2,741)	16,315	251	590,430
Changes of items during period							
Reversal of reserve for advanced depreciation of non-current assets		—					—
Reserve for the Open Innovation Promotion Tax Program		—					—
Dividends of surplus		(33,162)					(33,162)
Net income		90,264					90,264
Purchase of treasury stock	(14)	(14)					(14)
Disposal of treasury stock	147	141					141
Other		—					—
Net changes of items other than shareholders' equity			(4,227)	1,023	(3,204)		(3,204)
Total changes of items during period	132	57,229	(4,227)	1,023	(3,204)	–	54,025
Balance at the end of current period	(57,857)	577,068	14,830	(1,718)	13,111	251	590,430

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
         (Securities other than stocks, etc. with market value not available)
         At fair value (Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)
         (Stocks, etc. with market value not available)
         At cost determined by the moving average method
         (Investment in an investment limited partnership or other equivalent partnership (those deemed as securities pursuant to Article 2, Paragraph 2 of Financial Instruments and Exchange Act))
         Based on the recent financial statements available according to the settlement report date stipulated in the partnership agreement, the net amount equivalent to equity is recorded.
   (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 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

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.

(Notes to changes in accounting policy)

Application of the Accounting Standard for Fair Value Measurement, etc.

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. have been applied since the beginning of the fiscal year under review. In accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company has decided to apply the new accounting policies set forth by the Accounting Standard for Fair Value Measurement, etc. in the future. Conventionally, corporate bonds and other bonds, financial instruments whose fair values were considered extremely difficult to estimate, were recorded at their acquisition value (or depreciation cost) in the balance sheet. However, as a result of the application of the new accounting standard, even if observable inputs are not available, fair values of the bonds, etc. are calculated using unobservable inputs based on the best available information and recorded in the balance sheet.

(Notes on accounting estimates)

1. Valuation of shares of affiliates

   In the balance sheets, Shionogi posted 159,408 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 60,966 million yen
3. Guarantee obligations

   The Company has provided a guarantee for obligations of the company below.

   PeptiStar Inc. 9,000 million yen

   (Notes) 1. This is an obligation based on the environmental improvement contract concluded for the program granted by Japan Agency for Medical Research and Development (AMED) as a Cyclic Innovation for Clinical Empowerment (CiCLE) program.

   2. Two companies other than the Shionogi Group companies jointly provide the guarantee.
4. Short-term credit for subsidiaries and affiliates 3,079 million yen

   Short-term debts to subsidiaries and affiliates 51,542 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 76,786 Million of yen

   Transactions other than business transactions 1,368 Million of yen
3. Gain on sales of shares in an affiliate

   It is mainly from sales of real estate for lease
4. Income taxes in previous years

   This is refund from Osaka Regional Taxation Bureau associated with the success in lawsuit for the complaint filed for the rescission of the tax reassessment.

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

Shares held as of March 31, 2022

Common stock	10,103,385 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	36,044 million yen
R&D expenses	12,678 million yen
Loss on revaluation of investments in securities	3,585 million yen
Provision for bonuses	1,370 million yen
Accrued enterprise taxes	801 million yen
Other	3,182 million yen
Subtotal deferred tax assets	57,663 million yen
Valuation Allowance	(35,914 million yen)
Total deferred tax assets	21,748 million yen
Deferred tax liabilities:	
Unrealized gain on other securities	(6,280 million yen)
Asset for retirement benefits	(4,130 million yen)
Reserve for advanced depreciation of property, plant and equipment	(1,241 million yen)
Investments in securities	(965 million yen)
Other	(230 million yen)
Total deferred tax liabilities	(12,850 million yen)
Net deferred tax assets	8,898 million yen

(Notes on Related-Party transactions)

1. Subsidiaries and affiliates, etc.

(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)	46,453	Accounts payable	5,586
Subsidiary	Shionogi B.V.	Directly owned 100%	Contract development of the Company's products Contract manufacture and sales	Borrowing of funds (Note 2)	32,184	Long-term loans	32,184

Transaction terms and method of determining transaction terms, etc.

Notes: 1. Price and other transaction terms are determined using a negotiated reasonable price.

2. The interest rate for borrowing of funds is determined taking into consideration the market interest and other factors.

2. Officers and major individual shareholders, etc.

(Million of yen)

Type	Name	Ownership percentage of voting rights, etc.	Relationship	Transaction content	Transaction amount	Account	Balance at end of period
Officer	Isao Teshirogi	Owned 0.0% direct	Director of the Company	Disposal of treasury stock along with contribution in kind of monetary compensation receivables (Note)	71	–	–
Officer	Takuko Sawada	Owned 0.0% direct	Director of the Company	Disposal of treasury stock along with contribution in kind of monetary compensation receivables (Note)	24	–	–

Transaction terms and the method of determining transaction terms, etc.

Note：This is due to contribution in kind of monetary compensation receivables under the restricted stock compensation plan. Disposal value of treasury stock is determined based on the closing price of the Company's common stock at the Tokyo Stock Exchange on the business day prior to the date of the Board of Directors' resolution concerning the said disposal.

(Notes on Amounts per Share)

1. Net assets per share	1,957.59 yen
2. Earnings per share	299.41 yen
3. Earnings per share (diluted)	299.31 yen

(Notes to revenue recognition)

The same description is provided in Consolidated Financial Statements and Notes on Consolidated Financial Statements (Notes on Revenue Recognition), the notes are omitted here.